Discussion of
"Making Sense of Labor Market Indicators Amid Data Imperfections"
by Brave, Crust, Eusepi, Hobijn, and Şahín (BCEHS)

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Decomposing changes in employment

- How/what?
  - Multiple labor market indicators: Factors/Principal components
  - Decomposed into meaningful sources of variation, e.g., labor demand and labor market mismatch
  - Informed by textual analysis of policymaker's speeches
- Why?
  - Forecasting/nowcasting
  - Policymaking

Are Employment Changes to Labor Demand, Labor Supply, or Something Else?

What is Governor Waller's answer (speech)?

Christopher J. Waller

"Labor Market Data: Signal or Noise?"

NABE Economic Policy Conference (Feb 23, 2026)

Ask ChatGPT to analyze speech (prompt):

"Does Fed Governor Waller attribute recent employment changes to labor demand, labor supply, or something else?"

Mostly **labor demand**, with an important **labor-supply backdrop** and some **data/measurement noise**.

- **Labor demand (primary focus):** Waller frames the key question as whether hiring has genuinely strengthened. He treats the January payroll jump as *possibly* reflecting a **pickup in hiring** (i.e., stronger demand for labor), but he's skeptical because gains were **sector-concentrated** (especially health care/social assistance) and potentially **weather-boosted** (construction). He also notes weak signals from **job openings** and conflicting private hiring estimates (ADP, Revelio), which to him suggests the January payroll print may be **noise** rather than a broad-based demand rebound.

- **Labor supply (important context, not his main driver):** He explicitly points to **reduced net immigration** as having **lowered labor-force growth** and therefore reduced the number of jobs needed for a "healthy" labor market (a supply-side shift). But he argues 2025 job creation was so weak that even after accounting for slower labor-force growth, it still indicates fragility.

- **Something else (measurement/timing effects):** A big part of his interpretation is **data uncertainty**—benchmark/revision issues in payrolls and the possibility that the January report will be **revised down**—plus short-term quirks like **unseasonably warm weather** affecting construction employment during the survey week.

Decomposition looks very sensible:

