

Economic Newsletter for the New Millennium

<BLOG>

February 6, 2011

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IF THE UNEMPLOYMENT RATE IS REALLY
FALLING, WHY ARE SO MANY PEOPLE STILL
OUT OF WORK? THE DEVIL IS IN THE
DETAILS.

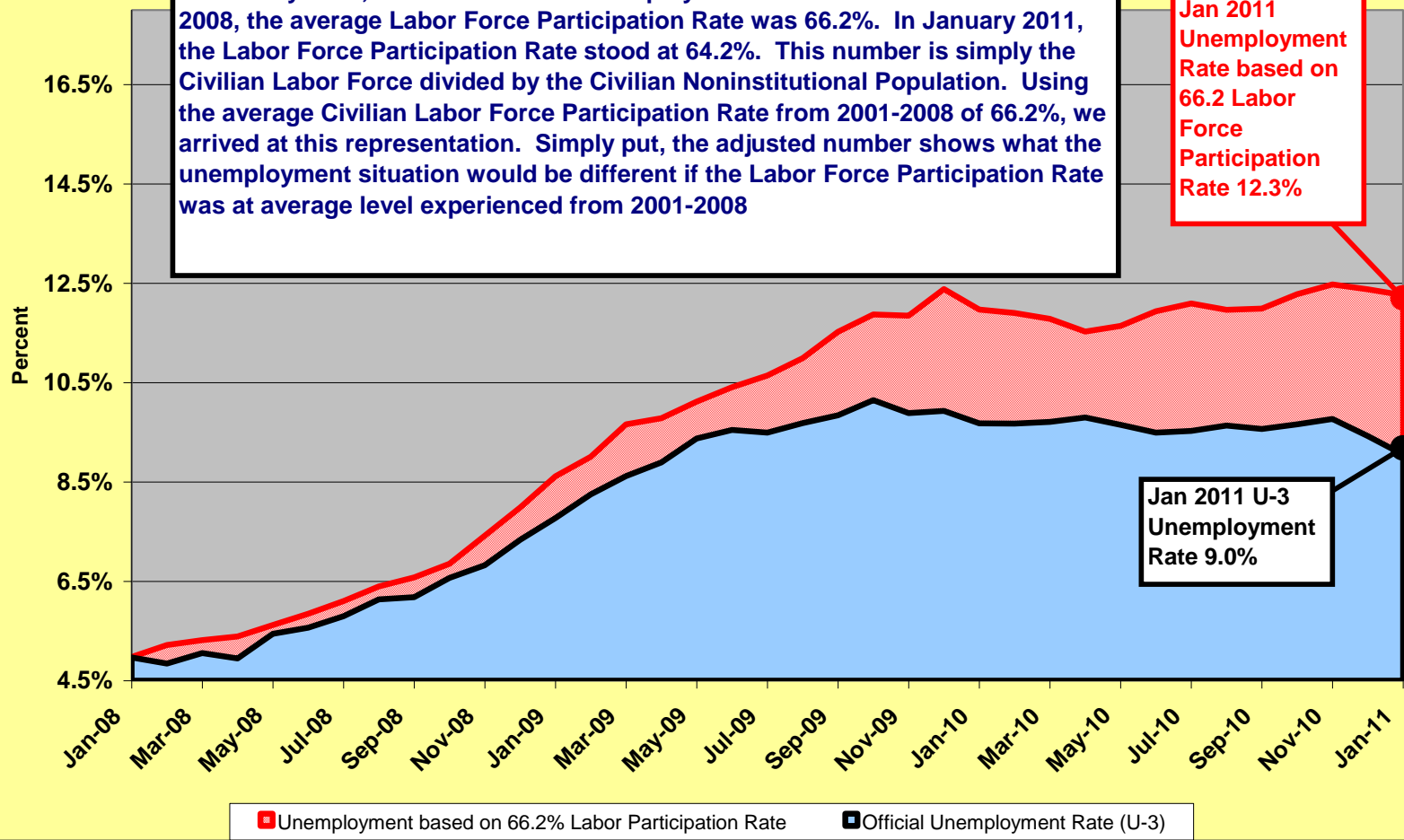
IS IT A CASE OF SMOKE AND MIRRORS?

