Global Demographics

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A Time Lapse Picture of U.S. Labor Markets

The basic takeaway from the July employment report is that the increase in employment was better than expected. Less robust numbers, however, may lie ahead because of the impasse in Washington. In the meantime, it is worthwhile to assess the labor market using gross labor flows.

While net changes in the number of persons employed or unemployed are important gauges of the health of the U.S. labor markets, the specific sources of the net change are not discernible from the published data because there is a significant amount of churning as individuals move from one labor force status to another. Gross labor market flows show the movements of individuals between employment, unemployment and not in the labor force (inactive). They help us to understand and interpret changes in the levels of labor market indicators reported in the monthly survey. Moreover, analysis of the changes that have occurred since February shed light on the underlying dynamics.

The probability that persons who were employed in both the current and prior month, which had averaged about 96% throughout its history beginning in 1990, recorded an unprecedented decline in April and has only partially recovered (see Chart 1). The number of persons who were employed in March who dropped out of the labor force jumped to 9.5 million in April from 5.8 million in March (see Chart 2), a development that was dwarfed by the 17.5 million persons who were employed in March who became unemployed in April (see Chart 3). That was a very sharp increase from the 2.66 million persons who were employed in February who became unemployed in March.

Offsetting the declines are two sources of gross flows into employment – either from persons who were out of the labor force or persons who were unemployed in the prior month. Of the two, the least significant are persons who had dropped out – their numbers dipped slightly in April but are now holding at pre-peak levels (see Chart 4). The vast majority of inflows are dominated by persons who were unemployed last month who found jobs this month (see Chart 5).

The net flow calculations display how much is yet to be done. Net flows from out of the labor force to employment, which took a big hit in March and April, have only partially recovered. Of the nearly 8 million net decline in March and April, the net increase since then is less than 2 million (see Chart 6). The recovery from the unemployed finding employment is equally sobering – of the 17.5 million net decline in February and March, the net increase since then is only 7.2 million (see Chart 7).

With regards to the interaction between unemployment and not in the labor force, there is considerable churning. Gross flows from unemployed to not in the labor force are at high levels recently (see Chart 8) but so are gross flows from not in the labor force to unemployed. The net calculation is elevated albeit at low levels (less than 800,000) in May and June but diminishes to more normal historical levels in July (see Chart 10).

Conclusion

Although substantial progress has been made in restoring the labor market, there is still much to do. The most bothersome issue concerns persons who are not in the labor force. The net positive flow from not in labor force to employed, which was not very large, seems to have stalled in July. Net flows from not in the labor force to unemployed are modest at best. Does the persistence of persons remaining neither employed nor unemployed mean that there is a growing number of discouraged potential workers? It is a situation which we well continue to monitor in the months ahead.