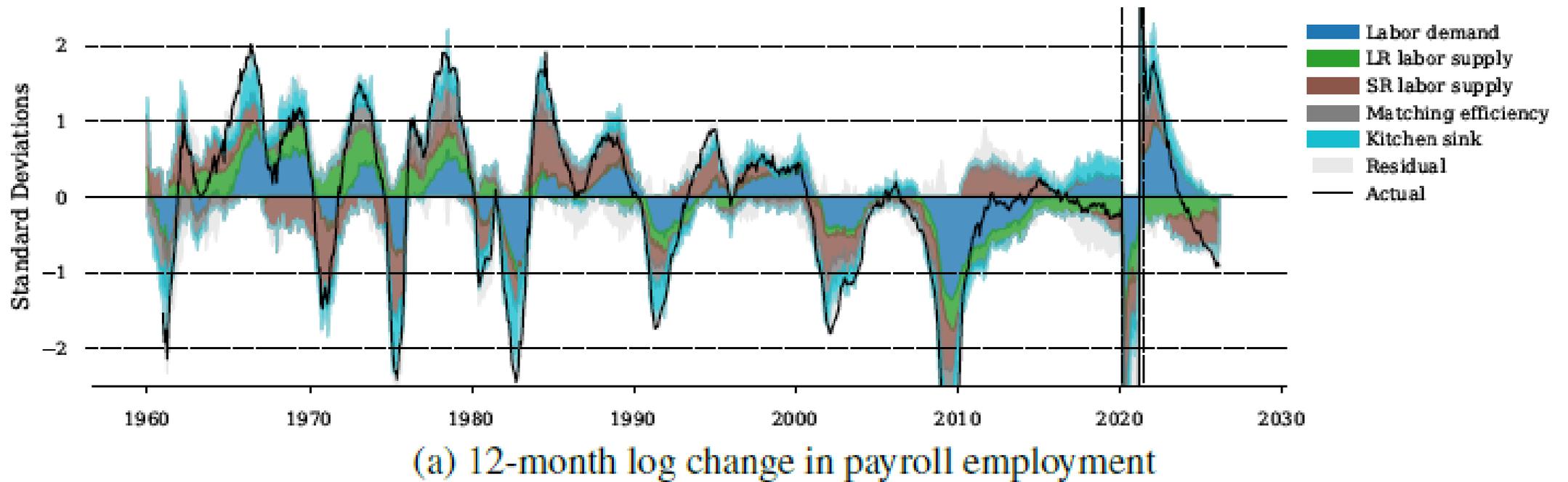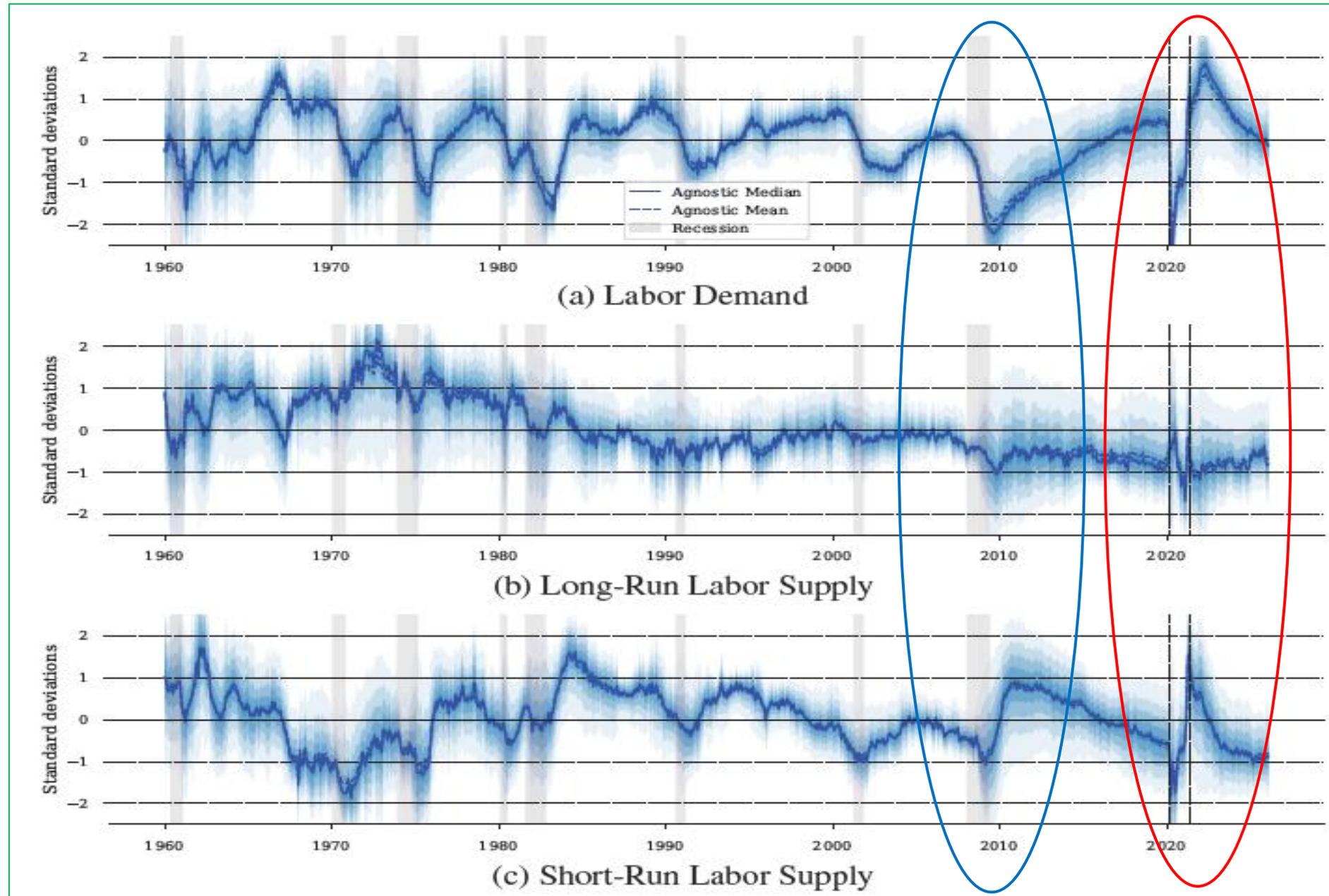Figure 14: Importance of Narrative Factors: Payroll Employment

