

## OCTOBER LABOR MARKET INSIGHTS

September 24, 2020

When I was asked to pen a column of this month's NASWA newsletter, I jumped at the chance. Specifically, I want to take the opportunity to clear up some important misconceptions that have emerged in interpreting recent labor market data. On a number of occasions I have been asked if the Bureau of Labor Statistics' (BLS) unemployment numbers are a true reflection of what is currently happening in U.S. labor markets? In particular, concern is expressed over the much lower levels of unemployment reported by BLS as compared to Unemployment Insurance (UI) reciprocity levels. My answer is absolutely yes<sup>1</sup>, but with one important qualification: To truly understand the differences between BLS and UI estimates, you need to take a deeper look at what it means to be unemployed and, in the process, go beyond examining that one single measure.

To illustrate the concern, it is instructive to look at the beginning of the UI surge in March. Between March 8<sup>th</sup> and April 18<sup>th</sup>, 26.7 million individuals filed for UI.<sup>2</sup> Over the same period, BLS estimates that unemployment increased by 16 million<sup>3</sup>, far less than the UI initial claims surge. Naturally, the question arises, why the discrepancy?

The answer is a function of what it means to be unemployed after layoff. One category of unemployment – job losers on temporary layoff – accounted for all of the change in unemployment from March to April (see table). Unlike other reasons for unemployment, this category does not require active job search. Rather individuals on temporary layoff must expect recall by their employer to be classified as unemployed, regardless of whether they search for work or not. However, if you were laid off and applied for UI, were not searching for work, and did not expect recall, you were classified as being *out of the labor force*. At the time, most states were encouraging everyone to stay home and suspended UI work search requirements. In addition, the extra \$600 per week in federal UI subsidy payments provided powerful income protection allowing workers to stay at home. As a result, it may not surprise you that between March and April, the number of individuals classified as out of the labor force increased by almost 7 million. In other words, looking at unemployment levels alone does not convey the complete picture of what was happening during this period.

These statistics focus on the beginning of the UI surge in response to the pandemic. Fast forward to August, BLS reported the number of unemployed as 13.5 million, with 6.1 million on temporary layoff expecting recall, 3.4 million on permanent layoff (on layoff with no recall expected and searching for a job) and 2.1 million reentrants to unemployed (likely returning to search after layoff and being out of the labor force). Roughly in line with these numbers, the number of continuing UI claims among laid off workers in traditional programs, expecting recall or not, stood at 14.5 million<sup>4</sup>.

However, the total number of ongoing UI claims for all programs was 29 million. This number includes traditional UI claims, those on short-time compensation programs, and those on new pandemic unemployment assistance programs not traditionally covered by regular UI -- independent contractors, the self-employed, and

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<sup>1</sup> Full disclosure: I ran the employment/unemployment programs at BLS for several years through 2019

<sup>2</sup> Unless otherwise indicated, all of the data reported are seasonally adjusted. Please also note that over a period of week, individuals may file an initial claim more than once so that these estimates are likely somewhat higher than the unduplicated counts of filers between March 8<sup>th</sup> and April 18<sup>th</sup>.

<sup>3</sup> Unless otherwise indicated, all of the numbers reported are seasonally adjusted

<sup>4</sup> Number of continued claims at the end of the week including August 12<sup>th</sup> (the reference week used by BLS for the household survey)

gig workers.<sup>5</sup> It seems unlikely that the much higher UI number of continued claims is solely due to the number of laid off workers not expecting recall – especially since the BLS numbers indicate that many of those individuals are now reentering unemployment or are showing up as permanently unemployed. Likely, much of the difference is attributable to the fact that many states allow gig workers, independent contractors, and the self-employed to work, aka be employed, while still receiving Pandemic Unemployment Assistance. In addition, those on short-time compensation programs are working reduced hours while also collecting UI. In other words, the ability to work and collect pandemic insurance assistance or short time compensation makes it very problematic to compare UI reciprocity levels from all programs to the BLS measure of unemployment.

Interpreting labor markets is always a challenge, particularly in this fast changing economic environment. However, I hope I have been able to shed some light on the apparent differences on this one issue, why BLS unemployment levels are significantly lower than total UI reciprocity levels.

| Unemployed persons by reason for unemployment, seasonally adjusted<br>(Numbers in thousands)   |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Concept  | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 |
| <b>NUMBER OF UNEMPLOYED</b>  |        |        |        |        |        |        |        |        |
| Total unemployed   | 5,892  | 5,787  | 7,140  | 23,078 | 20,985 | 17,750 | 16,338 | 13,550 |
| Job losers on temporary layoff   | 742    | 801    | 1,848  | 18,063 | 15,343 | 10,565 | 9,225  | 6,160  |
| Permanent job losers   | 1,289  | 1,279  | 1,456  | 2,000  | 2,295  | 2,883  | 2,877  | 3,411  |
| Persons who completed temporary jobs   | 634    | 644    | 643    | 563    | 653    | 824    | 823    | 736    |
| Job Leavers  | 836    | 777    | 727    | 570    | 554    | 565    | 571    | 589    |
| Reentrants   | 1,838  | 1,803  | 1,778  | 1,477  | 1,645  | 2,356  | 2,358  | 2,095  |
| New Entrants   | 557    | 505    | 509    | 389    | 536    | 563    | 513    | 554    |
| <b>PERCENT DISTRIBUTION</b>  |        |        |        |        |        |        |        |        |
| Job losers on temporary layoff   | 12.6%  | 13.8%  | 26.5%  | 78.3%  | 73.0%  | 59.5%  | 56.4%  | 45.5%  |
| Permanent job losers   | 21.9%  | 22.0%  | 20.9%  | 8.7%   | 10.9%  | 16.2%  | 17.6%  | 25.2%  |
| Persons who completed temporary jobs   | 10.8%  | 11.1%  | 9.2%   | 2.4%   | 3.1%   | 4.6%   | 5.0%   | 5.4%   |
| Job Leavers  | 14.2%  | 13.4%  | 10.4%  | 2.5%   | 2.6%   | 3.2%   | 3.5%   | 4.3%   |
| Reentrants   | 31.2%  | 31.0%  | 25.5%  | 6.4%   | 7.8%   | 13.3%  | 14.4%  | 15.5%  |
| New Entrants   | 9.4%   | 8.7%   | 7.3%   | 1.7%   | 2.5%   | 3.2%   | 3.1%   | 4.1%   |
| Note: Detail for the seasonally adjusted data shown in this table will not necessarily add to total unemployment because of independent seasonal adjustment of the various series. |        |        |        |        |        |        |        |        |
| Sources: Bureau of Labor Statistics and author's calculations  |        |        |        |        |        |        |        |        |

<sup>5</sup> Data for continued claims across these programs are not seasonally adjusted