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Why Has Unemployment Risen? Insights From Labor Force Flows

Abstract

[Excerpt]

Several economic indicators have shown that the labor market weakened from May 2007 to May 2008. The number of unemployed persons rose from 6.9 million to 8.5 million, and the jobless rate increased from 4.5 to 5.5 percent. Intuitively, a rise in unemployment might be expected to coincide with a decline in employment. However, total employment, as measured by the Current Population Survey (CPS), was little changed over this period. Recently released experimental data series on the flows of people between different labor force statuses help explain how unemployment increased.

Keywords

unemployment, labor market, Current Population Survey, churning

Comments

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Why Has Unemployment Risen? Insights From Labor Force Flows

Several economic indicators have shown that the labor market weakened from May 2007 to May 2008. The number of unemployed persons rose from 6.9 million to 8.5 million, and the jobless rate increased from 4.5 to 5.5 percent. Intuitively, a rise in unemployment might be expected to coincide with a decline in employment. However, total employment, as measured by the Current Population Survey (CPS), was little changed over this period. Recently released experimental data series on the flows of people between different labor force statuses help explain how unemployment increased.

Each month, the Bureau of Labor Statistics (BLS) reports the number of persons employed, unemployed, or not in the labor force from data collected in the CPS. The net changes in these estimates are widely-used measures of the overall health of the labor market. Underlying these often relatively small net changes is a great deal more churning, as individuals move among the various labor force categories on a monthly basis. The data on labor force flows, available from February 1990 forward, capture the movements of persons as they change their status between employment and unemployment, or enter or leave

the labor market.¹ Data derived from labor force status flows show that, on average, more than 15 million individuals, or 6.5 percent of the working-age population, changed their labor force status in some way each month from June 2007 to May 2008.

Throughout most of 2007, the official measure of unemployment rose because of declines in the outflows from unemployment; that is, fewer unemployed persons were able to find employment (represented as UE in Chart 1), and fewer left the labor force (represented as UN in Chart 1). As a result, the share of those who remained jobless

from month to month (UU) increased from 47 to 51 percent, and the number of unemployed persons rose.² (See chart 1.)

In contrast, inflows into unemployment had little effect on the rise in unemployment during this period. The share of the employed that became unemployed (represented as EU in Chart 2) remained relatively stable throughout both 2006 and most of 2007, at about 1.2 percent of total employment. Similarly, the flow of individuals from outside the labor force to unemployment (represented as NU in Chart 3) also changed little in 2007, hovering around 2.3 percent of all persons not in the labor force. Thus, the more obvious reasons for an increase in unemployment--more employed persons losing their jobs or more entrants from outside the labor force being unsuccessful in their search for employment--did not con-

Table 1. Monthly flows to and from unemployment and average flows for selected months, June 2007-May 2008 seasonally adjusted

(Numbers in thousands)

Month	Flows into unemployment		Flows out of unemployment	
	Employed to unemployed (EU)	Not in the labor force to unemployed (NU)	Unemployed to employed (UE)	Unemployed to not in the labor force (UN)
June 2007.....	1,743	1,747	1,805	1,582
July 2007.....	1,765	1,823	1,888	1,582
August 2007.....	1,723	1,767	1,935	1,596
September 2007.....	1,794	1,836	1,945	1,601
October 2007.....	1,779	1,809	1,937	1,626
November 2007.....	1,714	1,877	2,025	1,704
December 2007.....	1,924	1,956	1,906	1,512
January 2008.....	1,768	1,773	2,030	1,598
February 2008.....	1,789	1,731	1,916	1,813
March 2008.....	2,057	1,990	1,974	1,662
April 2008.....	1,852	1,962	2,129	1,889
May 2008.....	2,045	2,315	1,854	1,665
June 2007-November 2007 average.....	1,753	1,810	1,923	1,615
December 2007-May 2008 average.....	1,906	1,955	1,968	1,690

NOTE: Flows of unemployment are based on the current month. Thus, the flow from employment to unemployment shown in the first row of column 2, for example, reflects a portion of the change in the official measure of unemployment due to transitions from employment over the May 2007-June 2007 period.

¹ The labor force status flow data are derived from the CPS, a monthly sample survey of approximately 60,000 households. For more information on labor force status flows, see Zhi Boon, Charles M. Carson, R. Jason Faberman, and Randy E. Ilg, "Studying the Labor Market with BLS Labor Dynamics Data," *Monthly Labor Review*, February 2008, pp. 3-16 and Randy E. Ilg "Analyzing CPS Data Using Gross Flows," *Monthly Labor Review*, September 2005, pp. 10-18. For more on the concepts and estimation of gross flow data, see Harley J. Frazis, Edwin L. Robison, Thomas D. Evans, and Martha A. Duff, "Estimating Gross Flows Consistent with Stocks in the CPS," *Monthly Labor Review*, September 2005, pp. 3-9. Additional information on the new research series of labor force status flows can be obtained at: http://stats.bls.gov/cps/cps_flows.htm

² To help discern the overall trends, the data presented in the charts were smoothed using 3-month moving averages. In each case, the official labor force, or stock, estimate was used as the denominator.

tribute to rising unemployment throughout most of 2007.