Chart 1

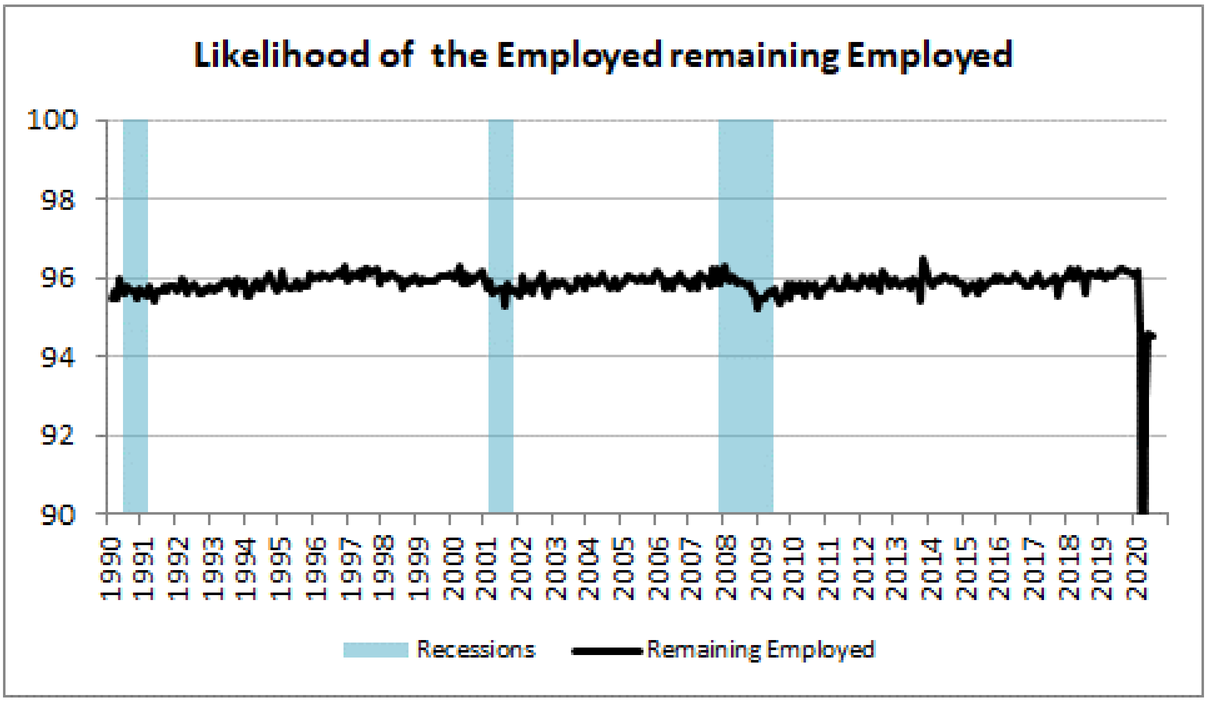
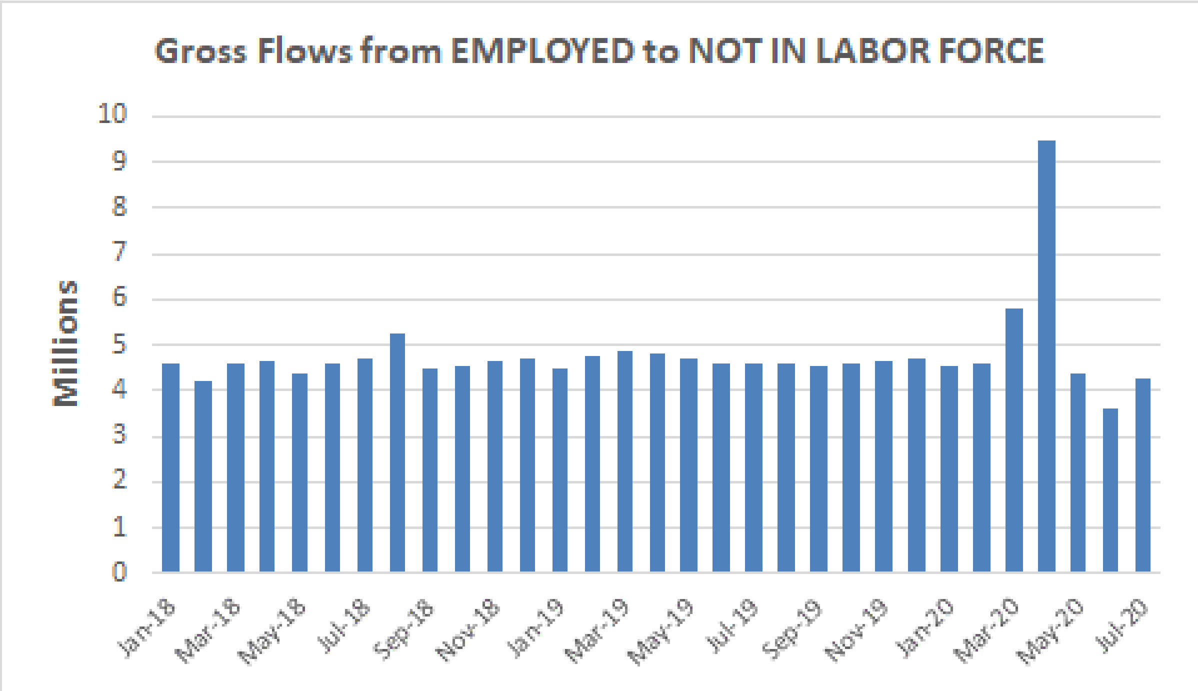


