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Trends in Unemployment and Other Labor Market Difficulties

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Trends in Unemployment and Other Labor Market Difficulties

Abstract

[Excerpt] The Bureau of Labor Statistics (BLS) has for many years published various measures of unemployment and other labor market difficulties. There are six “alternative measures of labor underutilization” published each month in the Employment Situation news release. These measures provide insights into a broad range of problems encountered by workers in today's labor market. The official unemployment rate, also referred to in the list of alternative measures as U-3, is defined as the total number of unemployed persons as a percentage of the labor force, while U-1 and U-2 are more narrowly defined and U-4 through U-6 are broader in scope.

The original set of alternative measures was first introduced by the BLS in 1976.⁵ These measures were later revised following the 1994 redesign of the Current Population Survey (CPS) to account for changes in the definitions of certain labor force measures as well as the collection of new data. Since the redesign of the CPS in 1994, the economy has experienced two recessions—in 2001 and in 2007-2009—during which the entire range of alternative measures (U-1 through U-6) increased. This issue of *Beyond the Numbers* examines trends in the BLS alternative measures of labor underutilization over the period from 1994 to 2014.

Keywords

unemployment, labor underutilization, labor market

Comments

Suggested Citation

Brundage, V. (2014). Trends in unemployment and other labor market difficulties. *Beyond the Numbers* (Vol. 3, No. 25). Washington, DC: Bureau of Labor Statistics.

Trends in unemployment and other labor market difficulties

By *Vernon Brundage*

The Bureau of Labor Statistics (BLS) has for many years published various measures of unemployment and other labor market difficulties. There are six “alternative measures of labor underutilization” published each month in the Employment Situation news release.¹ These measures provide insights into a broad range of problems encountered by workers in today’s labor market.² The official unemployment rate, also referred to in the list of alternative measures as U-3, is defined as the total number of unemployed persons as a percentage of the labor force, while U-1 and U-2 are more narrowly defined and U-4 through U-6 are broader in scope.



The following are brief definitions of each of the measures:

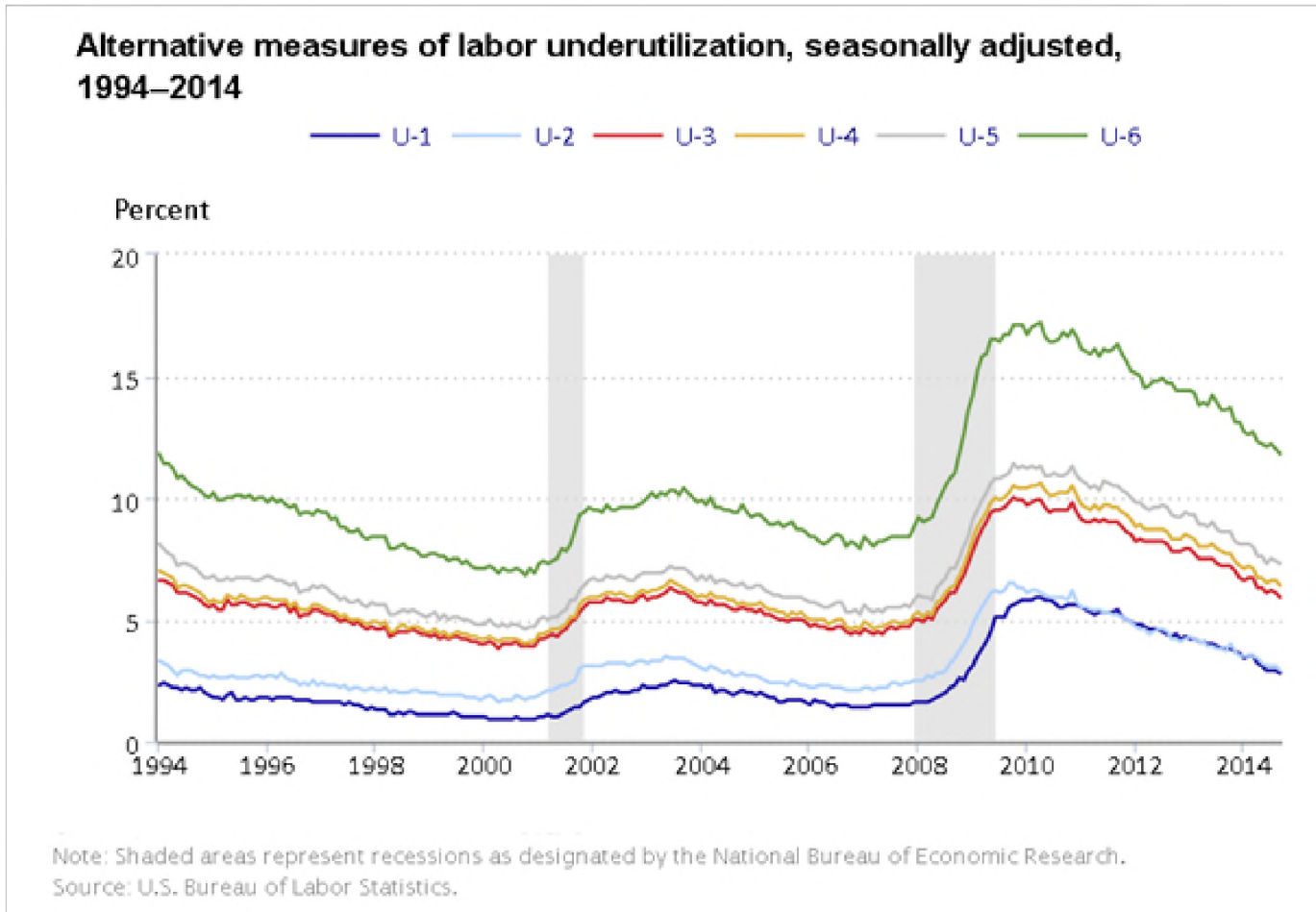
- U-1: People who are unemployed for 15 weeks or longer as a percent of the civilian labor force.
- U-2: Job losers, plus people who completed temporary jobs, as a percent of the civilian labor force.
- U-3: Total number of people who are unemployed as a percent of the civilian labor force (official unemployment rate).
- U-4: Total number of people who are unemployed, plus discouraged workers, as a percent of the civilian labor force plus discouraged workers.
- U-5: Total number of people who are unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force.³
- U-6: Total number of people who are unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons,⁴ as a percent of the civilian labor force plus all persons marginally attached to the labor force.

