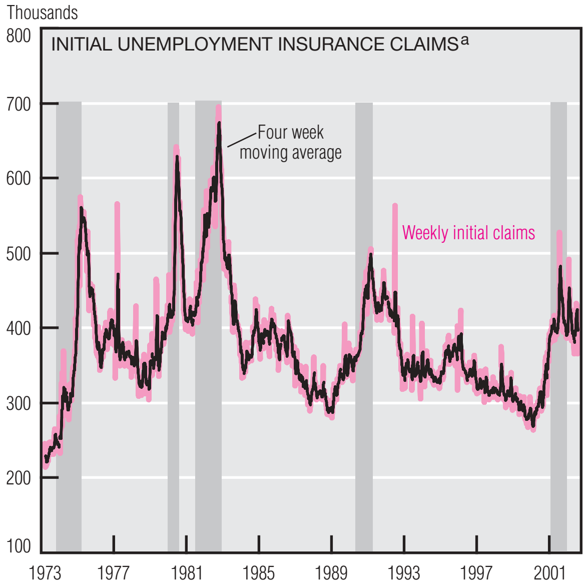
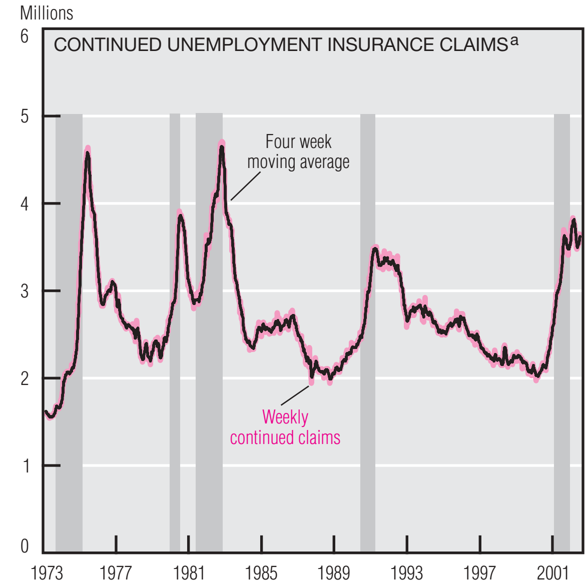
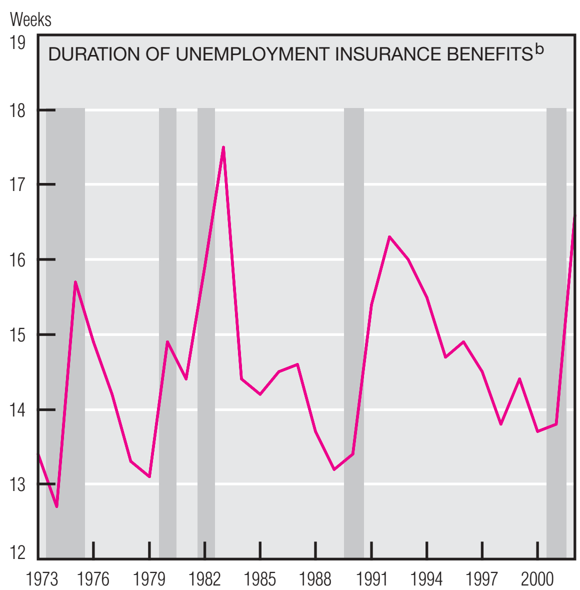
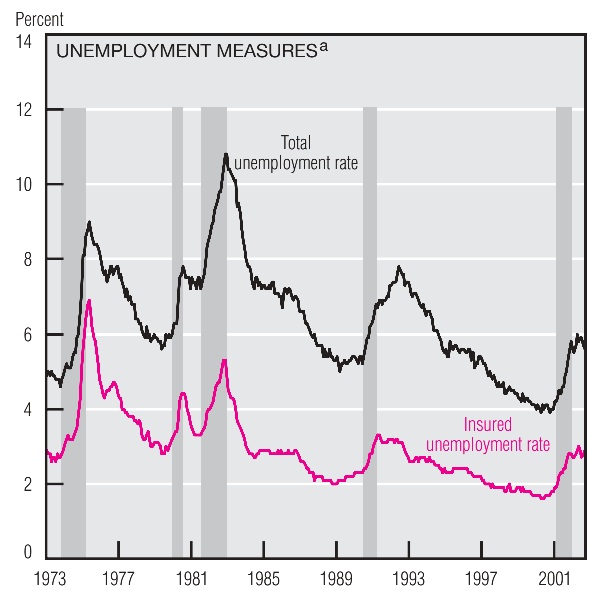
Unemployment Claims









NOTE: Shaded areas mark periods of recession. December 2001 is the estimated end date of the most recent recession.
a. Seasonally adjusted.
b. Data prior to 1990 are Federal Reserve Bank of Cleveland calculations.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; National Bureau of Economic Research; and Federal Reserve Bank of Cleveland.

