

The Unemployment Rate, Understanding the Numbers

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DISTINGUISHING FACT FROM FICTION

Do the numbers tell the whole truth and nothing but the truth? It's become accepted fact that the unemployment rate released by the Bureau of Labor Statistics (BLS) on a monthly basis *truly* reflects what's happening in the US workforce of 150 million individuals. However, a look behind the numbers tells us a different story.

To better understand what the numbers mean we must first make an appraisal of our labor force and how the numbers relate to that of other developed countries. The US workforce numbers approximately 150 million individuals making it the fifth largest nation in the world behind China (1.35 billion), India (1.2 billion) Indonesia (242 million), Brazil (200 million). It's important to keep that number in mind when evaluating where the US fits in with the rest of the developed world in terms of employment numbers.

The *rate of change* in the employment numbers, up or down, depends on the size of the labor force and reflects the state of the economic cycle at any given time. The larger the workforce, the longer it takes for the rate of employment to change, particularly as an economy comes out a recession or depression. The deeper the recession, the longer it takes for the rate of employment to increase. In fact, in the US it takes a minimum of nine to twelve months following the bottom of a recession (considered by economists to be the third consecutive quarter of growth in GDP) for the rate of employment to begin rising. In a very severe recession, such as the one experienced by the US beginning in 2007 and ending in 2009, the rate of acceleration in the employment numbers took even longer. Turning around a labor force of 150 million is a task not completed quickly.

The unemployment rate is not the metric used to determine a recession in the USA. Recession is measured by negative growth in GDP. The National Bureau of Economic Research (NBER) defines the beginning and end of a recession. When we have two consecutive quarters of negative GDP we are at the beginning of a recession. Two consecutive quarters of positive growth in GDP heralds the end of a recession. When a recession begins the unemployment rate always goes up, and when a recession has ended the unemployment rate always goes down but, it is the most lagging indicator.

WHAT DOES FULL EMPLOYMENT REALLY MEAN?

Full employment does not mean that 100% of the workforce is employed. In the US, and most other developed countries as well, there has never been a 0% unemployment rate. Some members of the workforce will always be unemployed regardless of fiscal or monetary policy and regardless of how robustly the private sector is functioning. Two main factors account for unemployment at any given time. First is seasonal unemployment which occurs when workers are laid off because of weather related factors. For example, in the northern latitudes of the US outdoor construction workers face unemployment during severe winter weather. There is nothing that can be done by the construction industry, or the government, to prevent that occurrence. Also, there is structural unemployment which is caused by the introduction of new technology to accomplish a certain task that would ordinarily be accomplished by workers. For example, computers and word processing programs eliminated the need for most secretaries whose major responsibility was to type documents for managers and executives. Likewise for people who did manual tracking of inventory. Now it's done by using RFID barcodes. In the US neither the private sector nor the government can prevent structural unemployment from occurring.

The constant rate of unemployment in the US caused by all factors since the Great Depression averages approximately 6.2%. Many economists interpret that to mean that an employment rate of 94% is truly *full employment*. Since 1970, our lowest rate of unemployment was 4% in 2000, and the highest 10% in 2009. The average rate of unemployment since 1970 is approximately 6%.

If full employment is considered to be 94% at all phases of the economic cycle, an unemployment rate of 10% can be interpreted to mean that the true rate of unemployment caused by the recent recession is 4%, really not all that severe considering that the US workforce numbers 150 million. An unemployment rate of 4% means that 6 million people are unemployed while an unemployment rate of 10 % means that 15 million people are out of work. So why all the fuss about the unemployment rate? Well, it's not the rate but the raw numbers that cause all the angst and media hype. An unemployment rate at 10 % means that 15 million of the workforce is unemployed *at a particular time* and that is a serious concern.

WHY THE NUMBERS ARE IMPORTANT

Why is it critically important to know what's behind the numbers? Because information forms attitudes which in turn, guide behavior. Some workers consider the current unemployment rate of 8.8% so egregious that they become discouraged about the prospect of remaining employed or finding new opportunities if they are unemployed. As a result some workers just sit waiting for "something" to happen while they collect unemployment compensation checks. Over the past two years, how many times have we heard job seekers whine "there's nothing out there?" True, jobs during a recession, especially a severe recession that we've experienced over the past two years, are fewer in number but we know that someone is still hiring. But who? Every corporation and small business that want to remain in business. Employees are always needed and companies will hire for key positions regardless of where we are in the economic cycle. And, why are these key jobs always available? There are three main reasons: 1) People are fired for cause; 2) People quit for any number of reasons; 3) Unfortunately, people die and must be replaced. Frequently when a Fortune 500 company announces that it has downsized several thousand employees on a given day, it has most likely hired several hundred workers that very same day.

GOING FORWARD

Going forward what can we expect to happen? Usually the unemployment rate decreases as GDP grows. Presently, annualized GDP is growing which means that consumers and businesses are increasing spending for goods and services. First time jobless claims have been steadily decreasing and non-farm private sector employment is increasing. While slow but sustained increases in GDP bode well for the economy, this will not precipitate a rapid increase in employment. The job market will continue to show positive gains during 2011 and into 2012, but when we will return to "full employment", that is an unemployment rate of 6%, is not clear at this time. The rate of growth in employment will reflect what happens in the private sector and in Washington. In the education industry specifically, we have seen a steady increase in job openings in 2010 and 2011 in every market niche, particularly in technology. Executive recruiters who practice only in education, both K-12 and higher education, all report positive gains this year and expect hiring to continue throughout 2011 and 2012. The action of recruiters in the education industry, and other sectors as well, is a reliable barometer for assessing the activity in the labor market.