The original set of alternative measures was first introduced by the BLS in 1976.⁵ These measures were later revised following the 1994 redesign of the Current Population Survey (CPS) to account for changes in the definitions of certain labor force measures as well as the collection of new data.⁶ Since the redesign of the CPS in 1994, the economy has experienced two recessions—in 2001 and in 2007–2009—during which the entire range of alternative measures (U-1 through U-6) increased.⁷ This issue of **Beyond the Numbers** examines trends in the BLS alternative measures of labor underutilization over the period from 1994 to 2014.

Overall trends

Although the measures vary in scope, they generally follow trends that match that of U-3, the official unemployment rate. (See chart 1.) Each of the six measures rose at the onset of the 2001 recession and continued to trend up before declining in mid-2003. All six measures began increasing again at or slightly before the onset of the 2007–2009 recession, the longest and deepest recession of the post-World War II era. The measures continued to rise sharply during the recession and steadily increased afterwards until beginning to trend down in 2010. None of the measures has returned to its prerecession level. Over the last two business cycles, each of the six measures has followed a similar pattern, until recently.

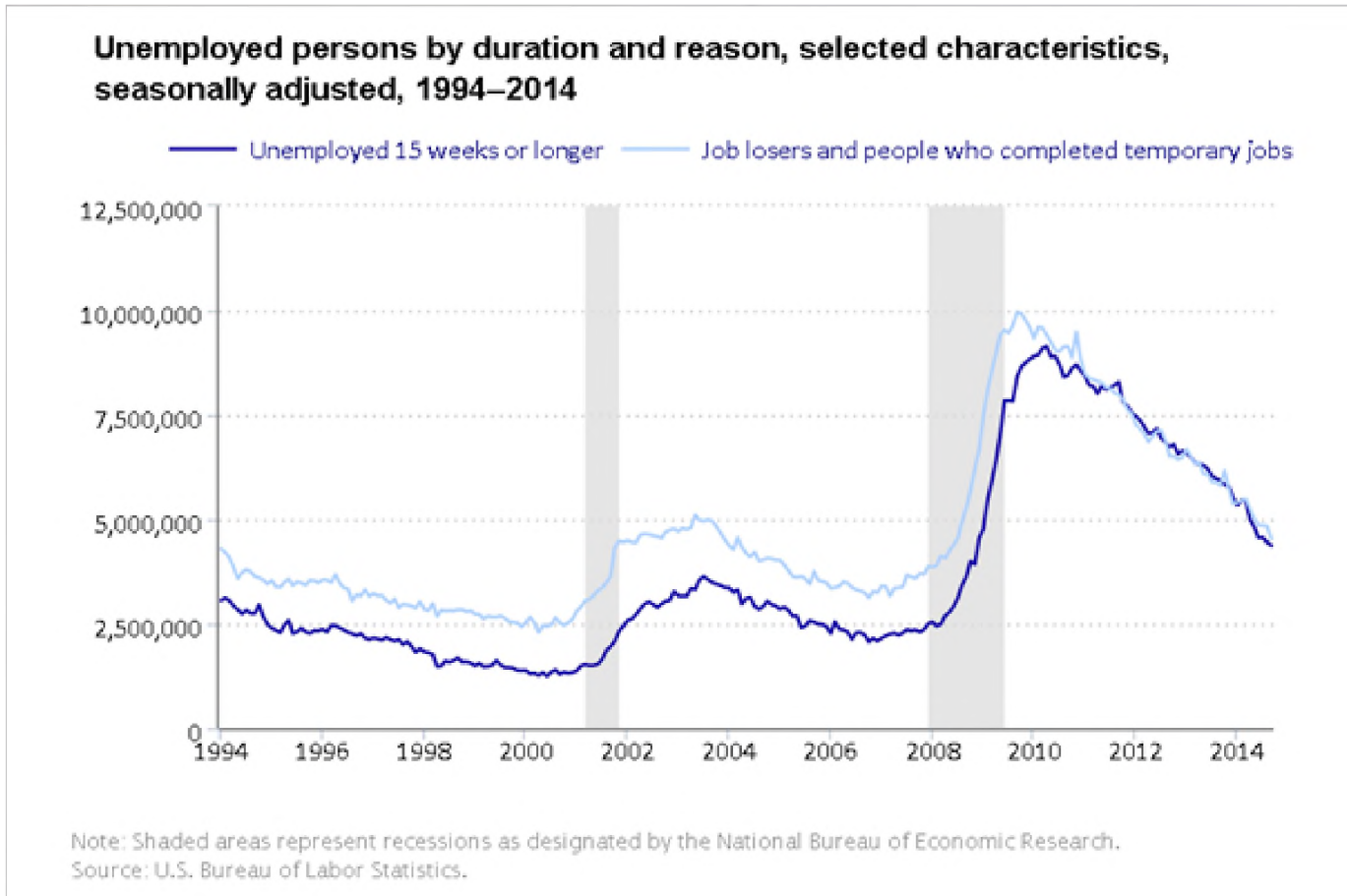
Chart 1



Recent Trends

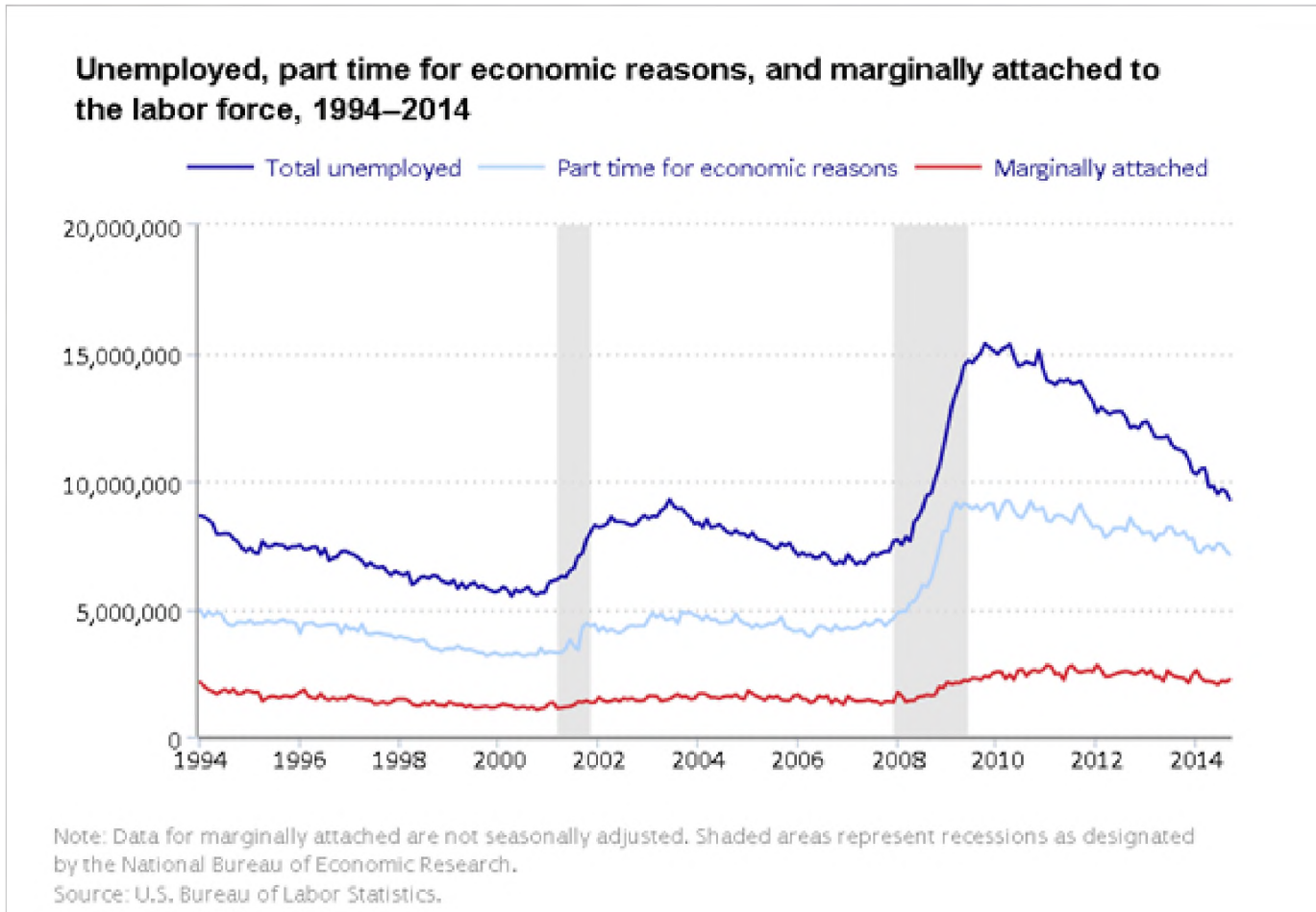
Two small differences from the historical pattern have appeared since the end of the 2007–2009 recession. First, U-1 and U-2 appear to have converged. For most of the history of these series,⁸ the number of persons unemployed for 15 weeks or longer (the numerator for U-1) had been less than the number of people who had lost their jobs or completed