The number of initial claims for unemployment insurance is an important economic indicator because it provides frequent, timely information about the U.S. workforce. This number received a great deal of attention last month, because the four-week moving average exceeded 400,000, which many consider an indicator of recession. Other indicators, however, do not suggest a renewed recession. Even so, the unemployment insurance system provides a wealth of current labor market information.

Trends for continued claims resemble those for initial claims, but are slower to fall during a recovery because several weeks may pass before workers are employed again. After the recessions of 1990–91 and 2001 (which is widely believed to have ended last December), the number of continued claims stayed high for several months before starting to decline. During these so-called “jobless” recoveries, the average duration of unemployment continued to increase long after the recession ended, partly because some states opt to extend the maximum permissible period for claiming benefits, which is typically around 26 weeks. The current average duration, 16.6 weeks, is the longest since just after the 1981–82 recession.

Absolute measures of unemployment tend to increase as the labor force increases. A better measure of unemployment is the insured unemployment rate (the share of the labor force that claims unemployment benefits), which adjusts for the growth of the labor force. It is lower than the total unemployment rate because some unemployed persons do not qualify or do not choose to receive benefits. Even under extended-benefit regimes, some workers cannot qualify

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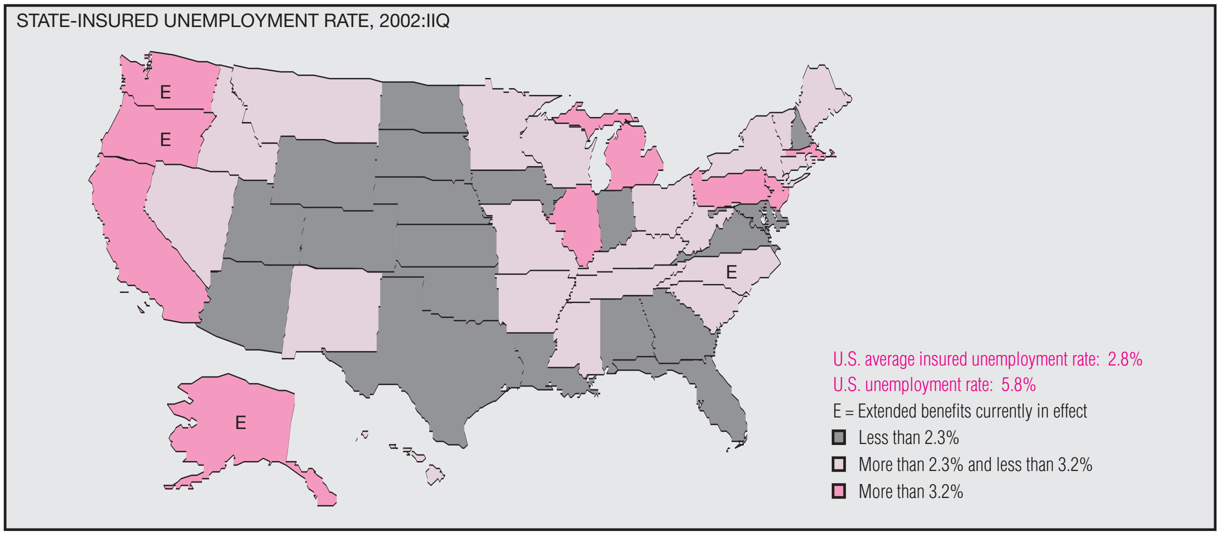
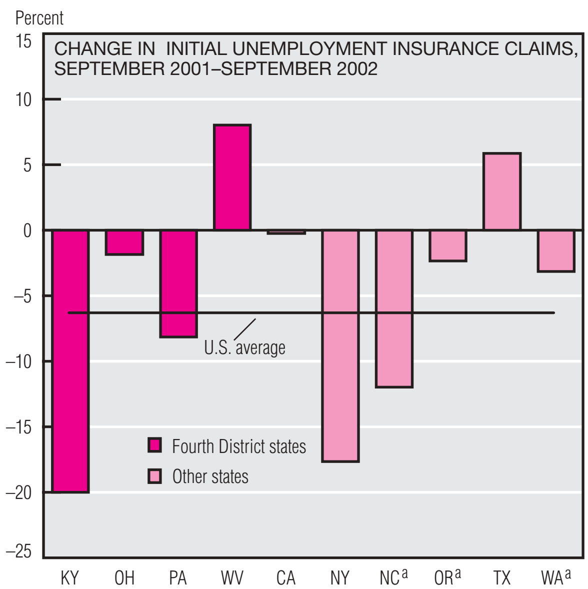
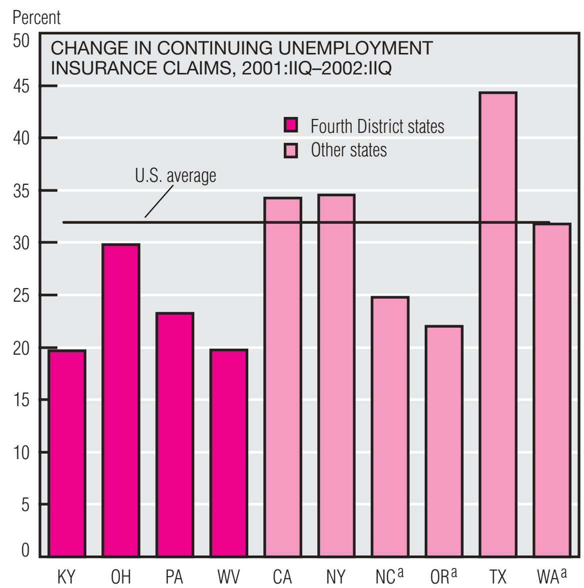
Unemployment Claims *(cont.)*







