Is the Labor Market Running out of Steam?

Evidence from the Labor Flows Data

ECONOMIC DEMOCRACY INITIATIVE

EDI Note

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Key findings

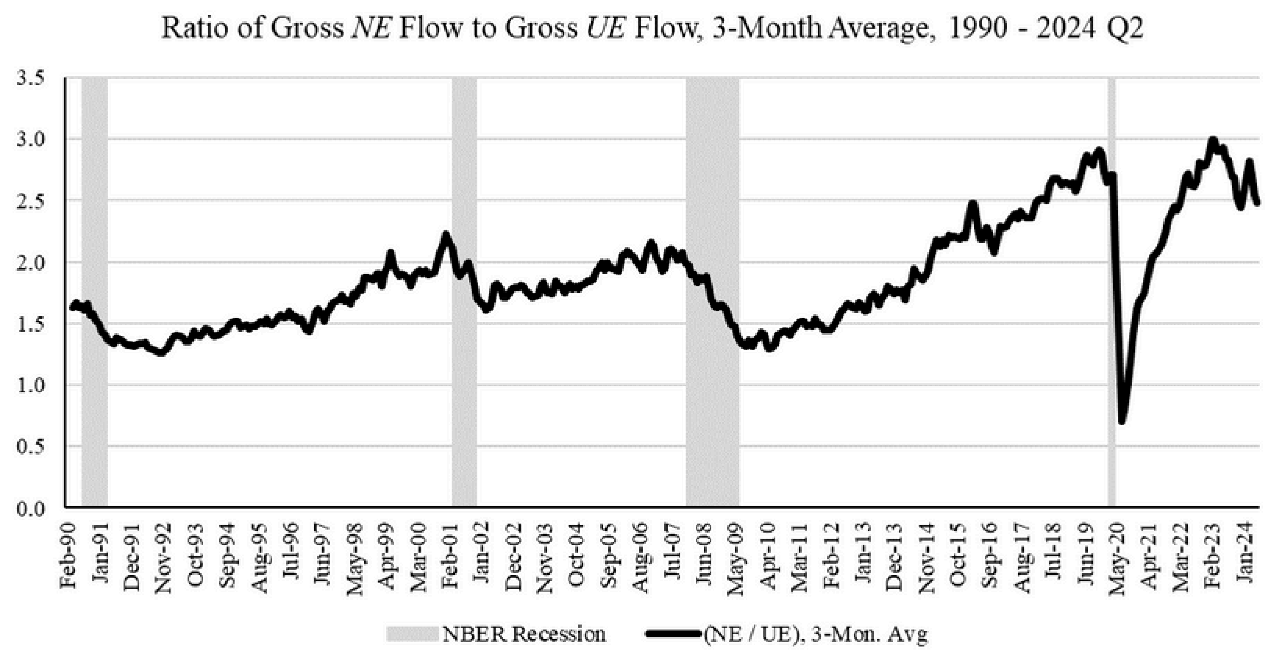
- The recent BLS Employment Situation Report for June 2024 revealed another uptick in the U-3 unemployment rate, extending what is now a four-month streak of slow, consecutive increases.
- An uptick in the not in the labor force to unemployment flow combined with smaller decreases in the not in the labor force to employment flow indicates that those leaving not in the labor force to search for employment are having a more difficult time finding employment.
- The not in the labor force to unemployment flow has been on a steady rise for some time and, while certainly no guarantee of further slowing, is one to keep an eye on.

The recent BLS Employment Situation Report for June 2024 revealed another uptick in the U-3 unemployment rate, extending what is now a four-month streak of slow, consecutive increases (up one tenth of a percent each of the past four months). June's 4.1% U-3 rate marks the highest reading since January 2022 and brings an end to an eighteen-month period in which the U-3 unemployment rate never exceeded 4%. What all this means for the remainder of 2024 and beyond is still unclear. But signs of a slowdown in the labor market seem to be emerging from other labor market data as well.

For the past several years, Economic Democracy Initiative (EDI) researchers have kept a close eye on labor force flows. Regularly published by the BLS and updated with the release of every new Employment Situation Report, labor force flows estimate the number of people transitioning from one of three labor force statuses defined by the BLS to another across consecutive months. The data also estimates how many people remain in the same status. The three labor force statuses are employed (E), unemployed (U), and not-in-the-labor-force (N).