Here are the numbers, you decide.

Seasonal Adjusted Unemployment Rates based on Labor Force Participation of 66.2%
 U.S. Labor Department, Bureau of Labor Statistics <http://bls.gov/>
 February 5, 2011

In January 2011, the U-3 Seasonal Unemployment Rate was 9.0%. From 2001-2008, the average Labor Force Participation Rate was 66.2%. In January 2011, the Labor Force Participation Rate stood at 64.2%. This number is simply the Civilian Labor Force divided by the Civilian Noninstitutional Population. Using the average Civilian Labor Force Participation Rate from 2001-2008 of 66.2%, we arrived at this representation. Simply put, the adjusted number shows what the unemployment situation would be different if the Labor Force Participation Rate was at average level experienced from 2001-2008

Jan 2011
 Unemployment
 Rate based on
 66.2 Labor
 Force
 Participation
 Rate 12.3%



Jan 2011 U-3
 Unemployment
 Rate 9.0%

Data extracted from Department of Labor, Bureau of Labor
Statistics
February 5, 2011

Employment Situation – January 2011
<http://bls.gov/news.release/pdf/empsit.pdf>

Additional information about the household survey can be
found at www.bls.gov/cps/documentation.htm

1) Civilian Noninstitutional Population = 238,704,000

“Persons not in the labor force combined with those in the
civilian labor force constitute the ***civilian noninstitutional
population*** 16 years and over. (There is no upper age
limit.)”

2) Civilian Labor Force = 153,186,000

“The ***civilian labor force*** is the sum of employed and
unemployed persons. Those not classified as employed or
unemployed are not in the labor force.”

3) Civilian Labor Force Participation Rate = 64.2
(153, 186,000 divided by 238,704,000 = 64.2%)

“The ***labor force participation rate*** is the labor force as a
percent of the population, and the employment-population
ratio is the employed as a percent of the population.”

4) Employed = 139,323,000

“People are classified as **employed** if they did any work at all as paid employees during the reference week; worked in their own business, profession, or on their own farm; or worked without pay at least 15 hours in a family business or farm. People are also counted as employed if they were temporarily absent from their jobs because of illness, bad weather, vacation, labor-management disputes, or personal reasons.”

5) Unemployed = 13,863,000

“People are classified as **unemployed** if they meet all of the following criteria: they had no employment during the reference week; they were available for work at that time; and they made specific efforts to find employment sometime during the 4-week period ending with the reference week. Persons laid off from a job and expecting recall need not be looking for work to be counted as unemployed. The unemployment data derived from the household survey in no way depend upon the eligibility for or receipt of unemployment insurance benefits.”

6) Unemployment Rate = 9.0% (U-3)

“The **unemployment rate** is the number unemployed as a percent of the labor force.”

From January 2001 through December 2008, the Labor Force Participation Rate averaged 66.2%. From January 2009 through January 2011, the Labor Force Participation Rate averaged 65.0%.

Is a profound change occurring in our culture to cause the Labor Force Participation Rate to fall this drastically? Recall the profound change ushered in by the large scale introduction of women into the workforce during World War II, i.e., witness the late "Rosie the Riveter," aka, Geraldine Doyle

<http://www.freep.com/article/20101231/NEWS08/12310337/Geraldine-Doyle-inspiration-Rosie-Riveter-dies>.

Or is it that the so-called discouraged worker is not being counted correctly?

Let's take another look...