a. States with extended benefits.
SOURCE: U.S. Department of Labor.

because they have been unemployed too long.

Unemployment claims data are compiled from each state into national figures, so they allow one to observe regional differences that may be obscured in sample-based measures like those derived from the Bureau of Labor Statistics' household survey. Some differences between states result from differences in their programs (for example, whether the state extends its benefits), but there are also striking regional differences in conditions. During 2002:IIQ, states that were heavily invested in high-tech industries, including the West Coast states, Massachusetts, and New Jersey, posted insured unemployment rates that far exceeded the U.S. average. In the industrial Great Lakes region during the same period, some states did better than the national average and others did worse. In the Fourth District, insured unemployment rates for Ohio, Kentucky, and West Virginia were close to the U.S. average, but Pennsylvania, which has a lot of employment in aerospace manufacturing, posted an above-average rate.

Through September 2002, initial claims for the nation as a whole have fallen slightly. All the Fourth District states except West Virginia have seen initial claims fall from the levels observed a year before. Kentucky's decline has been dramatic, largely because its labor market was struggling long before the recession began in March 2001 and started to recover much earlier than the rest of the country.

This September initial claims in New York declined sharply year-over-year from the exceptionally high levels

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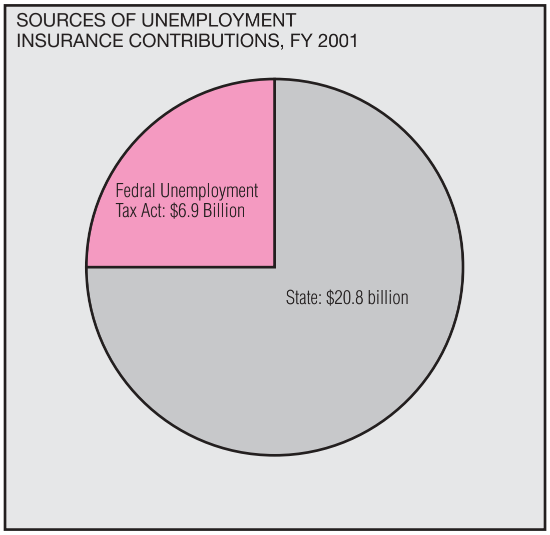