temporary jobs (the numerator for U-2), even during economic downturns. (See Chart 2.) However, the two series began to converge shortly after the end of the recession, largely reflecting a greater increase in the number of people who were unemployed for 15 weeks or longer during the downturn. In December 2007, the number of people who had been unemployed for 15 weeks or longer (2.5 million) was well below the number of job losers (3.9 million). In September 2014, 4.4 million people had been jobless for 15 weeks or longer and 4.5 million had lost their jobs; thus, the U-1 and U-2 rates were very similar, at 2.8 and 2.9 percent, respectively.

Chart 2



The second difference in the trends among the alternative measures that has emerged since the end of the 2007–2009 recession is that the ratio of U-6 to U-3 has inched up. The most inclusive measure of labor underutilization, U-6, includes three different groups—unemployed workers, people who are marginally attached to the labor force, and those who are working part time for economic reasons—as a percentage of the labor force plus the marginally attached. (See Chart 3.)

Chart 3



The unemployed are defined in the CPS as people who are without work, are available for work, and have *actively* searched for work in the previous 4 weeks. The unemployed represent the largest component of the U-6 numerator, at about 50 percent. At the onset of the most recent recession, there were 7.6 million people who were unemployed. When the recession officially ended in June 2009, the number of unemployed had nearly doubled to 14.7 million, and it continued to rise well into 2010, before beginning to recover. In September 2014, the unemployment level had fallen to 9.3 million, as it continued to trend down in the direction of its prerecession level.

