

Unemployment rate drops to pre-pandemic historical lows while room for additional employment remains



EDI Note on the Employment Situation

August 5, 2022

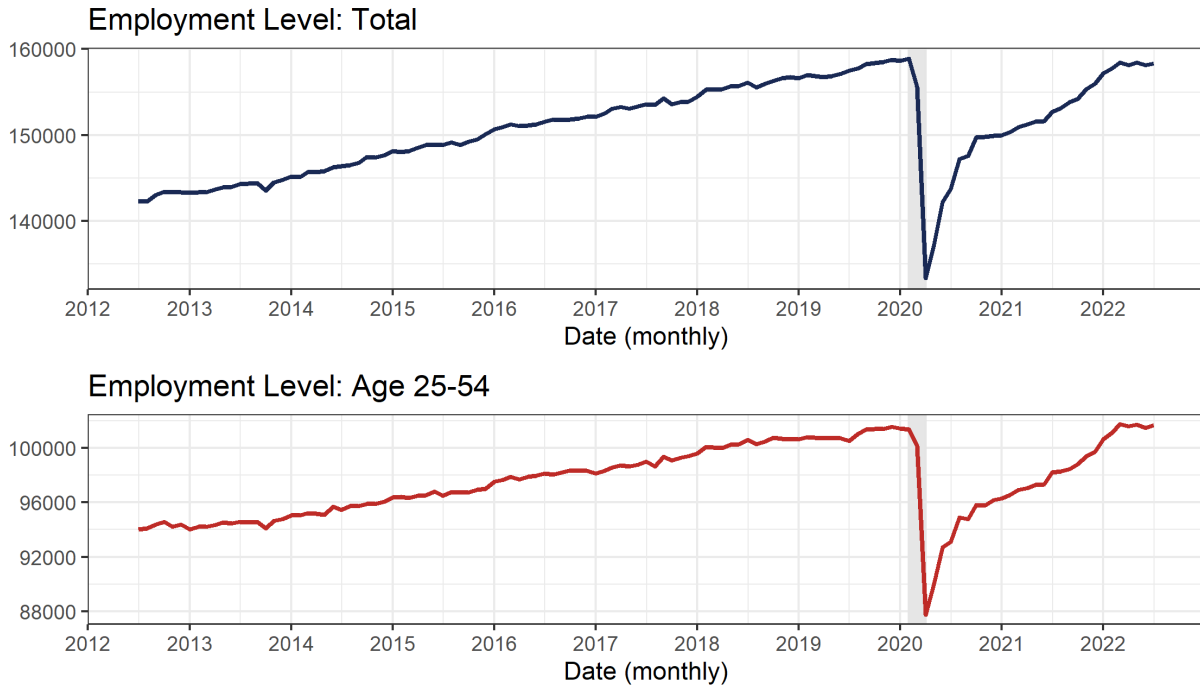
August's blockbuster jobs report from the BLS showed a stunning 528,000 gain in payroll employment in July 2022. Such robust hiring helped reduce the unemployment level to 5.7 million, bringing the unemployment rate to 3.5%, equivalent to pre-pandemic historical lows. An additional cherry – upward revisions to estimated job gains in June and May – topped off today's employment report.

Key findings

- Official unemployment rate reaches pre-pandemic historical lows
- The labor force participation rate and employment level fell in July
- Despite the unemployment level falling by 242,000 to 5.7 million, the number of workers not-in-the-labor-force who want a job now increased by 254,000

The tremendous payroll gains failed to stem the labor force participation rate and employment level from falling. Both measures declined in July, continuing a months-long pattern. Today's release marks the third consecutive month in which the labor force participation rate has declined (albeit at a slow pace, only dropping by 0.1 percentage point in each month), bringing July's labor force participation rate down below that recorded in January of this year. As Figure 1 below shows both total employment and prime-age (25-54 years old) employment levels seem to be flatlining.