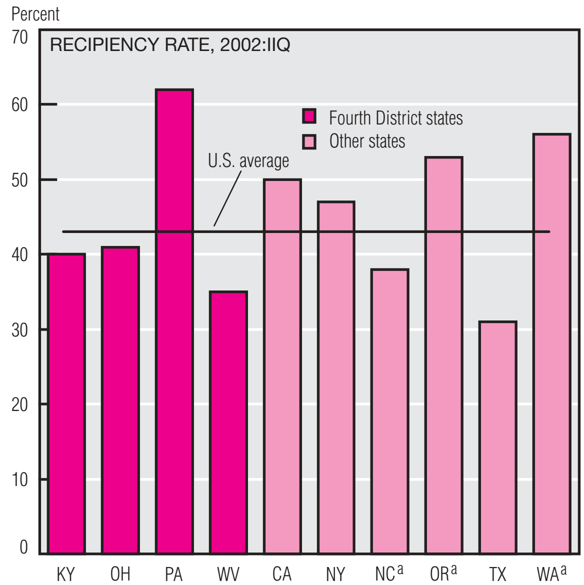

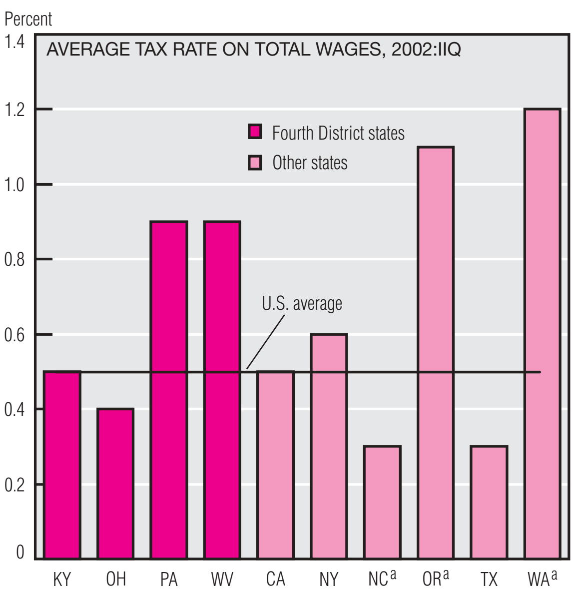

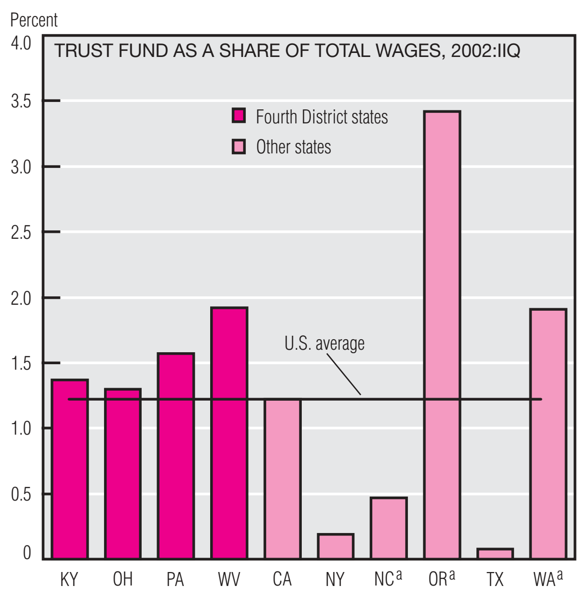

a. States with extended benefits.
SOURCE: U.S. Department of Labor.

caused by last year's terrorist attacks. Despite the onset of the recovery, Texas, another state with a large high-tech industrial presence, still shows year-over-year increases in initial claims. Nationally, although the monthly number of initial claimants is lower than a year earlier, the number drawing unemployment benefits remains far above 2001 levels.

States contribute 75% of all dollars that unemployment insurance programs distribute to claimants, so they have considerable control over how they administer their programs. Within federal guidelines, they can determine their qualifying rates and how long an individual is permitted to claim benefits. As a result, state recipiency rates (insured unemployed as a share of total unemployed) varies widely. States where labor market shocks have been particularly large tend to have higher recipiency rates because their unemployed have more work experience, the primary factor in determining eligibility for benefits. States where extended benefits are in effect have some of the highest recipiency rates in the country.

Of course, states fund their unemployment insurance programs out of tax revenues. Nationally, the average tax rate for state trust funds dedicated to these programs is 0.5% of total wages. In the Fourth District, tax rates for Pennsylvania and West Virginia are nearly double the national average.

During the recession, all states had to draw down their trust fund balances considerably in order to distribute benefits, but some states continue to see their trust fund balances shrinking. In each Fourth District state, the unemployment insurance trust fund as a share of total wages exceeds the national average.