

Dispelling Two Myths About the Unemployment Rate

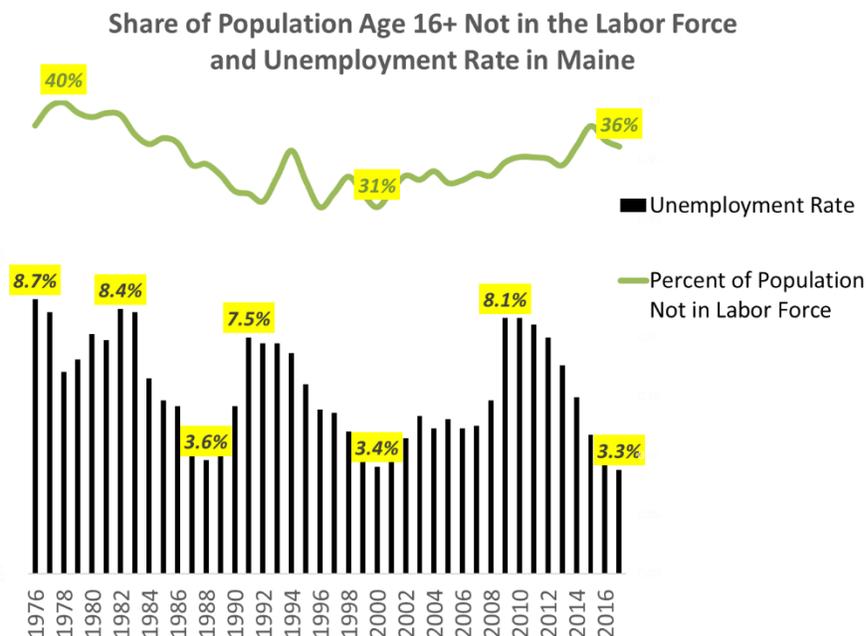
The unemployment rate is the most widely followed and cited economic statistic in the United States. Rates are provided each month for the nation, states, counties, many cities and towns, and other areas. They are produced using a consistent methodology to be comparable from one area to another, and from one period to another. Unemployment rates provide an easy to interpret indication of workforce conditions: low rates or a downward trend is positive; high rates or an upward trend is negative.

Though seemingly straightforward, there are many widely held misconceptions or myths about how information on unemployed people is compiled, and who is or is not included. With that in mind, let's dissect two myths about unemployment statistics.

Myth: All jobless people are unemployed

In 2017, close to 62 percent of the age 16 and over population in Maine were employed, so 38 percent were not employed. Nationally, about 60 percent were employed. (Labor force statistics do not include children under age 16.) The unemployment rate for the year averaged 3.3 percent. If 38 percent were not employed, why was the unemployment rate so low?

There is a difference between not being employed and being unemployed. Nearly 95 percent of jobless people in Maine are retired, home caring for children or other family members, in school, or are not seeking work or not available for work for other reasons. Jobless people who are not seeking work or are not available for work are not considered to be in the labor force.