Chart 2



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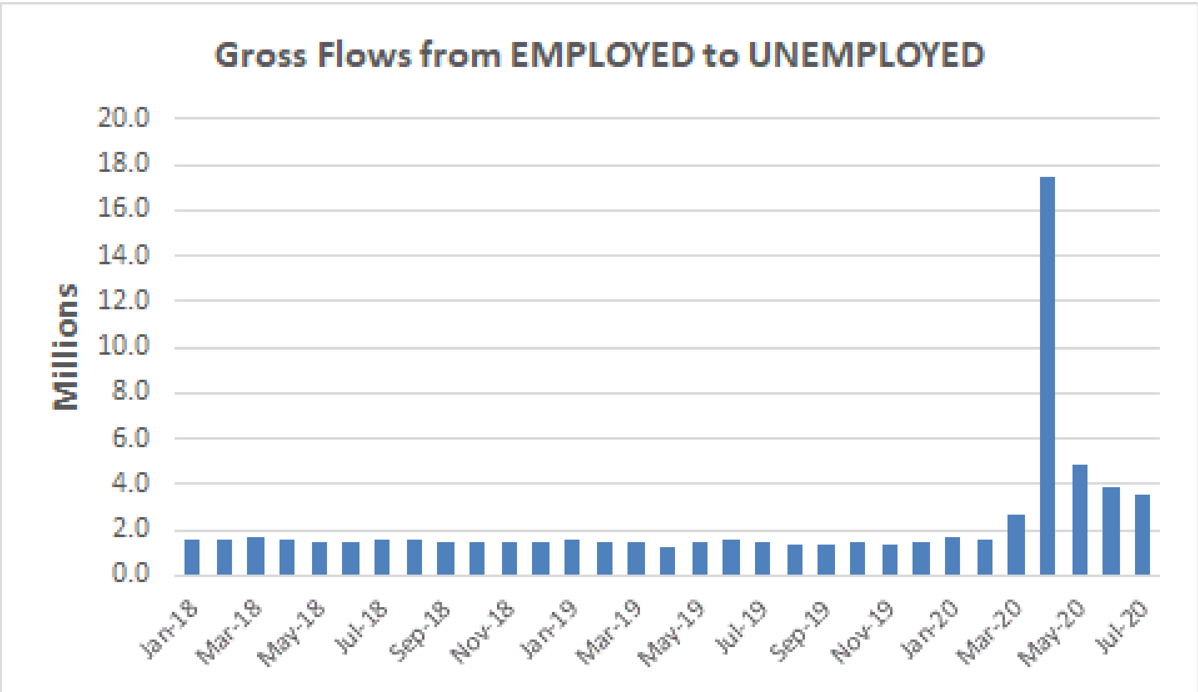

