



Economics Group

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Don't Get Too Excited About the Drop in Jobless Claims

The marked drop in initial claims this week was overstated by a change in methodology, and is not a sign the labor market's recovery is kicking into higher gear. The trend in claims remains lower, but only gradually.

It's a New Season

Initial claims for unemployment insurance fell by 130K for the week ending August 29, but the past week's drop in headline claims comes with an important caveat.

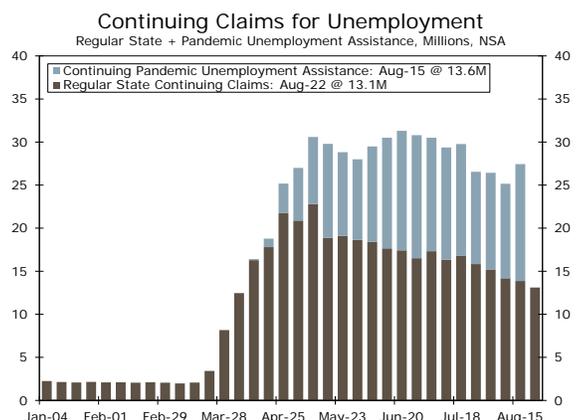
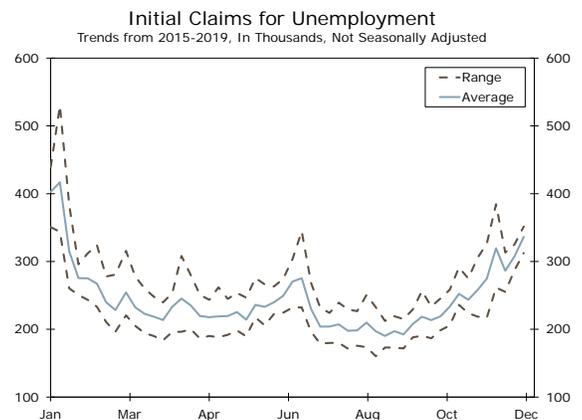
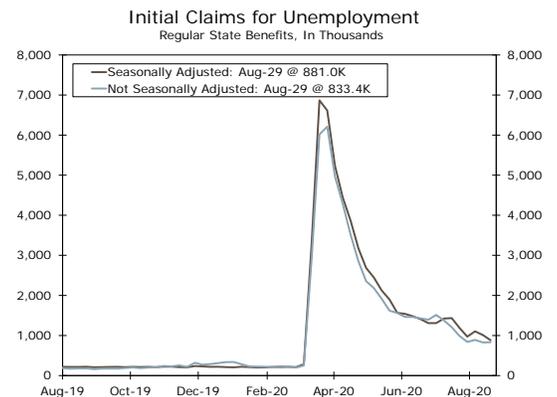
With this week's data, the Department of Labor changed the way it adjusts initial claims for seasonality. Instead of multiplying the unadjusted number by the seasonal factor, which is considered more accurate when the level of a series is generally steady, it has switched to an additive method. Given that the unadjusted level of claims is starkly higher than normal due to the pandemic and not usual seasonal factors, the multiplicative method has tended to overstate the level of claims in recent weeks, since August typically sees a below-average number of claims (middle chart). Since the Department of Labor did not apply the new methodology to prior data yet, the drop in today's headline number embellishes the rate of improvement and should not be viewed as a sign that the labor market's recovery is kicking into a higher gear.

Other aspects of today's report signaled that the labor market continues to struggle, with improvement painfully slow and occurring in fits and starts. On an unadjusted basis initial claims for regular state benefits edged up slightly (+8K). That was a small enough rise to keep the 4-week average trending lower, but only gradually. At the same time, new applications for the Pandemic Unemployment Assistance Program jumped by about 150K (unadjusted), although here too the 4-week average is lower compared to a month or so ago.

While the continuing claims data for regular state benefits were also subject to the new seasonal adjustment method, on a non-adjusted basis they posted a sizeable decline of 765K. Still, the ranks of workers collecting unemployment insurance remains staggeringly high. More than 13M workers are collecting regular state benefits, and the number of recipients for all programs, including the PUA rose by 2.2M to 29.2M the week ending August 15 (most recent data available).

Smaller Gain in Payrolls Ahead

The level of new and continuing claims remains elevated, signaling the labor market continues to experience a significant degree of disruption. However, the modest downward trend in claims the past few weeks is one sign that the labor market's recovery has at least not gone into reverse and that employers continued to add jobs in August. Yet momentum seems to be fading, pointing to a smaller increase than last month's 1.76M gain. In addition, a few specific factors look likely to hold down tomorrow's headline. The Census Bureau reported about 290K workers in August, up from 50K in July, but the lift will be countered by fewer weeks between surveys and payback in government education after seasonal factor's inflated July's numbers.



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