

# Unemployment & Underutilization of Labor

The Unemployment Rate isn't the only way to measure the state of the economy.

**T**he U.S. Department of Labor, Bureau of Labor Statistics (BLS) is the “keeper” of the unemployment statistics. It’s their job to provide the nation with the numbers profiling the workforce. The public, politicians, businesses, and policy makers often look to a single statistic—the unemployment rate—to provide them with a measure of the economic “misery” in the country. It’s not the only measure that describes the state of the economy, but it’s the one that seems to get the most play.

The unemployment rate is a measure of how connected—or disconnected—the workforce is to the job market. It is derived by dividing the number of unemployed persons by

the total civilian labor force (CLF). The civilian labor force includes persons 16 years of age and older who are working (employed) or looking for work (unemployed). The proportion of the civilian labor force that is looking for work becomes the unemployment rate.

BLS also publishes “Alternative Measures of Labor Underutilization.”<sup>1</sup> These look at labor force participation and labor utilization through increasing stages of discernment. Six ascending measures of labor underutilization emerge, labeled U-1 through U-6 (see box for definitions). With each successive step, additional and more liberal criteria are added. These alternative criteria are measured through the Census Bureau’s monthly Current Population Survey (CPS, or commonly called the Household Survey). Results are compiled and released by BLS. The



closest measure to the official unemployment rate is the U-3 rate, it being “total unemployed as a percent of the civilian labor force.”<sup>2</sup>

Discouraged workers, added to the U-3 measure in the U-4 step, are persons who are not looking for a job but would take a job if they felt they could find one. They also had looked for a job sometime in the prior 12 months. They are not counted as officially unemployed because they had not searched for work in the prior four weeks, for the specific reason that they believed no jobs were available for them.

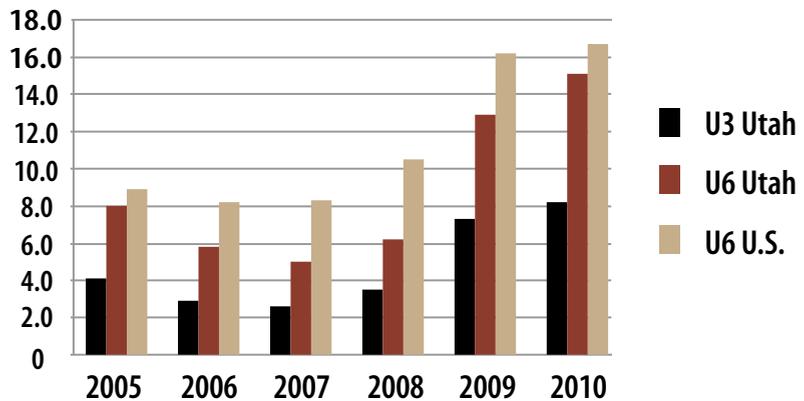
U-5 goes one step further and adds in marginally-attached workers, meaning people of U-4 characterization who have cited any other reason for not looking for work in the past four weeks than discouragement.

U-6 completes the pyramid. It actually includes people who are working, but only working part-time (less than 35 hours per week) for economic reasons (not their own choice) yet who desire and are available to work more hours. These individuals are sometimes referred to as involuntary part-time workers. This U-6 criterion is designed to capture the broadest extent of labor underutilization.

U-6 is often referenced in the press and national stories because it is looked upon as the complete story surrounding labor. It is also more sensational. This U-6 rate is not only inherently the highest, but is noticeably higher in economic recessions than in other phases of the business cycle. In effect the U-6 rate expands the scope of labor underutilization to include those that have given up looking for work and those that want to work more hours but are employed part-time.

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**Unemployment & the Highest Level of Labor Underutilization  
U.S. and Utah 2005-2010**



### Alternative Measures of Labor Underutilization

- U-1, persons unemployed 15 weeks or longer, as a percent of the civilian labor force;
- U-2, job losers and persons who completed temporary jobs, as a percent of the civilian labor force;
- U-3, total unemployed, as a percent of the civilian labor force (this is the definition used for the official unemployment rate);
- U-4, total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers;
- U-5, total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers; and
- U-6, total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers.

*Source: U.S. Department of Labor, Bureau of Labor Statistics.*

### ***Utah Labor Underutilization compared to the U.S.***

In 2003, BLS started measuring these six levels for each state. Data are available quarterly, covering the most recent four quarters. An annual estimate is also produced.<sup>3</sup>

Let's place these measures in the context of the current economic/business cycle by providing some history. We'll use the unemployment rate (U-3) and the U-6 underutilization rate. The economy was in strong growth mode after the 2002 "Dot Com" recession, growing steadily through mid-decade, peaking in November 2007. Annual unemployment rates in 2007 reflected the high-flying economy, with U.S. unemployment at 4.6 percent and Utah at 2.6 percent. At that time the U-6 underutilization rate was 8.3 percent for the country and 5.0 percent for Utah.

Both the national and Utah economies fell into recession thereafter. From 2008 to 2010, the national unemployment rate jumped from 5.8 percent to 9.6 percent. Utah's jobless rate also rose significantly, more than doubling from 3.5 percent in 2008 to 8.2 percent by 2010. Even more dramatic and reflective was the change in U-6 underutilization rates. The U-6 rates quickly climbed into double-digits. At the national level the 2010 U-6 reached 16.7 percent. Utah's U-6 was nearly as high at 15.1 percent. To jog your memory, the unemployment rate for the U.S. and Utah in 2010 was 9.6 percent and 8.2 percent, respectively. These underutilization rates are high and could remain high for the next few years, even as the economy moves forward with recovery.

The rates for states hardest hit by the recession are much higher than Utah's. For example, in 2010 the highest U-6 rates were for Nevada (23.6 percent), California (22.1 percent), Michigan (21.0 percent), and Oregon (20.0 percent).

The underutilization rates are informative measures of the economic environment and the stress placed upon the labor force. Understanding these various measures and what they portray add depth to the picture of labor underutilization in America. ①

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<sup>1</sup> <http://www.bls.gov/lau/stalt.htm>

<sup>2</sup> Note that the unemployment rates (U-3) that are shown are derived directly from the CPS (quarterly summations). Most state and local unemployment rates (monthly summations) add other variables to the equation to strengthen the unemployment measure. As a result, these U-3 measures may differ from the official state unemployment rates for the same period.

<sup>3</sup> The annual rate is the one shown in the graph.

**Nevada, California, Michigan and Oregon were all hit harder by the recession than Utah.**