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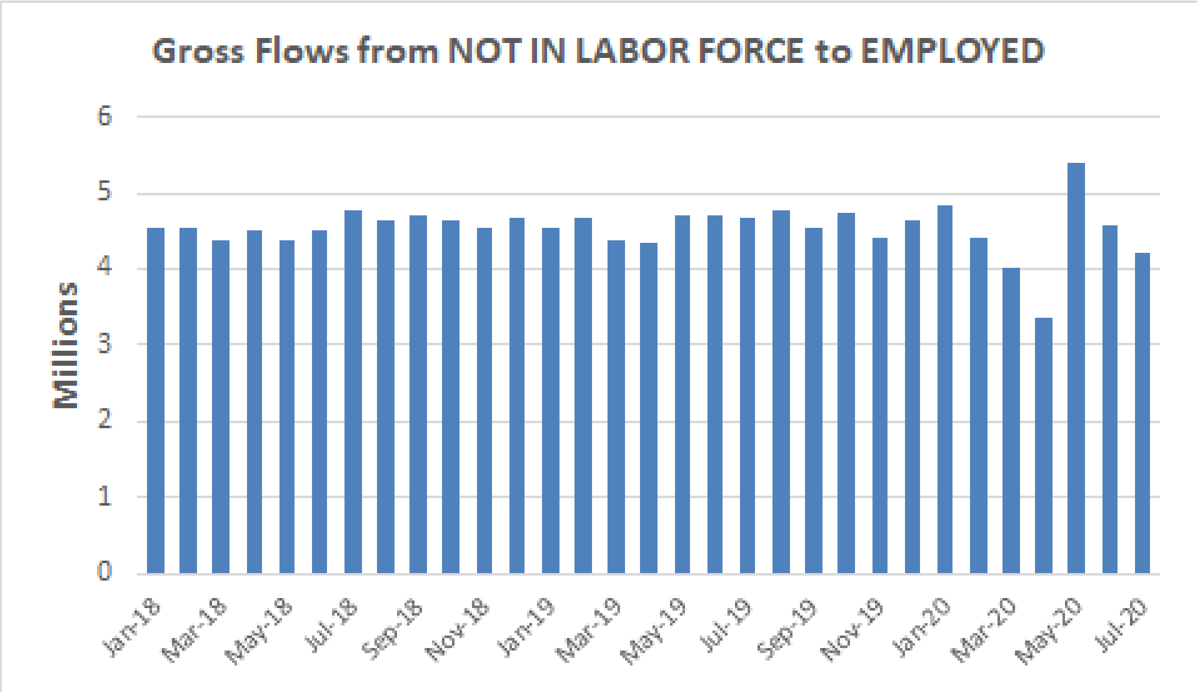

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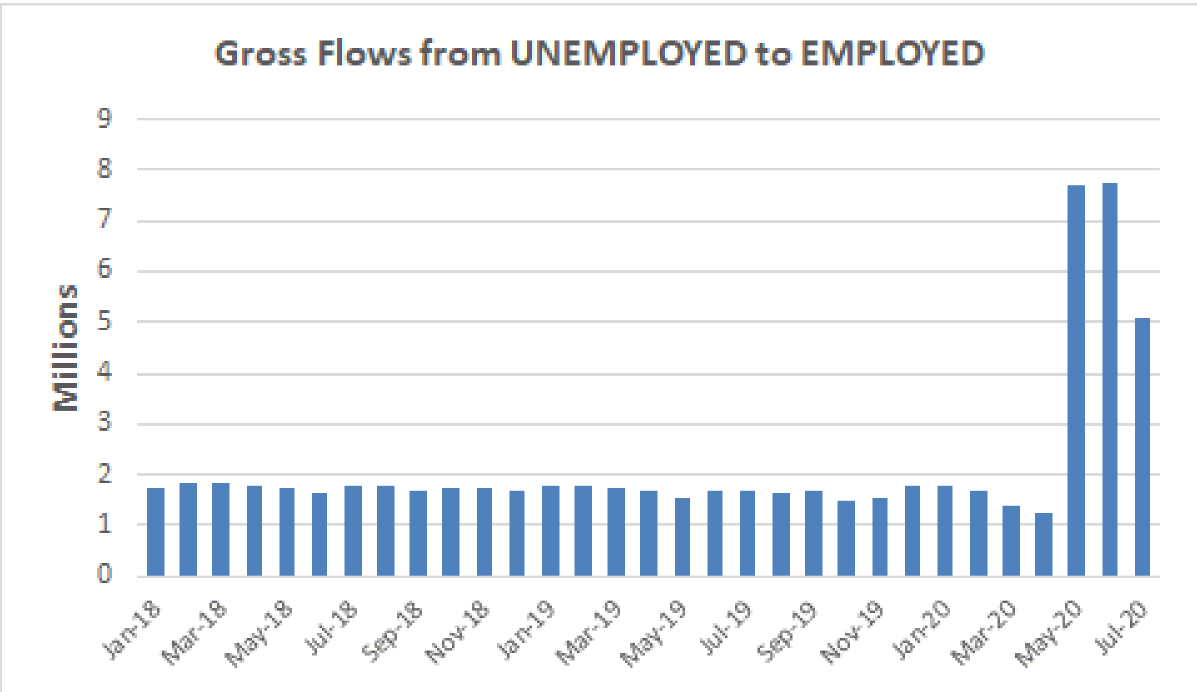