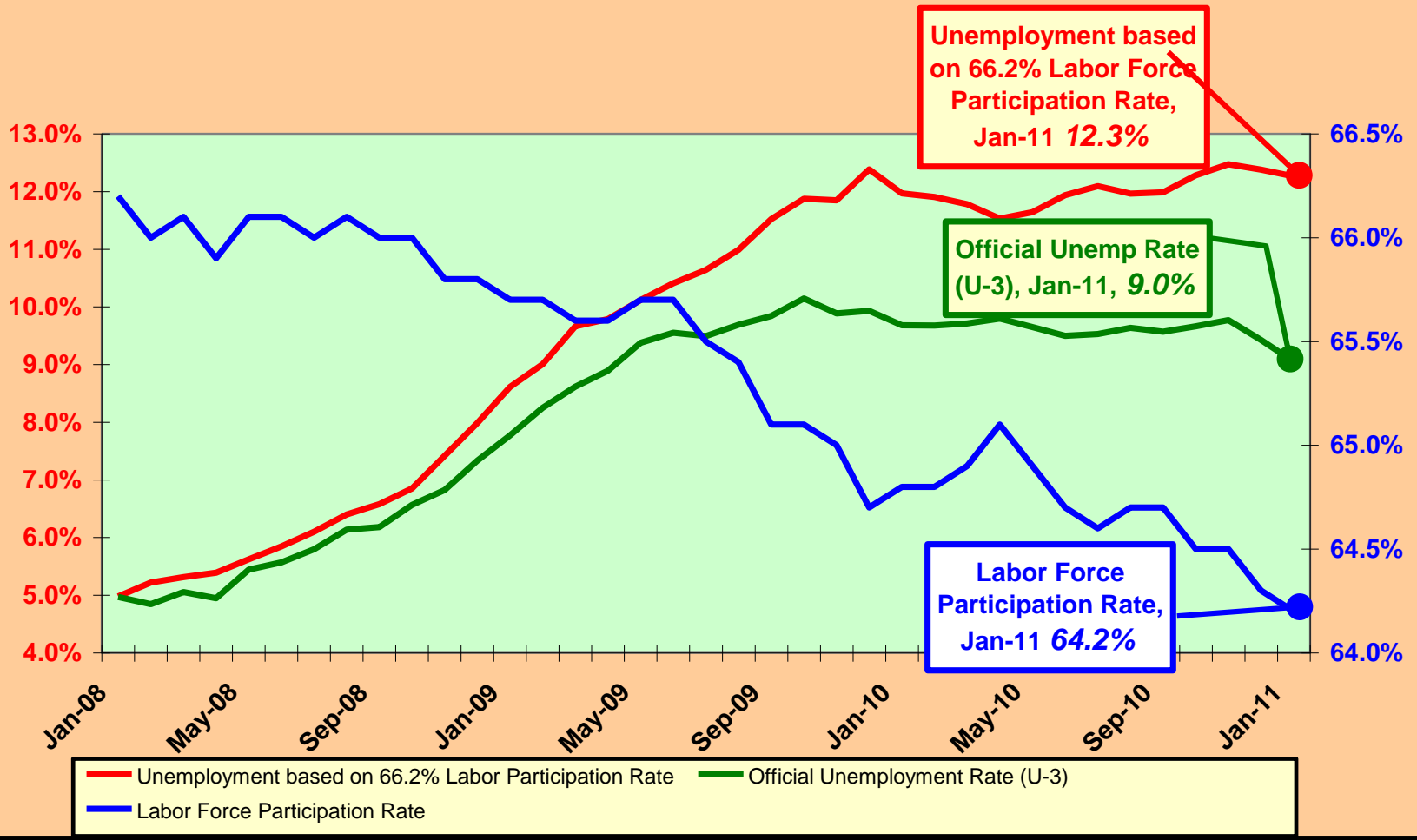
The Average Labor Force Participation Rate from Jan 2001 through Dec 2008 = 66.2%

Overlaying the 66.2% on the Civilian Noninstitutional Population of 238,704,000 we arrive at a Civilian Labor Force of 158,107,000

The difference between the official Civilian Labor Force (based on 64.2% participation rate 153,186,000) and the adjusted Civilian Labor Force (based on 66.2% participation rate of 158,107,000) = 4,921,000

If we add the 4,921,000 to the ranks of the unemployed, the unemployment number increases to 18,784,000 and the U-3 version of the unemployment rate swells from the official 9.0% to 12.3%.