People who are marginally attached to the labor force are those who want a job, are available to work, and have searched for a job in the past year, but who currently are not actively looking for work—that is, they are not unemployed. This group accounts for the smallest share of the three components that make up the U-6 numerator (about 12 percent in September 2014). In December 2007, there were 1.3 million marginally attached workers. By June 2009, that number had increased substantially, to 2.2 million. The number of marginally attached also continued to increase after the official end of the recession; it finally started to improve early in 2011. In September 2014, there were 2.2 million marginally attached workers. The number of marginally attached workers remains higher than its prerecession level, but it has had limited impact on the U-6 measure because of its relatively small contribution to the numerator.

People working part time for economic reasons—also referred to as involuntary part-time workers—are those who worked 1 to 34 hours for reasons such as slack work or an inability to find full-time work (full-time employment is defined as 35

hours or more per week).⁹ These workers are classified as employed because they have jobs. The number of involuntary part-time workers accounts for the second-largest share of the components that make up the U-6 numerator (about 38 percent in September 2014). During the 2007–2009 recession, the number of people working part time for economic reasons rose to historically high levels—from 4.6 million in December 2007 to more than twice that, 9.2 million, in March 2010. The number of people working part time for economic reasons has trended down a bit more slowly than the number of unemployed and remains at historically high levels (7.1 million in September 2014).