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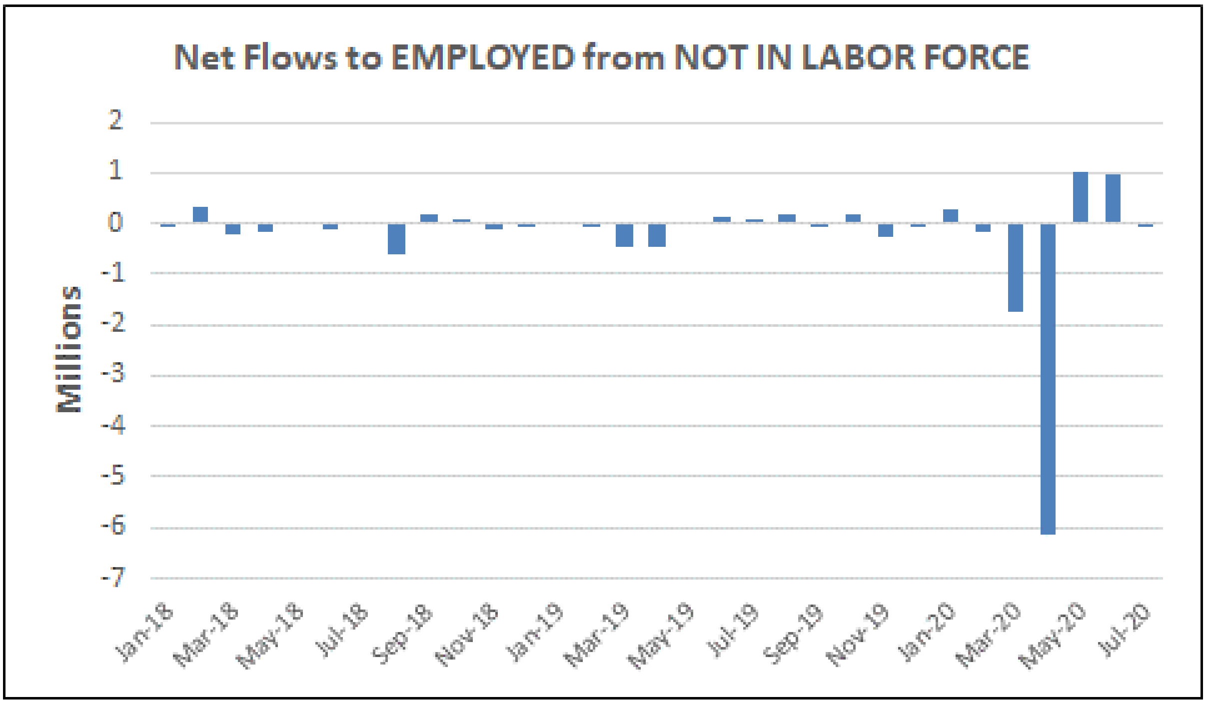