(a) 12-month log change in payroll employment

Figure 8: Narrative Feasible Set (panels a-c only)

(a) Labor Demand

(b) Long-Run Labor Supply

(c) Short-Run Labor Supply

Where does this decomposition come from? Three black boxes

1. Narrative:
   - Keyword analysis of FRB, CEA speeches
   - Curated keywords (not NLP, but that could be next step)
   - Sign restrictions based on curve-shift analysis

2. Factor structure
   - Labor-related indicators from FRB Chicago factor model

3. Narrative sign restrictions imply set identification
   - Reduce rank from high-dimension vector of time series
   - Low-dimension "narrative feasible set" play role of "shocks" in VAR

Sims: Can learn about policy effectiveness from data generated by policymaking

In this paper I argue that it is a mistake to think that decisions about policy can only be described, or even often be described, as choice among permanent rules of behavior for the policy authorities. A policy action is better portrayed as implementation of a fixed or slowly changing rule. I also argue that explicit identification of expectation-formation mechanisms is not necessary for policy analysis, concluding that the rational expectations critique of econometric policy analysis is a cautionary footnote to such analysis rather than a deep objection to its foundations.   BPEA (1982)

Implementing the Sims program: Interpretation of multiple time-series dynamic correlations

Wold causal ordering: Sims, Bernanke-Blinder

Name the shock; Impose theoretical zero or coefficient restrictions: Bernanke, Blanchard

Name the correlation; sign restrictions

Name the correlation; sign restrictions, with guidance from the narrative co-mentions of key words: This paper
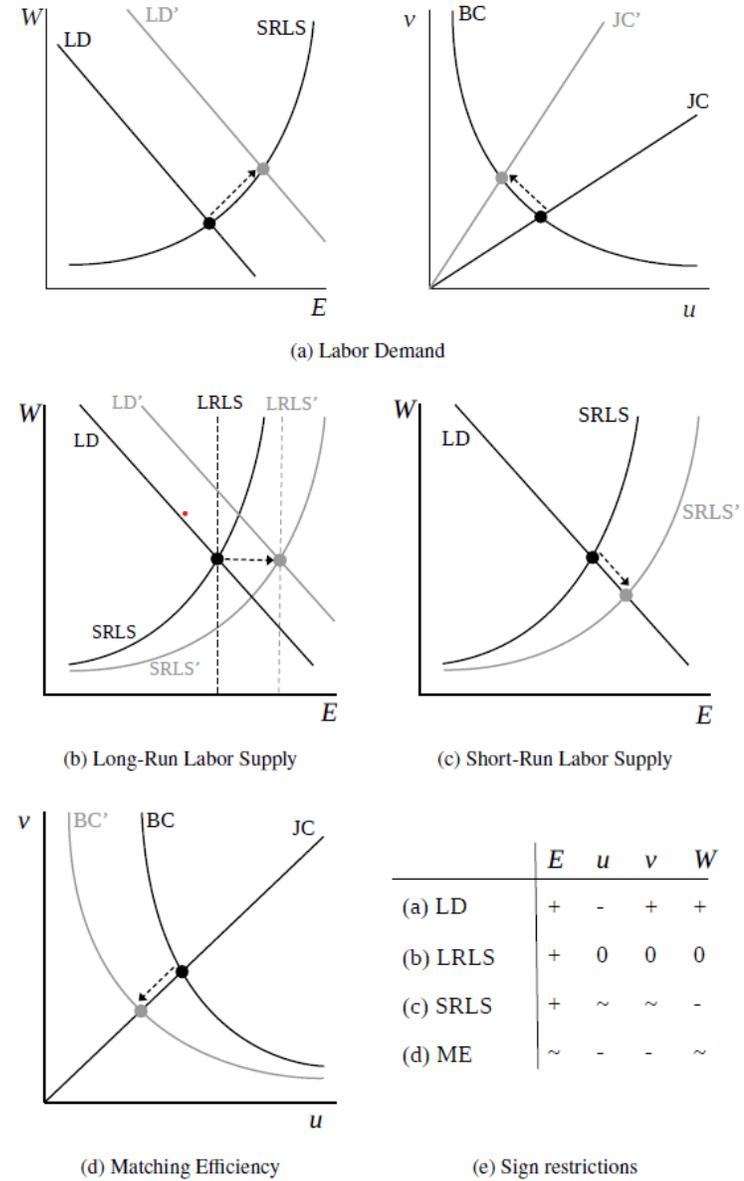
Naming the correlation