From December 2007 to May 2008, however, the rise in unemployment occurred largely because of increases in the inflows. Over that time frame, the share of employed persons who lost or left their jobs (EU) rose by 0.2 percentage point to 1.4 percent. The share of individuals from outside the labor force that became unemployed (NU) also rose by 0.2 percentage point, to 2.6 percent. Most of the increase in the NU share occurred in May, when there was a sharp rise in the number of unemployed individuals from outside the labor force. (See charts 2 and 3.) More evidence of the changes in flows into unemployment can be seen in the levels. As shown in Table 1, flows into unemployment were substantially larger during the December 2007 to May

2008 period, compared with the 6-month period from June 2007 to November 2007.

As throughout most of 2007, the share of unemployed persons who became employed (UE) continued to decline in 2008, thereby contributing to the increase in unemployment. Partly mitigating this effect, however, was an increased likelihood that unemployed persons would leave the labor force (UN) altogether. That measure edged up in 2008, following a period of steady decline that began in mid-2006. (See chart 1.)

To some extent, the pattern of the UE outflow in the past year resembles that observed earlier in the decade. As shown in chart 1, the share of unemployed persons that became employed (UE) also trended down throughout 2000; during the 2001 economic downturn, the decline was much

more pronounced.

The patterns of inflows into unemployment (EU and NU) over the past several years look similar to the trends from the mid-1990s to the onset of the 2001 recession. That downturn was marked by a sharp increase in job loss (the EU flow) and, to a somewhat lesser degree, by an increasing likelihood that entrants to the labor force would become unemployed (NU). The combination of increased inflows to unemployment (EU and NU) and declining outflows (UE and UN) contributed to rising unemployment during the 2001 recession. (See charts 2 and 3.)

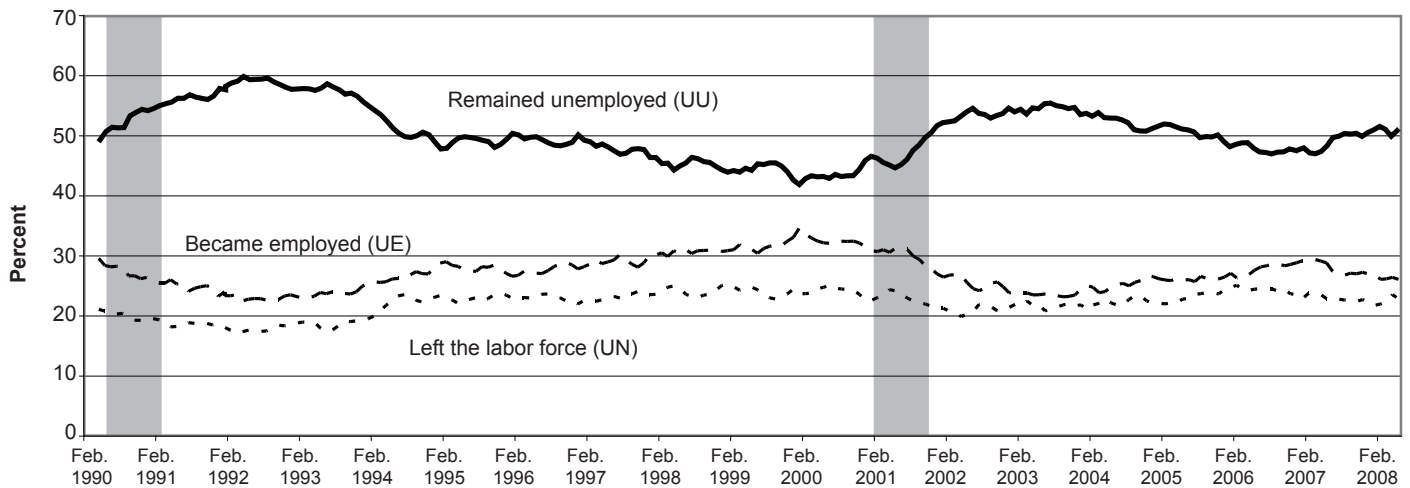
In summary, from May 2007 to May 2008, the Nation's jobless rate increased by a full percentage point. The labor force status flows show that, throughout most of 2007, the uptick in unemployment was due

to reduced flows out of unemployment rather than increased flows into it. From December 2007 to May 2008, however, the increased likelihood that employed individuals and new and returning entrants from outside the labor force would become unemployed largely contributed to the rise in unemployment.

For additional information, contact Randy Ilg, an economist in the Division of Labor Force Statistics, Office of Employment and Unemployment Statistics. E-mail: ilg.randy@bls.gov. Telephone: (202)691-5456.