Figure 1: Employment level continues to flatline (July 2012-2022)

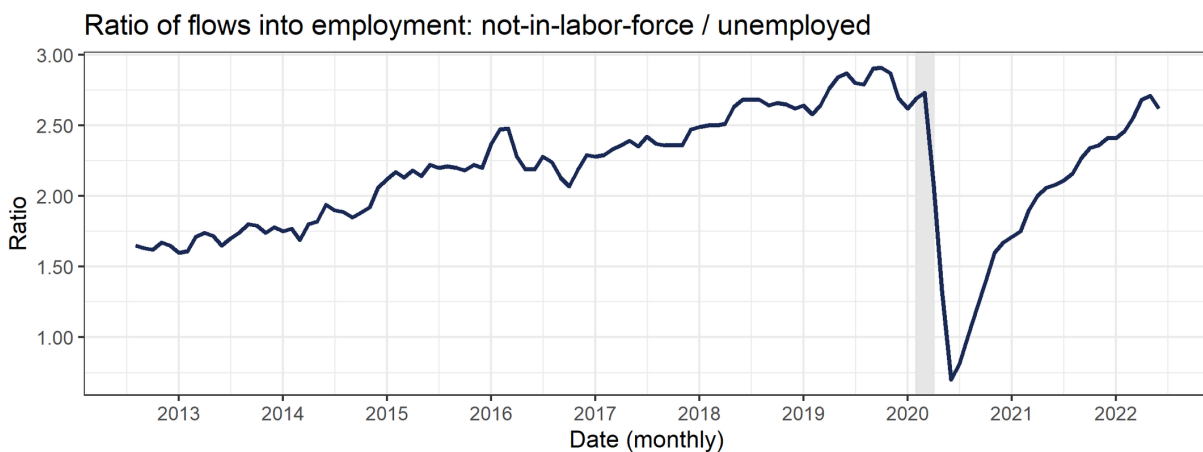


U.S. BLS, retrieved from FRED, Federal Reserve Bank of St. Louis

Next, we consider two measures which EDI has been monitoring and tracking in past notes:

First, we take the flows of workers entering employment who were classified as not-in-the-labor-force in the prior month and divide it by the flows of workers entering employment directly from unemployment. Figure 2 below plots the 3-month moving average of this ratio. This measure turned down in recent months, a first since the pandemic began. Though certainly not an imminent sign of recession – as the chart below shows there are plenty of times in which this ratio declines without a looming recession – it is notable that now is the first time in two years that this ‘normalization’ has occurred. The recent pattern is driven by an easing in the flow of workers from not-in-the-labor force to employment, the numerator, and a slight rise in the unemployment to employment flow, the denominator.