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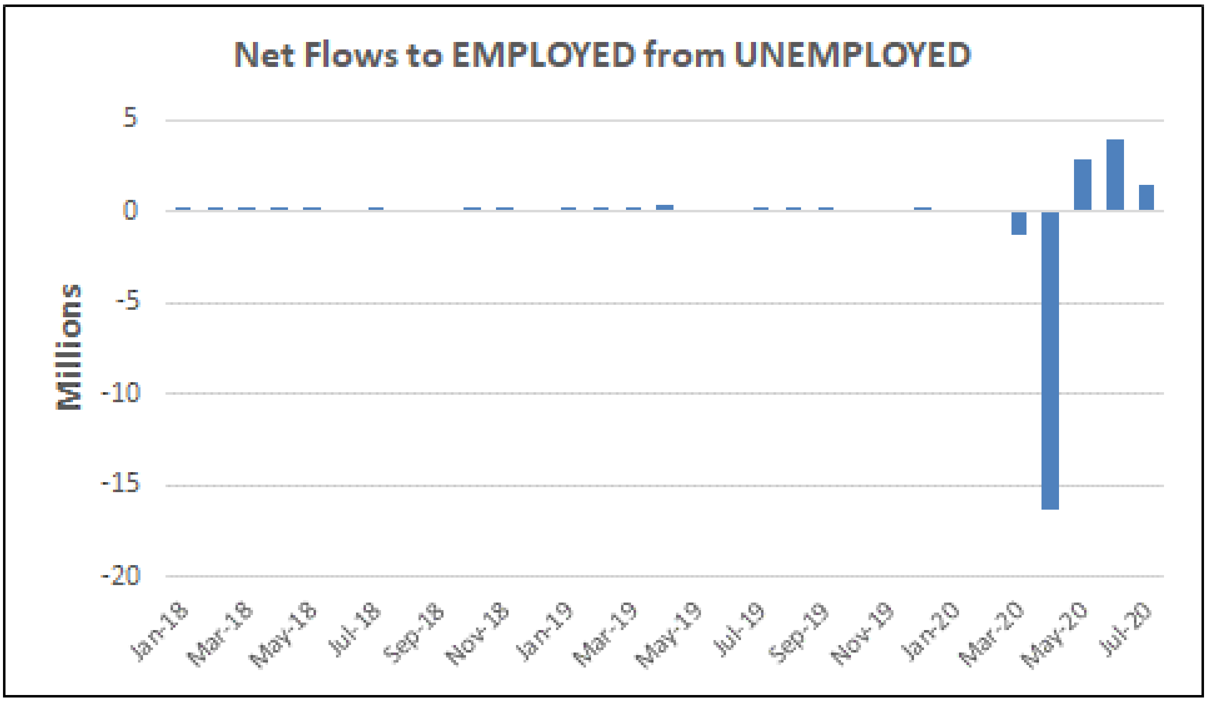

