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DEC 04 2007

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Dear Ms. Davis and Mr. Kanaley:

I am writing in response to your October 2nd letter to the Bureau of Labor Statistics (BLS), which referenced the "Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by the Department of Labor." Your letter requested review and correction to three Average Hourly Earnings (AHE) series, specifically: search, detection, and navigation equipment manufacturing (NAICS 334511); aircraft engine and engine parts manufacturing (NAICS 336412); and other aircraft parts and equipment manufacturing (NAICS 336413), because the series have exhibited volatility and rapid growth in the AHE in recent years. BLS produces and publishes these AHE estimates each month from the Current Employment Statistics (CES) survey of business establishments.

I would first like to note that two of these three series--NAICS 334511 and NAICS 336412--are slated for discontinuation in February 2008. This is not as a result of your letter, but as a result of a routine annual review process that the CES program conducts for sample adequacy and respondent confidentiality protection. Both of these series now fail the test for respondent confidentiality protection, meaning that the sample is now too heavily dominated by a few firms to allow BLS to be certain that it can honor its pledge to survey respondents that the data they supply will not be identifiable in published estimates. As of February 1, 2008, BLS will stop publishing these series and will remove them from its public databases. The series will not be available as unpublished data. BLS will continue publishing AHE for NAICS 336413.

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BLS has reviewed the AHE estimates for the industries and time periods cited in your letter and we have verified that there were no errors in the capturing of survey responses provided by respondents or in the estimation process, and that the survey response for the industries is consistent with the tests for sample adequacy that we apply to all CES employment, hour, and earnings estimates.

There are many possible reasons for the movements in the AHE series that you cite. The series measurement concept is the actual amount of regular pay that is paid per hour, on average, to production workers on payrolls during the survey reference period. Changes in wage rates among sample members as well as changes in the occupational composition of employment within an industry will affect the average hourly earnings data for the industry. The effect on AHE data of such changes will be magnified in industries dominated by a few large companies. AHE movements can also result from changing composition of the sample due to survey non-response. The CES is a voluntary survey. While BLS attempts to collect data from all sampled businesses each month, not everyone responds. Even though, as you note, a few States make CES survey participation mandatory, this does not mean that BLS receives reports from all the sampled businesses in those States. In sum, as is true for all sample survey estimates, CES AHE series are subject to both sampling and non-sampling errors.

Below are responses to the each of the specific actions requested in your letter:

“1. Distinguish civil v. military indexes (NAICS codes).”

“2. Create a new sample in the CES index structure with more accurate representation from civil aircraft companies.”

“3. Contact companies in the sample to see if they are military or civil and re-state civil wage increases v. military wage increase.”

The BLS, like other Federal statistical agencies, adheres to the North American Industry Classification system (NAICS), as mandated by the Office of Management and Budget (OMB). Use of NAICS promotes consistency and comparability in the industry data produced throughout the Federal statistical system. NAICS does not distinguish industries by class of customer. Establishments are classified based on their primary activity, grouping together those that use comparable capital, equipment, labor, and raw material inputs. Therefore BLS would not create a new sample design based on a civil versus military stratification.

Please also note that the overall CES sample size is determined by available program resources, as well as the willingness of businesses to report employment, payroll, and hours data to BLS after they have been selected for the sample. BLS uses standard sample design and collection procedures and achieves results that are generally comparable to other establishment surveys.

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“4. Re-state wage increases based on rolling averages over the last two or three years v. punctual increases.”

BLS publishes the estimated level of AHE for each month. Users can derive earnings levels and percent changes for any intervals or averages they choose from these published series. BLS has no plans to publish additional series.

“5. Publish state special wage increases such to prevent skewness coming from concentration of military companies in selected states.”

State Workforce Agencies, working in cooperation with BLS, use data submitted by CES respondents to develop statewide and major metropolitan area estimates. Sample sizes by State are not sufficient to produce reliable AHE estimates for the industries that you have identified. All States' samples are combined to form a collective sample for national industry estimates. BLS then independently develops the national earnings series.

“6. Sample audit actual wage increases at key responders, compare to labor agreements, audit calls/visits.”

BLS performs edit checks on all collected sample data every month, before the data are used in estimation. Respondents are re-contacted on an as needed basis to clarify or correct unusual movements in their reported data.

“7. Remove outliers (if any) in CES sample to bring back increases to reasonable numbers.”

The CES program follows an atypical identification process in preparing monthly estimates. For those reports that are determined to be correct, but that have changes well outside ranges from the rest of the sample, microdata are treated as ‘atypical.’ The sample data is removed from the estimation formula before calculation, and then it is added back in to represent only itself in the estimate. See <http://www.bls.gov/web/cestn1.htm> for more details.

Although the concept measured by the CES average hourly earnings series is appropriate for many uses, they may not be the best series for use in escalation clauses. The Employment Cost Index measures compensation costs free from the influence of employment shifts among occupations and industries and, therefore, may be more appropriate to use for escalating costs. For more detailed information on escalator clauses, see <http://www.bls.gov/ect/escalator.htm> and Albert E. Schwenk, "Escalation in Employer Costs for Employee Compensation: A Guide to Contracting Parties," Compensation and Working Conditions, Spring 1997 (<http://www.bls.gov/opub/cwc/archive.htm>).

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Thank you for your comments regarding data quality in the CES survey. I hope the information above addresses your concerns. However, if it does not, this decision may be appealed within 45 days of receipt of this letter. Please direct any appeal to Cathy Kazanowski, Chief of the Division of Management Systems at 202-691-7756 or kazanowski.cathy@bls.gov. I appreciate your interest in BLS programs.

Sincerely yours,

JOHN M. GALVIN
Associate Commissioner for
Employment and Unemployment Statistics

DOL/BLS/OEUS
PGetz/yj/11-28-07

Cc: Galvin, Getz, Kazanowski, DF