During the 2007–2009 recession, increases in the number of unemployed and persons working part time for economic reasons were the primary drivers of the increase in U-6. While unemployment has been decreasing fairly steadily since early 2010, the other two components that make up U-6 have shown comparatively less improvement. Even so, the U-6 measure has been trending downward, generally consistent with the movement of U-3 and the other alternative measures of labor underutilization.

Since 2013, the ratio of U-6 to U-3 (or, alternatively, the gap between the two series) has risen to a slightly higher level than had prevailed throughout most of the history of the measures. In September 2014, the U-6 rate was 11.8 percent, double (2.0) that of U-3, the official unemployment rate, at 5.9 percent. During the recovery that followed the 2001 recession, the ratio was somewhat lower, averaging 1.7. This appears to be largely the result of a relatively larger drop in the number of people who are unemployed compared with the decline in the number working part time for economic reasons during the recent recovery. From December 2012 to September 2014, for example, the number of unemployed declined from 12.3 million to 9.3 million, a drop of about 24 percent, while the number of involuntary part-time workers fell from about 7.9 million to 7.1 million, or about 10 percent. These two numbers have traditionally tracked similarly, rising during economic downturns and falling during expansions at roughly similar rates, but that pattern has changed recently.

Summary

The six alternative measures of labor underutilization discussed in this article provide a variety of perspectives on how the labor market was affected during and after the 2001 and 2007–2009 recessions. The alternative measures showed similar movements across the two business cycles, although two differences have appeared since the end of the last recession: the two narrowest measures, U-1 and U-2, have converged, and the broadest measure, U-6, has declined somewhat more slowly than U-3, the official unemployment rate. This largely reflects the fact that the number of involuntary part-time workers has recovered more slowly than the number of unemployed in the wake of the recent recession.

*This **Beyond the Numbers** summary was prepared by Vernon Brundage, economist in the Division of Labor Force Statistics, U.S. Bureau of Labor Statistics. Email: brundage.vernon@bls.gov. Telephone: 202-691-5456.*

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NOTES

¹ The most recent Employment Situation news release can be viewed at <http://www.bls.gov/cps/#news>; see table A–15, "Alternative measures of labor underutilization."

² For more information on the background of the alternative measures, see Steven E. Haugen, "Measures of Labor Underutilization from the Current Population Survey," *BLS Working Papers*, March 2009, Working Paper 424, <http://www.bls.gov/osmr/pdf/ec090020.pdf>.

³ People who are marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work.

⁴ People who are employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

⁵ In a 1976 article introducing the new measures, Commissioner of Labor Statistics Julius Shiskin noted that because “no single way of measuring unemployment can satisfy all analytical or ideological interests,” the Bureau of Labor Statistics would begin publishing a “range of unemployment indicators,” which were then known as U 1 through U 7 (U 5 was the official unemployment rate at that time). See Shiskin, “Employment and unemployment: the doughnut or the hole?” *Monthly Labor Review*, February 1976, pp 3–10, http://www.bls.gov/opub/mlr/1976/article/employment_and_unemployment_the_doughnut.htm.

⁶ Following the 1994 CPS redesign, the alternative measures were revised and are currently known as U 1 through U 6 (U 3 is the official rate). See John E. Bregger and Steven E. Haugen, “BLS introduces new range of alternate unemployment indicators,” *Monthly Labor Review*, October 1995, pp. 19–26, <http://www.bls.gov/opub/mlr/1995/10/art3full.pdf>.

⁷ According to the National Bureau of Economic Research (NBER), the dates for the two recessions of the 2000–2010 decade are as follows: March 2001 to November 2001, and December 2007 to June 2009. For more information on the NBER-designated business cycles, see the NBER website at <http://www.nber.org/cycles/cyclesmain.html>.

⁸ The U 1 and U 3 measures are available from 1948; U 2 is available from 1967; U 4 through U 6 are available from 1994.

⁹ A very small number are in the involuntary part-time employment category because of a seasonal decline in demand or because their job started or ended during the week.

SUGGESTED CITATION

Vernon Brundage, “Trends in unemployment and other labor market difficulties,” *Beyond the Numbers: Employment and Unemployment*, vol. 3, no. 25 (U.S. Bureau of Labor Statistics, November 2014), <http://www.bls.gov/opub/btn/volume-3/trends-in-unemployment-and-other-labor-market-difficulties.htm>

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