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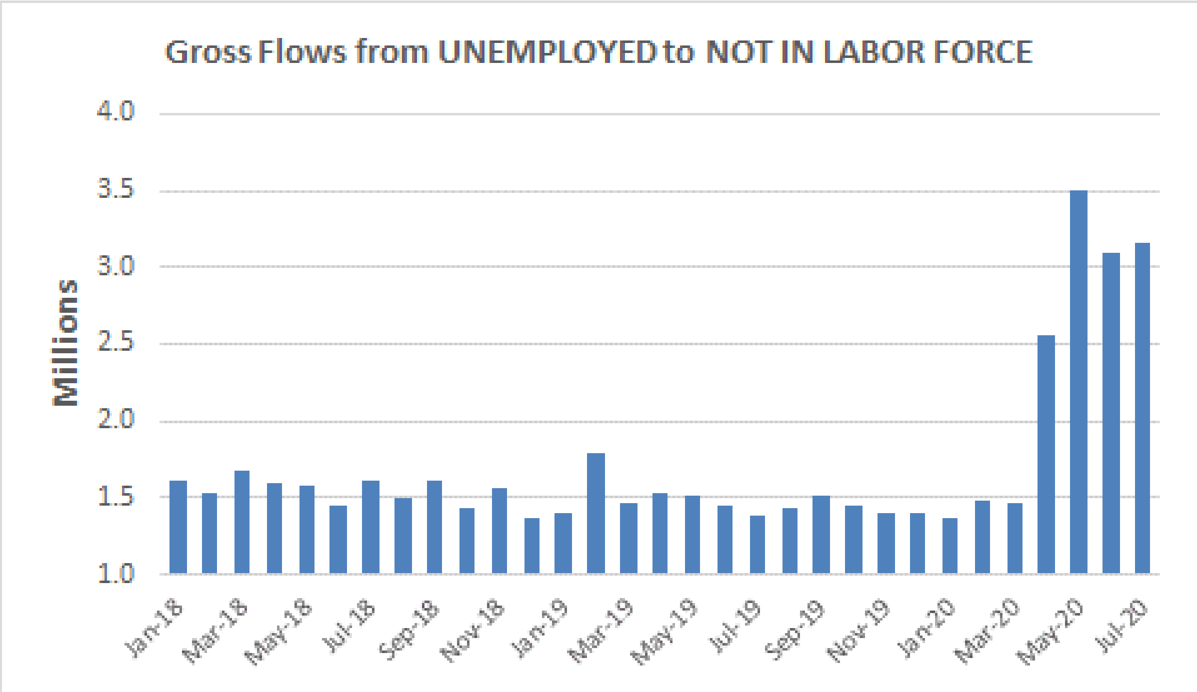


