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NEWLY RELEASED DATA INSTRUCTIVE ON HOW BEST TO RESPOND TO A RECESSION

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The Bureau of Labor Statistics household report on the U.S. civilian labor force in January 2008 indicates that an estimated 146,248,000 persons were working and another 7,576,000 -- 4.9 percent of the labor force -- were out of work. There was hardly any change in either figure since December: employment rose by 37,000 while unemployment dropped by 79,000. The BLS establishment report revealed that there was a decrease in the number of payroll jobs of 17,000 from December to January. These *net*-change data suggest that the labor force doesn't change much from month to month.

However, *gross-flow* data from the very same household report indicate that there is much month-to-month change in the labor force that is hidden from view in the *net*-change data. The *gross-flow* data have been compiled by the BLS for more than 40 years but due to serious technical problems became available to the public online for the first time last October.

Among the 146,248,000 persons employed in January were 2,027,000 who were classified as unemployed in December and another 3,953,000 who were not in the labor force. The monthly changes taking place throughout 2007 and 2006 were roughly on the same order of magnitude.

Among the 7,576,000 jobless persons in January were 1,766,000 who were employed in December and another 1,784,000 who not in the labor force. This month-to-month pattern of change held in general in both 2007 and 2006.

Thus a total of 9,530,000 persons changed labor force status between December and January. That figure does not include the number of persons who were employed in both months but changed employers. These *gross-flow* patterns of changing labor force status can be observed over the entire period since 1994 which is the first year covered in the *gross-flow* data.

The BLS household report and establishment report point to the following counter-intuitive findings (because the data are seasonally adjusted, seasonal factors do not come into play).

• There were very nearly equal numbers of employed workers with more than one job in January 2008 (7,557,000) compared to workers with no job (7,576,000).

• About equal numbers of those who were employed (1,766,000) in December or were not in the labor force (1,784,000) in that month were classified as unemployed in January.

• More persons who had been unemployed in December were classified as employed (2,027,000) in January than were classified as unemployed in January who had been employed (1,766,000) in December.

• More persons had been classified as not in the labor force in December and became employed (3,953,000) in January than had been employed in December and became classified as not in the labor force (3,693,000) in January.

• An estimated 1,609,000 of the persons counted as unemployed in December were classified as not in the labor force in January.

• Between January and December 2007, the jobless total increased by 612,000 and at the very same time the number employed climbed by 296,000.

These findings can be interpreted as follows.

• The U.S. labor force is a dynamic human resource that is ever-changing in response to changing market conditions, family circumstances, individual needs and preferences, and literally millions of decisions in the workplace and marketplace.

• This dynamic probably has intensified with economic globalization and increased competition from sources elsewhere around the world.

• The extent of the month-to-month changes in the labor force are hidden from view in the familiar and very widely reported monthly *net*-change data from the BLS.

• There is no simple zero-sum relationship between employment and unemployment. Unemployment does not fall one-to-one with a rise in employment nor does it increase one-to-one with a decrease in employment.

• At the very same time large numbers of workers are losing their jobs many of those who were unemployed are finding jobs.

• The ranks of the unemployed are filled from two sources: the previously employed who lost their jobs and others who entered or re-entered the labor force and have not yet found jobs.

• One reason for the large flows from employment to unemployment and in the opposite direction is the temporary layoff/recall.

• One reason for the large flow from employment to unemployment or to not in the labor force is the completion of a temporary job.

• One reason for the large flow into employment from persons not in the labor force is that one family member who previously was not employed was able to find a job when another became unemployed. Some of those who lost their jobs, in turn, may drop out of the labor force.

• The dynamic month-to-month flow between employment and not in the labor force on the one hand and unemployment on the other assures that there always will be many jobless persons whose spell of unemployment is only beginning which in turn has the effect of reducing the estimated average duration for everyone who is unemployed. For that reason, the number of persons unemployed for 15 weeks or more (2,503,000 in January 2008 compared to 2,133,000 one year earlier) is a more reliable indicator of the hardship of being unemployed than the duration figure. The estimate of the number unemployed for 26 weeks or more is especially instructive (1,380,000 in January 2008 up by 242,000 over the previous twelve months) because if they have been receiving unemployment insurance benefits they are beyond the 26-week limit where regular state benefits are exhausted unless those benefits are extended.

Mayo Research Institute has argued elsewhere that the start of a recession should be defined in two stages. Stage I occurs when there have been three consecutive months in which employment has been falling and unemployment rising. Stage II occurs when this dual trend extends into a fourth consecutive month or the overall rate of unemployment reaches 6.0 percent. Intervention, we have argued, should begin in Stage II.

The *net*-change and *gross-flow* data cited here are not particularly helpful in deciding *when* a recession has begun. Even so, the *gross-flow* data released to the public for the first time last October are likely to be of considerable value in deciding *how best* to intervene in the next recession.

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