

How Do We

Determine The Unemployment Rate?

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Unemployment rates are among the most frequently referenced indicators of labor market health. Given the ubiquitous nature of these rates, it is important to understand the methods through which they are derived.

Unemployment rates are calculated and owned by the federal government—more specifically, the U.S. Bureau of Labor Statistics (BLS). It is this federal agency that determines not only the national unemployment rate, but rates for all states, counties, metropolitan areas, and cities (with a population of 25,000 or more). Advantages of the federally defined approach to the production of unemployment rates are numerous. First, a centralized methodology allows for the standardization of unemployment rate estimates, which means that rates can be compared across different states, counties, and other areas. Second, since the release of updated unemployment rates usually elicit a strong market response, a federally imposed release schedule helps to add some predictability to when the newest unemployment rates will be available. Finally, a centrally driven estimate production process helps to keep unemployment rates insulated from local political influence.

Contrary to what many people believe, unemployment insurance claims (unemployment benefits) are not the primary factor in the unemployment rate calculation. Instead, a monthly national survey is the driving force. Unemployment claims are just a small portion of the

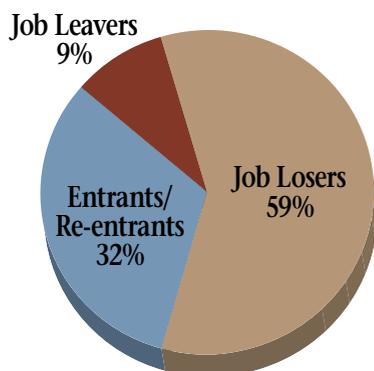
state-level unemployment rate calculation, and in some states, they are not used at all.

To be counted as unemployed, one must be without a job and seeking work. If one is without a job, yet is not looking for a job, then the individual is not considered unemployed under the official definition of unemployment.

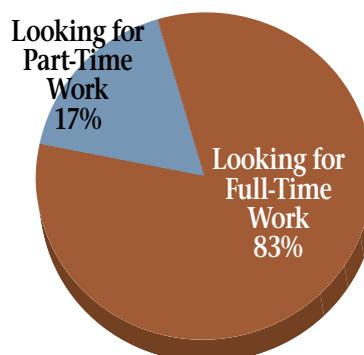
There are three ways through which people become unemployed. The first is to lose a job (job losses could take the form of a layoff, firing, expiration of temporary job, etc.). The second is to voluntarily leave a job. The third is to newly enter the labor force (for example, students who graduate and begin seeking work) or to return to the labor force after a period of absence. Unemployment benefits are only available to those in the first category, and even then, not all are eligible. Therefore, unemployment insurance activity only includes a fraction of those who are unemployed. Nationally, about one-third of the unemployed are on the rolls of unemployment insurance. In Utah, an even smaller percentage of the unemployed are captured by unemployment insurance statistics.

Since those leaving jobs and those entering or re-entering the labor force are generally not eligible to collect unemployment insurance, a more comprehensive method is needed to fully estimate the volume of the unemployed. This is done through a monthly survey called the Current Population Survey (commonly referred to as the Household Survey). This is administered

Utah Unemployed by Reason December 2010-November 2011



Utah Unemployed December 2010-November 2011



Source: U.S. Census Bureau, Current Population Statistics. • <http://www.bls.gov/gps/notescps.htm>

monthly to 60,000 households nationwide by the U.S. Census Bureau, at the behest and financing of the Bureau of Labor Statistics. Selected households rotate in and out of the survey—in for four months, out for eight, back in for four, then finished. In addition to questions regarding demographic information such as age, race, and gender, individuals are asked whether they were employed, how many hours they worked, what industry they worked in, along with many other questions related to their labor market activities. For interviewees who were not working, the survey asks whether they are looking for a job, the methods used to find a job, and so forth. It provides detailed survey information of monthly household labor market activity.

The survey results produce the national unemployment rate. But at the state and local level, the monthly survey sample size is not considered statistically strong enough to produce the unemployment rate on its own (700 households monthly in Utah). Therefore, each state's survey results are combined with historical data to construct an econometric model, out of which comes the state's official unemployment rate estimation. The inputs into this model are not only historical data and the current survey results, but also the recent amount of unemployment insurance claims (although this input's influence with the model varies by state—it does not have a strong influence in Utah), current estimates of Utah employment growth or contraction, Utah population estimates, and other economic variables. The most influential factor in the model is the current survey results, yet the other variables help to stabilize monthly fluctuations that are inherent and potentially sizable due to the survey's small sample size.

The federal government designs the model. The survey provides the data for the model. The model produces the

unemployment rate. Utah provides the unemployment insurance claims data, and the federal government supplies the remaining inputs and makes the calculation.

Each month, Utah announces and profiles both Utah's unemployment rate and employment growth estimation, but those numbers are generated by the federal government. The federal government asks states to issue a monthly announcement to put a local analytical perspective on the data; however, the states do not generate nor "own" the data.

The process that generates the unemployment rate is not perfect—it simply produces an estimate. The key to it all comes down to the definition, which centers upon activity. Is an individual without work and looking for a job? It is theoretically possible for all unemployed people to stop looking for a job. The unemployment rate would then fall to zero. The unemployment rate statistics suggest that some of the recent unemployment rate decline can be attributed to unemployed people no longer looking for work.

The unemployment rate can also decline as people find jobs. They leave the ranks of the unemployed and become employed. With 36,000 jobs created in Utah over the past year, job gains are also part of the recent unemployment rate decline.

Additionally, variability in the survey can occasionally be significant enough that unemployment movements can be partially attributed to this factor. In the case of the current unemployment rate decline, survey variability also appears to be an influencing factor. Job gains, labor force exits, and survey variability are currently all contributing factors in the state's recent noticeable unemployment rate decline. ①