Chart 9

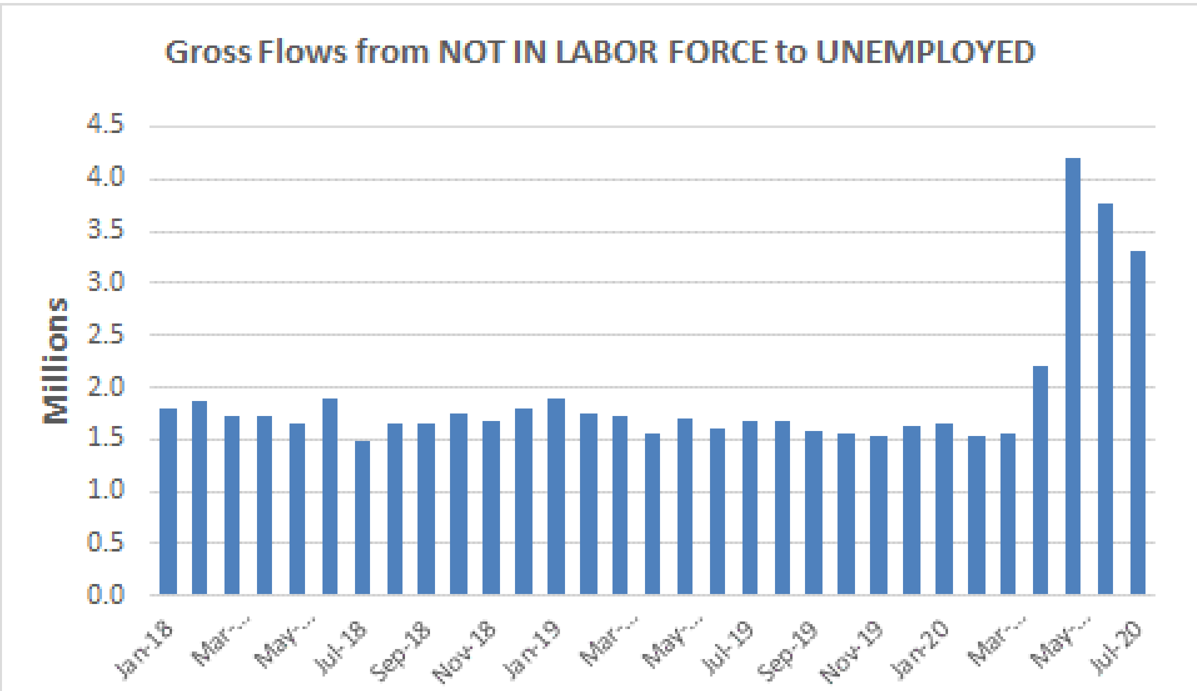
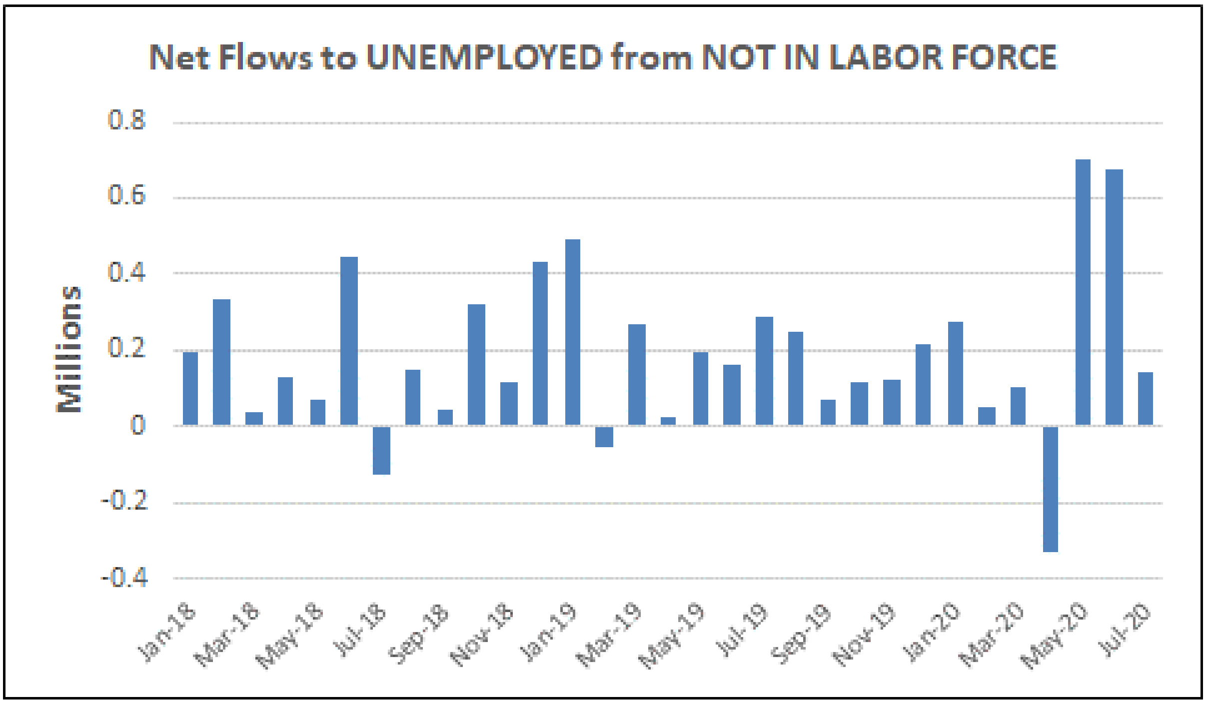


Chart 10


Net Flows to UNEMPLOYED from NOT IN LABOR FORCE
Millions
0.8
0.6
0.4
0.2
0
-0.2
-0.4
Jan-18
Mar-18
May-18
Jul-18
Sep-18
Nov-18
Jan-19
Mar-19
May-19
Jul-19
Sep-19
Nov-19
Jan-20
Mar-20
May-20
Jul-20