Figure 1: Textbook Illustrations of Labor-Market Narratives and the Implied Sign Restrictions

Identification: What is driving changes in business cycle?

(a) Labor Demand

Shifts in output are movements along L^D curve

Then is high economic activity represented as a shift of the L^D curve?
- Increases in productivity (RBC)
- Decreases in markup (NKE)
- Short run increasing returns to scale (Sims, BPEA, 1974)

Focusing on wage
- Not helpful theoretically
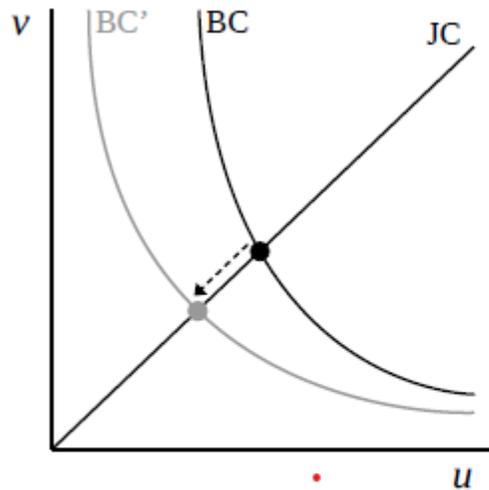- Not likely driving the empirical results because spot wages not allocative