Seasonal Adjusted Unemployment Rates (1) based on Labor Force Participation of 66.2% (average rate from 2001-2008); (2) based on Official Labor Force Participation Rate
 U.S. Labor Department, Bureau of Labor Statistics <http://bls.gov/> February 5, 2011



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FYI - official U-6 is 16.1%. Using the same rationale, you could simply tack on another 3.3%, pushing the adjusted U-6 to 19.3%

Note: since "the sum of the employed and the unemployed constitutes the civilian labor force," it's a straight addition of the 3.3% (9.0% +3.3% = 12.3% at the 66.2% Labor Participation Rate)

U-3 = Total unemployed, as a percent of the civilian labor force (typically reported [official] unemployment rate).

U-6 = Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.

From a previous newsletter...

2010 Volume Issue 1
September 23, 2010

HERE WE GO AGAIN

<http://www.econnewsletter.com/3585/3564.html>

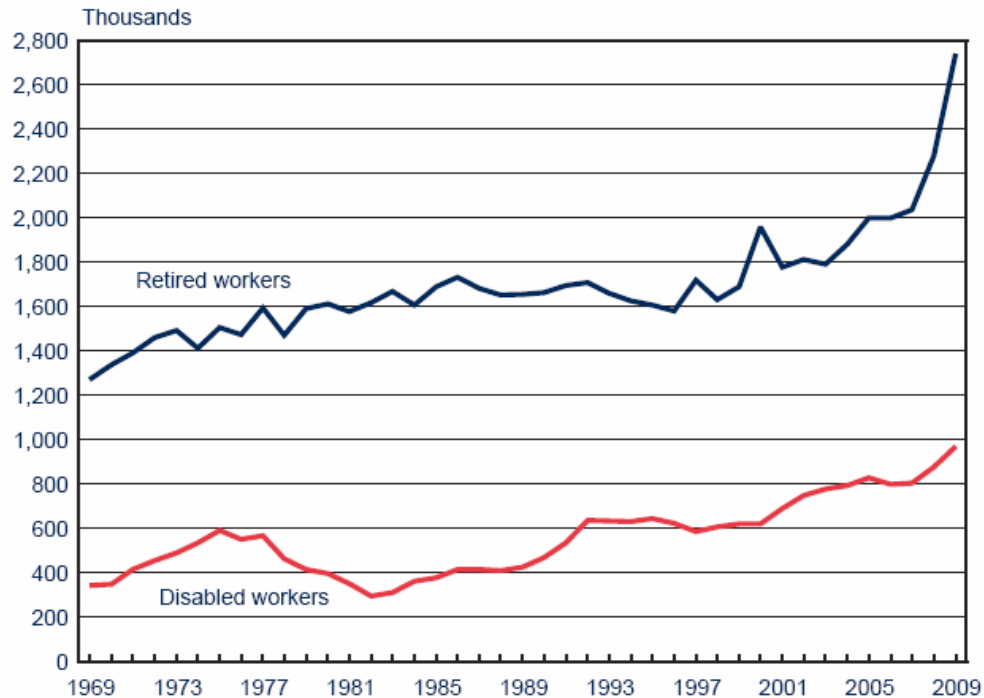
A stubborn and severe recession is exacerbating the dismal job outlook and causing accelerated early retirements from the labor force, seeking long term disability status, and an increasing reality of very long duration unemployment.

http://www.socialsecurity.gov/policy/docs/chartbooks/fast_facts/2010/fast_facts10.pdf

New Awards to Workers, 1969–2009

Awards to retired workers have increased considerably over the past four decades, but proportionately much less than awards to disabled workers. The annualized rate of increase over the period from 1969 to 2009 is 1.9% for retired workers and 2.6% for disabled workers. The annual number of awards to retired workers rose from 1.3 million in 1969 to 2.7 million in 2009, while for disabled workers it increased from 345,000 in 1969 to 971,000 in 2009.

New awards to retired and disabled workers



SOURCE: Social Security Administration, Master Beneficiary Record, 100 percent data.