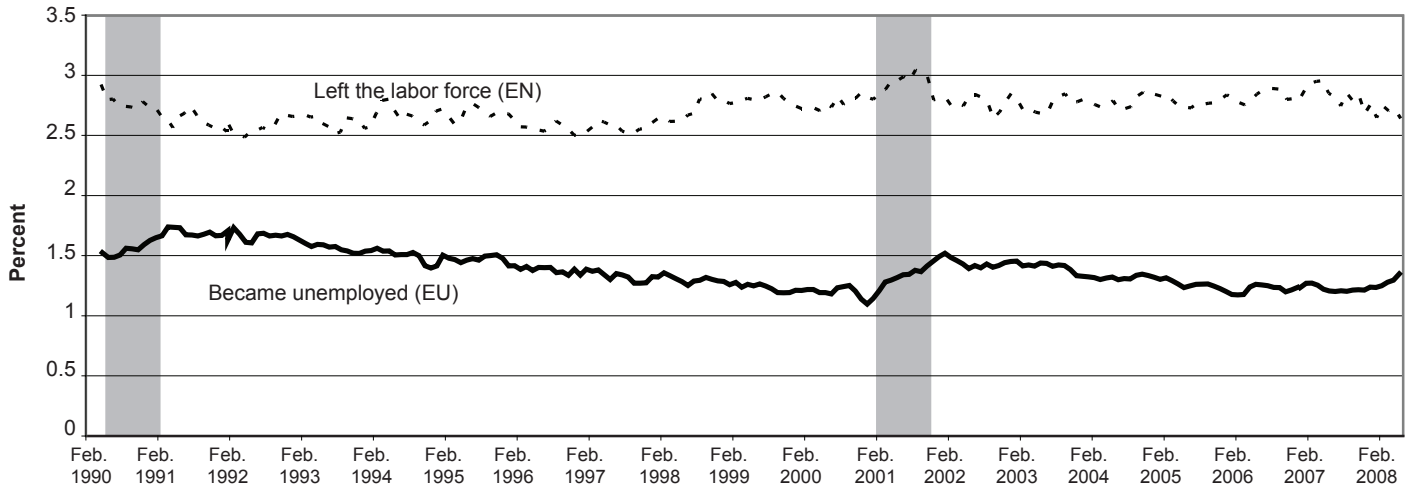
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Chart 1. The share of the unemployed that became employed, remained unemployed, or left the labor force, April 1990-May 2008, seasonally adjusted 3-month moving average



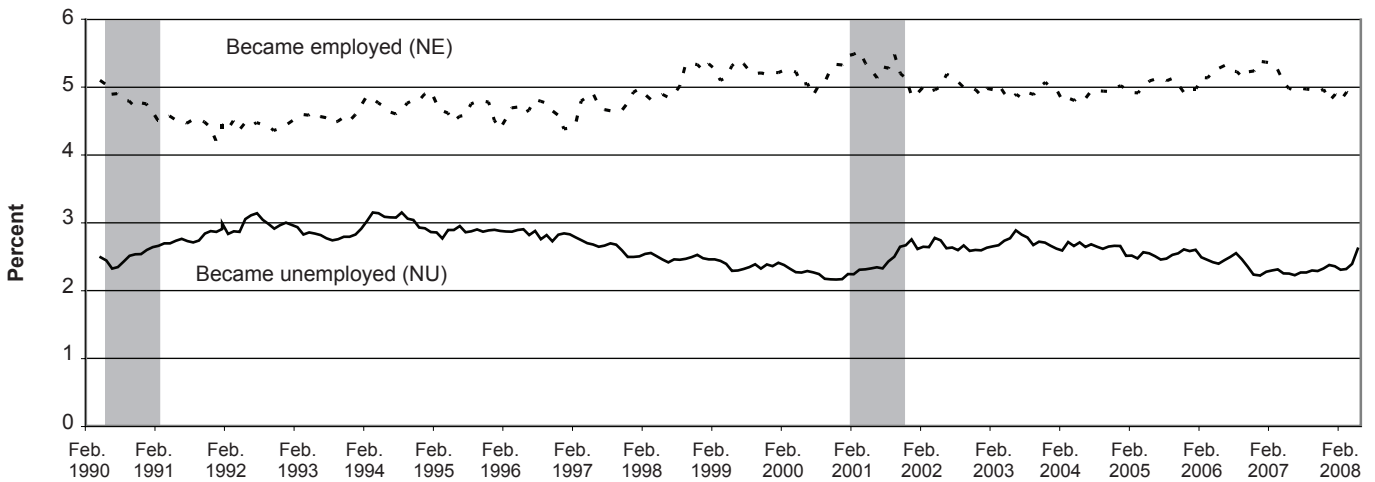
NOTE: Shaded regions represent recessions as designated by the National Bureau of Economic Research.
SOURCE: Bureau of Labor Statistics, Current Population Survey.

Chart 2. The share of the employed that became unemployed or left the labor force, April 1990-May 2008, seasonally adjusted 3-month moving average



NOTE: Shaded regions represent recessions as designated by the National Bureau of Economic Research.
 SOURCE: Bureau of Labor Statistics, Current Population Survey.

Chart 3. The share of persons not in the labor force that became employed or unemployed, April 1990-May 2008, seasonally adjusted 3-month moving average



NOTE: Shaded regions represent recessions as designated by the National Bureau of Economic Research.
 SOURCE: Bureau of Labor Statistics, Current Population Survey.