

Alternative Measures of Labor Underutilization in Connecticut, 2003-2014

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In addition to the official unemployment rate, the Connecticut Economic Digest has been publishing the “U-6 rate” each quarter on page 6 under the “Unemployment” table. As introduced in the February 2010 issue (page 3), there are six alternative measures of labor underutilization produced by the U.S. Bureau of Labor Statistics (BLS), of which U-6 is the broadest measure, capturing not only the “official” unemployed, but also workers employed part-time for economic reasons, and those marginally attached to the labor force.

Definitions

These are official definitions of all six 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); for states such as Connecticut, official unemployment is NOT the same as U-3;

U-4, total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers;

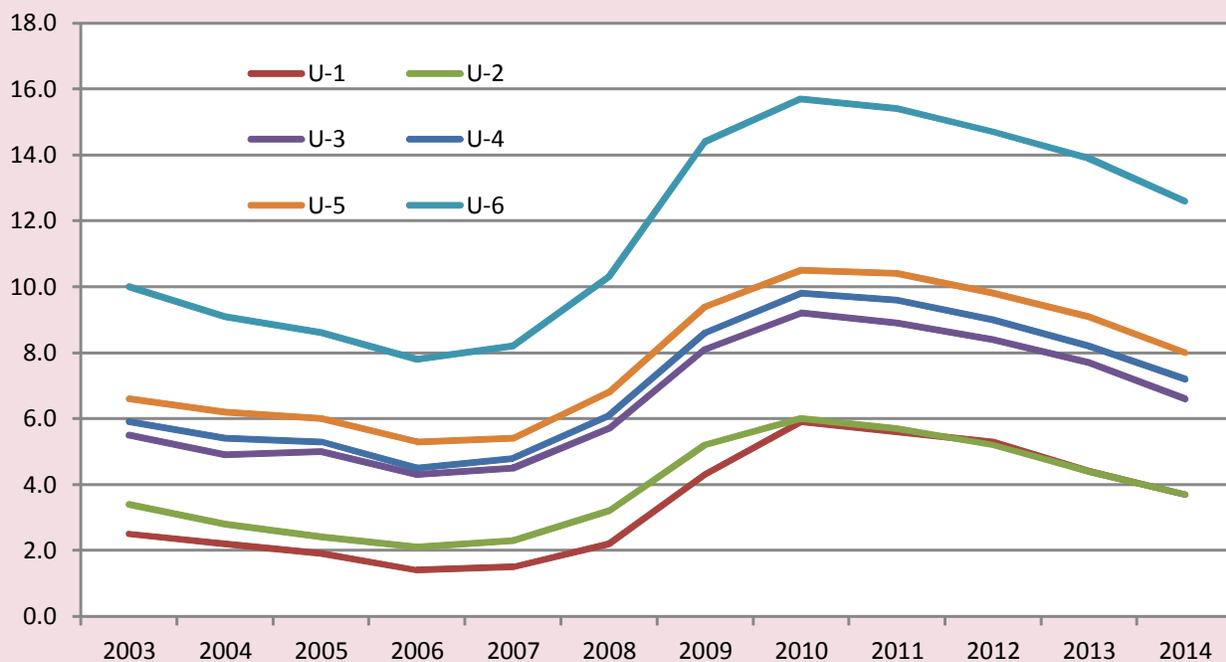
U-5, total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers; and

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.

Definitions for the economic characteristics underlying the three broader measures of labor underutilization are worth

mentioning here. Discouraged workers (U-4, U-5, and U-6 measures) are persons who are not in the labor force, want and are available for work, and had looked for a job sometime in the prior 12 months. They are not counted as unemployed because they had not searched for work in the prior 4 weeks, for the specific reason that they believed no jobs were available for them. The marginally attached (U-5 and U-6 measures) are a group that includes discouraged workers. The criteria for the marginally attached are the same as for discouraged workers, with the exception that any reason could have been cited for the lack of job search in the prior 4 weeks. Persons employed part time for economic reasons (U-6 measure) are those working less than 35 hours per week who want to work full time, are available to do so, and gave an economic reason (their hours had been cut back or they were unable to find a full-time job) for working part time. These individuals are sometimes referred to as involuntary part-time workers.