**Figure 2: Employment level continues to flatline (July 2012-2022)
3 month moving average**

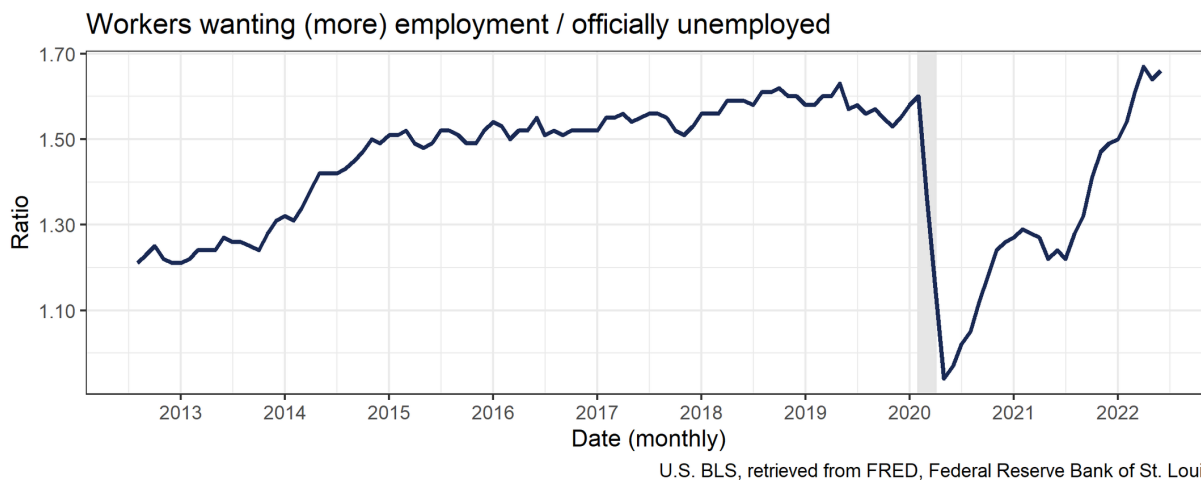


U.S. BLS, retrieved from FRED, Federal Reserve Bank of St. Louis

The second measure, shown as a moving three month average in Figure 3, is the ratio of the sum of involuntary part-time and workers not-in-the labor-force who want a job to the count of officially unemployed workers. In other words, we calculate:

$$\text{(Involuntary Part-time + Not in Labor Force, Want a Job Now) / Unemployed}$$

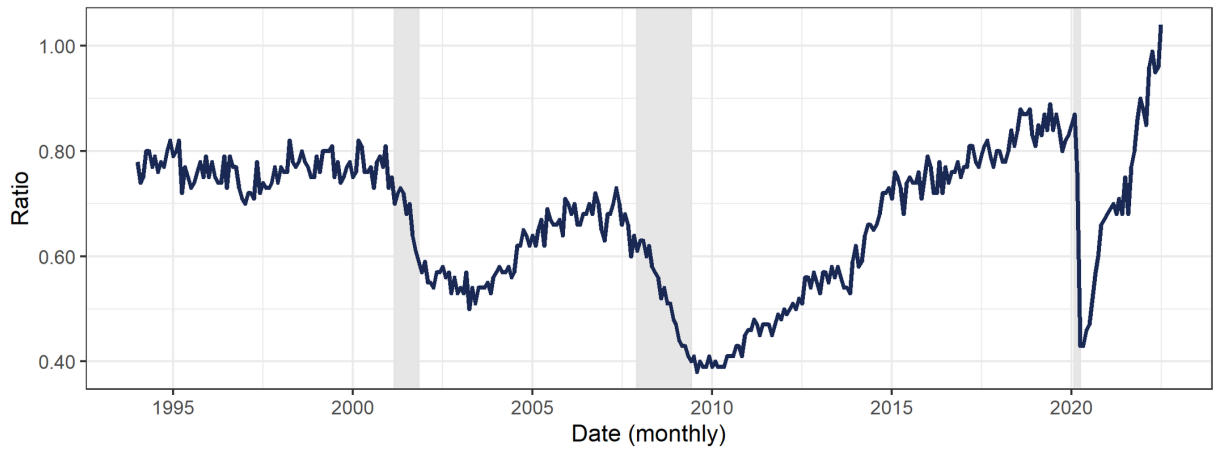
Figure 3: Ratio of involuntary part-time and not-in-the-labor-force want a job now / officially unemployed (July 2012-2022) 3 month moving average



This calculation can be thought of as a rough measure for tracking the changing distribution of un- and underemployment across various labor force statuses. Since the officially unemployed are only a fraction of the un- and underemployed, this measure can provide a broader perspective, especially when declines in one category of un- or underemployed are offset by increases in another.

Exactly this scenario happened in July. Despite the unemployment level falling by 242,000 to 5.7 million, the number of workers not-in-the-labor-force who want a job now increased by 254,000, rising to 5.9 million. In fact, July 2022 was the first time since the not-in-the-labor-force want a job now (NLF-WJ) category was introduced by the BLS in 1994 that this group outnumbered the count of officially unemployed workers. Figure 4 below divides the number of NLF-WJ workers by the unemployment level. In July this ratio exceeded a value of one, indicating a situation characterized by more NLF-WJ than officially unemployed workers.

Figure 4: Ratio of not-in-the-labor-force want a job now / officially unemployed (1994- July 2022)
Monthly



U.S. BLS, retrieved from FRED, Federal Reserve Bank of St. Louis

While still a historically strong situation in the labor market, these dynamics should not be overlooked. They indicate that the desire for additional employment and jobs remains, despite the impressive rapidity of the recovery from the depths of the pandemic.