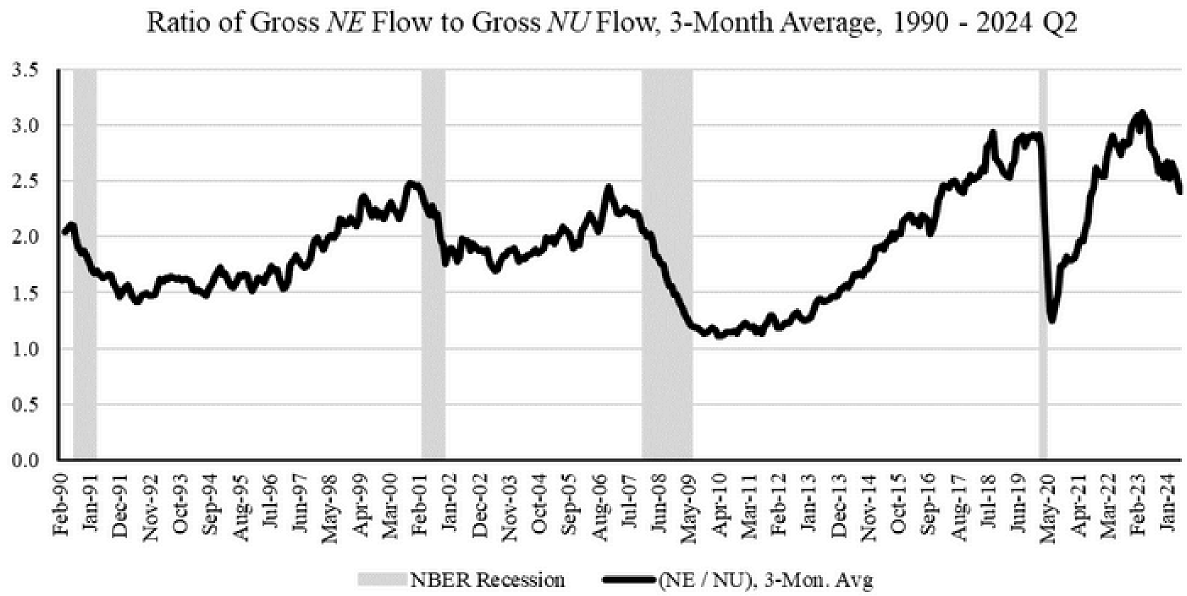
Flows into employment come from both U and N. Though perhaps somewhat counter-intuitive, the overwhelming majority of new transitions into employment generally come those previously classified as N, rather than U. Monitoring the relation between these two flows, the numbers transitioning from N to E (NE) and those from U to E (UE) helps to assess the overall state of the labor market. As Figure 1 below shows, the ratio of the NE to UE flows continues what is now a year-long decline from its 2023 peak. Though still at a historically high overall level, downturns in this ratio tend to precede recessionary periods, as defined by the National Bureau of Economic Research (NBER).

Figure 1: (NE / UE) Ratio



The ratio of the two flows out of N shows a similar trajectory. Figure 2 compares the size of the NE flow, the number of people transitioning from N to E each month, to the NU flow which indicates the number who leave N and find themselves still jobless but now officially unemployed. The decline in this ratio, evident in Figure 2 below, has been sharp over the past year. An uptick in the NU flow combined with smaller decreases in the NE flow account for this decline, and indicate that those leaving N to search for employment are having a more difficult time finding employment, resulting in longer searches on average and therefore more people being classified as U. While consideration of the reasons for these flows changing are beyond the scope of this note, it is worth pointing out once again that this ratio too tends to decline in the leadup and throughout periods the NBER deems recessionary.

Figure 2: (NE / NU) Ratio



As a final consideration, the NU flow itself is worth examining as this is one of the main channels through which a rising U-3 unemployment rate can come about. This flow has been on a steady rise for some time and, while certainly no guarantee of further slowing, is one to keep an eye on. Figure 3 plots the overall size of the NU flow. The persistent rise in the magnitude of this flow occurring over the course of 2024 is the first such increase since 2020. Figure 4 shows the same story, plotting instead the year-over-year percent change in the size of the NU flow. The year-over-year change has now climbed to 20%, a growth rate in the NU flow seen only in 2001, 2008, and during the first two years of the COVID-19 pandemic. While the labor market has been historically strong and seems to be resilient, the gross flows data is showing some weakness not seen in the headline numbers.