Alternative Measures of Labor Underutilization in Connecticut (%)



U-1 through U-6

Six alternative measures of labor underutilization have long been available on a monthly basis from the Current Population Survey (CPS) for the United States as a whole. They are published in the Bureau of Labor Statistics' monthly Employment Situation news release (Table 15). The official concept of unemployment (as measured in the CPS by U-3 in the U-1 to U-6 range of alternatives) includes all jobless persons who are available to take a job and have actively sought work in the past four weeks. This concept has been thoroughly reviewed and validated since the inception of the CPS in 1940. The other measures are provided to data users and analysts who want more narrowly (U-1 and U-2) or broadly (U-4 through U-6) defined measures.

BLS is committed to updating the alternative measures data for states on a 4-quarter moving-average basis. The use of 4-quarter averages increases the reliability of the CPS estimates, which are based on relatively small sample sizes at the state level, and eliminates seasonality. Due to the inclusion of lagged quarters, the state alternative measures may not fully reflect the current status of the labor market. The analysis that follows pertains to annual averages from 2003 through 2014 for Connecticut.

As the chart on page 4 shows, all six measures of labor underutilization in Connecticut moved together over time, including across business cycles. Generally, states that have high unemployment rates tend to have high values for the other five measures; the reverse is true for states with low unemployment rates. Both U.S. and Connecticut showed similar trends during the 2003-2014 period.

U-6

Connecticut's U-6 peaked in 2010 at 15.7% and has been falling steadily to 12.6% in 2014. This points to a continuation of improvements in the unemployment situation in the broadest sense.

In fact, some economists consider U-6 rate as a more realistic measure of unemployment situation than U-3 rate. However, as the chart shows the overall trends between the two are maintained. Although levels were consistently higher, U-6's shares of marginally attached workers plus those employed part-time for economic reasons were proportional. So the rate of changes in U-6 over time was almost identical as the rate of changes in U-3. Thus, while the "official" unemployment may not be capturing the "broadest" unemployment situation, when taken into its historical context, they both show the similar trends. Also, note that

the "official" unemployment rate data go back to 1976, are published monthly and most current, while U-6 are available from 2003, quarterly, and are not current.

U-3 Is *NOT* the Official Unemployment Rate

U-3 is the official rate for the nation because it is estimated directly from the CPS. However, for Connecticut and most other states, U-3 is *not* the "official" unemployment rate that you see in the news. Note that the unemployment rates (U-3) that are shown are derived directly from the CPS, because this is the only source of data for the various components of the other five measures. As a result, for Connecticut and other states, these U-3 measures may differ from the official state unemployment rates for the same period.

The official measure of unemployment, developed by the Local Area Unemployment Statistics (LAUS) program, is derived using a statistical model that incorporates data from the Current Population Survey (CPS) as well as input data from other sources, which greatly improves the reliability of the top-side labor force and unemployment estimates. ■

GENERAL ECONOMIC INDICATORS

	2Q	2Q	CHANGE		1Q
	2015	2014	NO.	%	2015
<i>(Seasonally adjusted)</i>					
General Drift Indicator (1996=100)*					
Leading	113.1	113.0	0.1	0.1	113.0
Coincident	114.9	112.9	2.0	1.8	115.0
Farmington Bank Business Barometer (1992=100)**	131.2	128.4	2.8	2.2	131.2
Philadelphia Fed's Coincident Index (July 1992=100)***					
<i>(Seasonally adjusted)</i>					
Connecticut	Sep 2015	Sep 2014	5.82	3.6	Aug 2015
United States	168.39	162.57	5.49	3.2	168.06
	175.37	169.88			175.00

Sources: *Dr. Steven P. Lanza, University of Connecticut **Farmington Bank ***Federal Reserve Bank of Philadelphia

General Drift Indicators are composite measures of the four-quarter change in three coincident (Connecticut Manufacturing Production Index, nonfarm employment, and real personal income) and three leading (housing permits, manufacturing average weekly hours, and initial unemployment claims) economic variables, and are indexed so 1996 = 100.

The **Farmington Bank Business Barometer** is a measure of overall economic growth in the state of Connecticut that is derived from non-manufacturing employment, real disposable personal income, and manufacturing production.

The **Philadelphia Fed's Coincident Index** summarizes current economic condition by using four coincident variables: nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).