Output data would be more helpful
- Identify shifts in L^D
- Output movements underlying unmeasured factor
- Current FOMC debate about output and inflation, not labor shocks *per se*
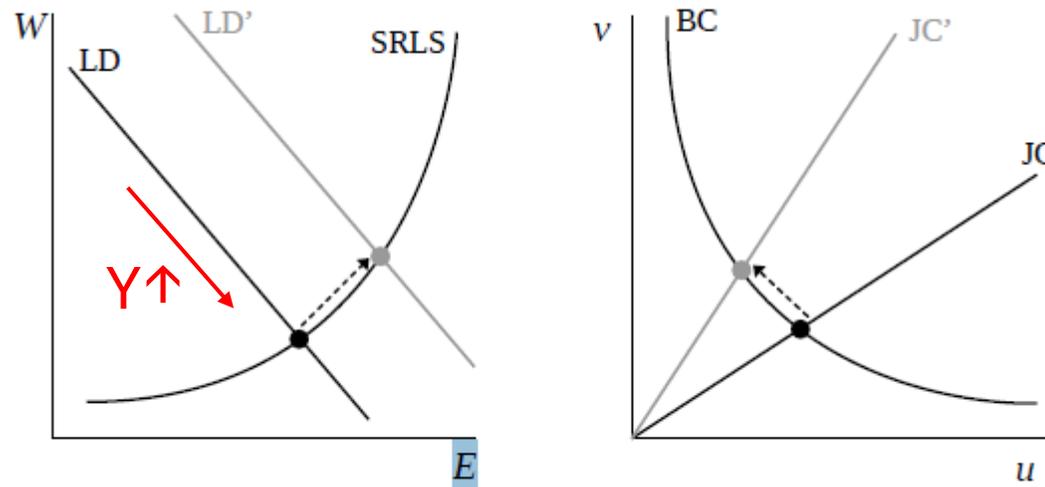
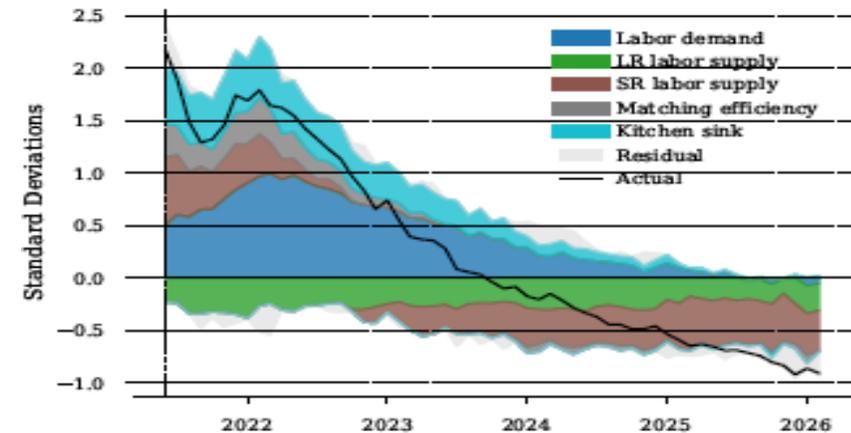# Including changing match frictions innovative

(d) Matching Efficiency

	E	u	v	W
(a) LD	+	-	+	+
(b) LRLS	+	0	0	0
(c) SRLS	+	~	~	-
(d) ME	~	-	-	~

(e) Sign restrictions

Match frictions key part of the narrative, especially since pandemic

Multiple indicators crucial for quantification

Correlation of matching shocks with employment: suitably agnostic

(b) Payroll employment growth

Additional comments

Data on vacancies getting better over time

- JOLTS: since 2000

- Online platforms: since 2020

- Harder to assess importance of Beveridge curve shocks in 20th century

Additional comments

Some key current issues require more structure, e.g., is AI a job killer?

• Is the AI shock Hicks-neutral, Harrod-neutral, or non-neutral?

• What is the elasticity of substitution?

• Affect on different skill levels?

Depending on structure of technology and labor markets, AI could show up as any of the five narrative domains.

The complementary narrative-econometric approach of this paper may be a way forward for addressing such questions, which are hard for both analysts and policymakers.

"Data imperfections": This paper

Paper demonstrates the value of having multiple indicators

- JOLTS data important

- Kudos to BLS

- Could be cut owing to budget; not a "principal economic indicator"

Accounting for revisions important

- Benchmark revisions well understood by agencies and Fed, but good to have them analyzed

- Full treatment would require vintage data (great next project)

"Data imperfections": Solution is better data

- Substantial value for both policy analysis and communication about statistics from reducing need for benchmark revisions

- Reducing benchmark revisions might be accomplished by collecting "final" data contemporaneously, e.g., feeds from payroll data

- EMRI (Economic Measurement Research Institute)
  - New project at NBER lead by Katharine Abraham and Matthew Shapiro
  - Aims to have research that will lead to fundamental improvements in official statistics, not just critiques or "alternative data"
  - Upcoming conference on labor market data
    - Washington, Sept 17-18, 2026
    - RFP at www.nber.org/EMRI