Figure 3: NU Flow

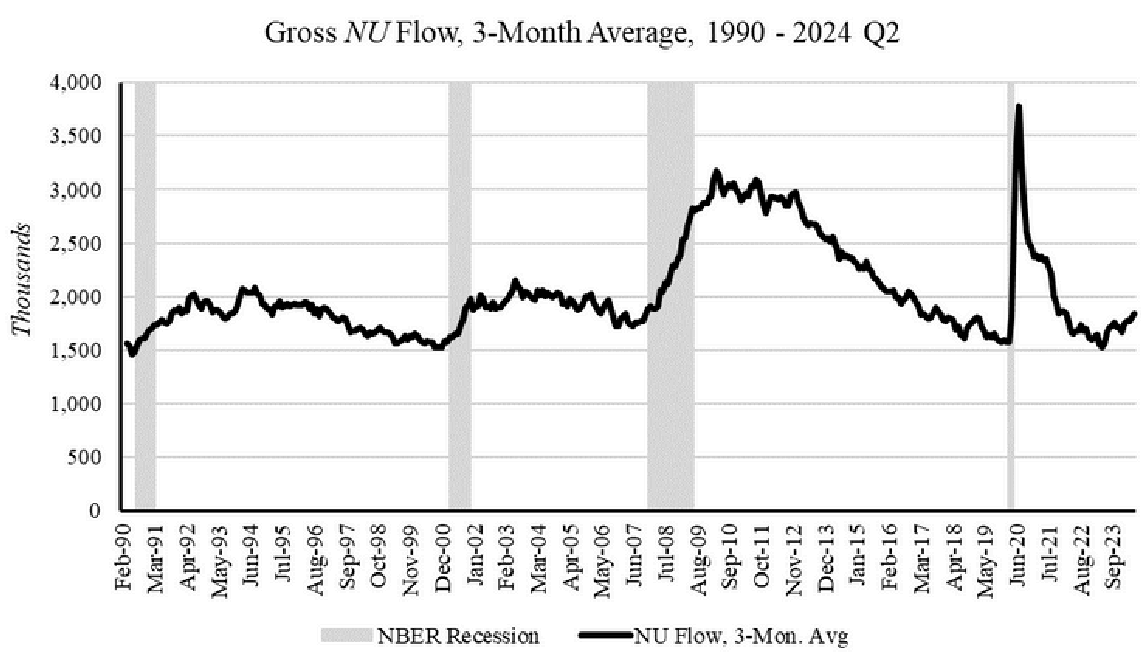
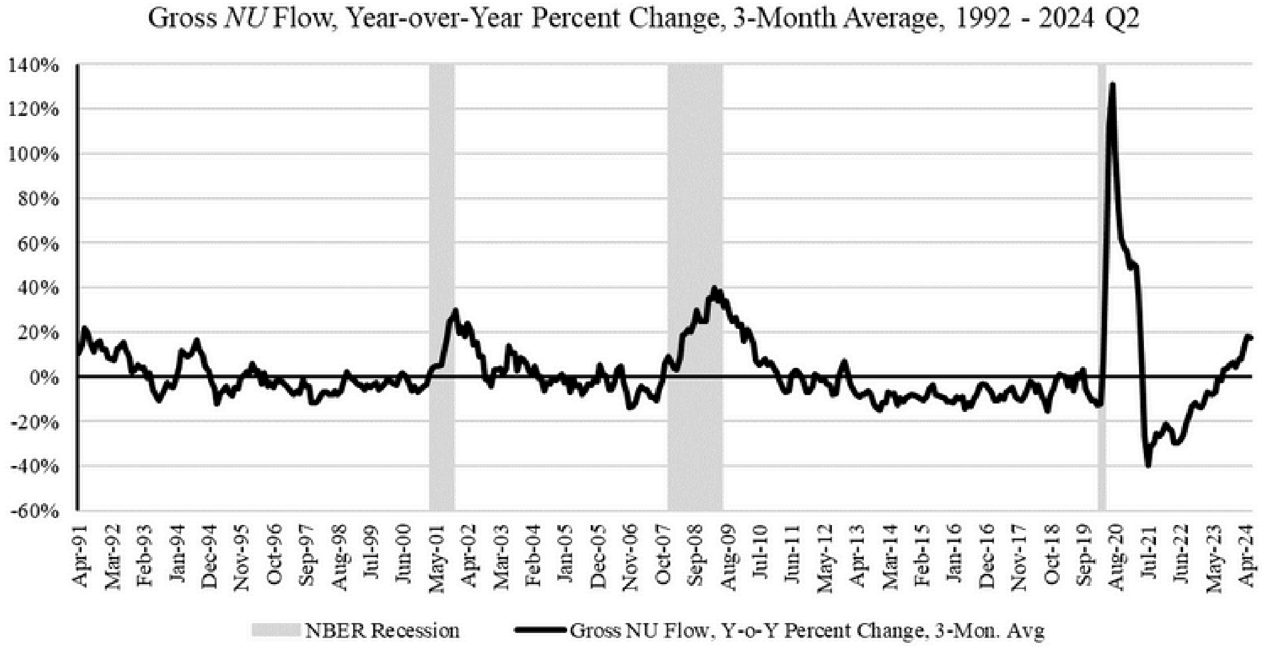


Figure 4: Year-over-Year Percent Change in NU Flow



All data in each of the figures come from the BLS and NBER and was accessed via the Federal Reserve Online Data (FRED) on July 6, 2024.