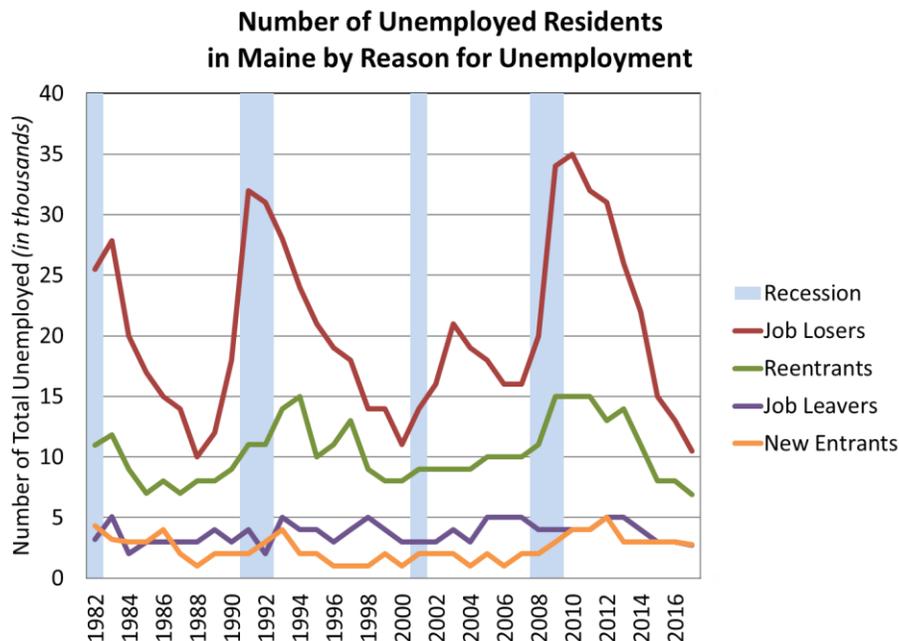
Unemployed people are those who are jobless and are engaged in work search and are available to work. Along with employed people, unemployed people are part of the available labor force. In 2017 there were 1,099,000 people in Maine age 16 and over. Of that number, 702,000 were in the labor force (679,000 employed and 23,000 unemployed) and 397,000 were not in the labor force.

The share of population that is not in the labor force gradually decreased from the mid-1960s to the early 1990s. This was the result of a combination of a rising share of working-age population as the large baby boom generation moved into the labor force, and a rising share of working women. The share not in the labor force began to gradually increase after 2000 when the number of retirement-age seniors began to increase faster than the working-age population. As the first chart indicates, there is little correlation between the share of the population that is not in the labor force and the unemployment rate.

Myth: Unemployment rates are based on claims for unemployment compensation

Many people believe that unemployment rates are based on claims for unemployment compensation. In fact, national and state unemployment rates are based on information from the monthly Current Population Survey. The CPS collects information on the labor force status of individuals, including whether they are employed, and if they are not employed, whether they are searching for work or are available for work.

The unemployment insurance system, from which unemployment compensation claims are paid, is funded by a tax on employers per employee. Benefits are paid to claimants who lose a job and qualify based on certain criteria. An average of 10,500 people lost jobs in 2017, of which 7,250 claimed



unemployment compensation. Job losers comprised 46 percent of all unemployed people and claimants comprised just under one-third.

Not covered by unemployment insurance are those who left a job by choice, entered the labor force for the first time, or reentered after some time not in the labor force. New entrants are often young people searching for a first job; reentrants are those who began work search or became available to work after some time not in the labor force.

Unemployment moves up and down as economic conditions change. Of the four reasons an individual may be unemployed, the business cycle has little impact on totals for two and a large impact on totals for the other two. The number of unemployed due to entry to the labor force (by beginning work search or becoming available to work), and the number of job leavers tends not to change much. Over the last 35 years, through four recessions and four expansions, the number of new entrants and the number of job leavers remained close to an average of 3,000 or 4,000 each (seen in the purple and orange lines in the second chart).

Changes in the number of unemployed are primarily due to job loss and people reentering the labor force. Job loss tends to spike during recessions from layoffs and business closures and decline during expansionary periods. Reentrants to the labor force follow a similar, though less pronounced pattern. (These trends are seen in the red and green lines in the second chart.) The number of reentrants rises in recessionary periods partly due to people who lost jobs beginning to search for work after a period out of the labor force, and partly due to family members who were not in the labor force beginning to look for work in response to job loss by another family member.

Unemployment Today

The 3.3 percent average unemployment rate in 2017 was the lowest since 1957. Unemployment reached historic lows primarily because the fewest people lost jobs since 1988, and the fewest reentered the labor force since 1987 – a period when employment was more than 100,000 less than today.

Maine has an imbalanced population structure, with many more people in their 50s and 60s who are nearing retirement than youths who will age into the workforce. One result of this is likely to be continued tight labor market conditions with very low unemployment for a number of years, unless there is a global or national economic downturn.