

PERSPECTIVES

PHANTOM JOBLESS CLAIMS MASK THE LABOR MARKET RECOVERY

April 14, 2021

Topics: [Market and Economics](#) / Contributors: [Stephen J. Douglass](#), [Jess B. Yawitz, PhD](#)



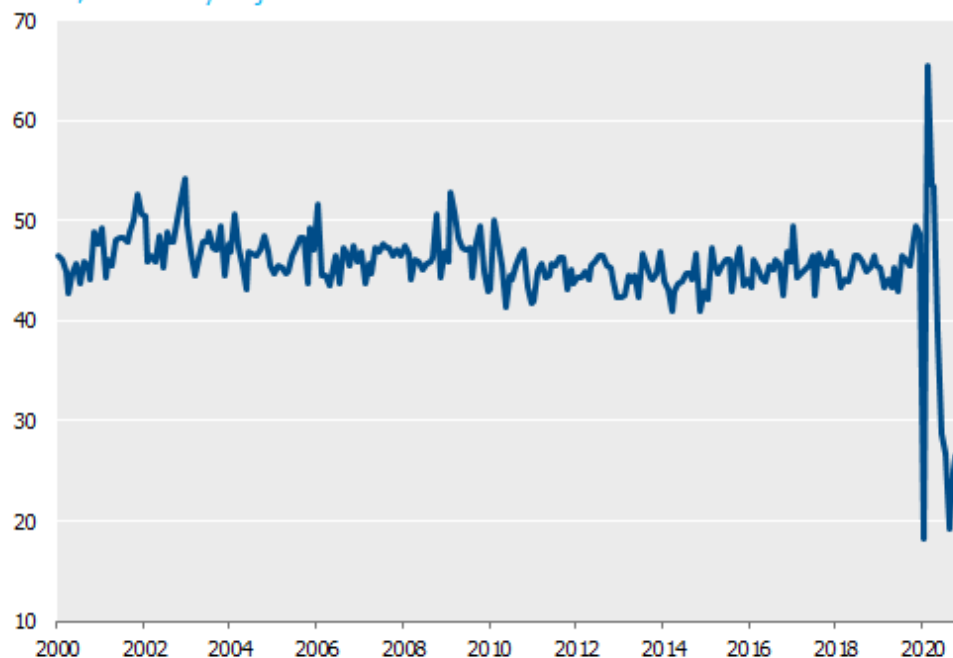
We've written ad nauseum in these pages about the [distorted](#) and [misleading](#) economic data that have been produced during the unprecedented economic volatility of the pandemic. Despite turning a skeptical eye on hundreds of data releases over the past twelve months, we continue to find novel ways in which the data are inaccurate, often in material ways that undercut the conventional narrative and seem to be lost on most commentators.

We take no joy in being a gadfly buzzing about the government economists collecting and publishing these data. They are doing their best to apply traditional methods to an [exceptional economic environment](#). Our criticism mostly lies with the commentators in the financial media and elsewhere who report these familiar economic data without doing the necessary homework to consider how

distorted they may be. More than anything else, we care because these talking heads have relied on flawed data to support an economic narrative that has been far too pessimistic throughout the last year. We do not discount the real economic pain let alone the human suffering experienced during the pandemic, but the fact of the matter is that the economy has vastly outperformed the consensus forecast throughout the pandemic.

The latest anomaly was brought to our attention by Michael Feroli , the Chief U.S. Economist at JP Morgan. It relates again to the jobless claims data that we've [written about in the past](#). In addition to using a nonsensical seasonal adjustment method, the claims data have also been inflated by [outright fraud](#) and what Feroli euphemistically refers to as "aspirational claim filing." The weekly initial jobless claims data that are reported each Thursday are just that: claims. In normal times, just under half of those claims are accepted and receive benefits. During the first twelve months of the pandemic, the number of initial claims filed exceeded the number of initial benefits paid by over 44 million. As a result, the initial claims acceptance rate dropped from a pre-pandemic average of 45% to an average of 25% over the past seven months.

Figure 1: Initial Benefits Paid as a Share of Initial Claims Filed
%, Seasonally Adjusted



Source: Department of Labor.

To put this in perspective, initial jobless claims have been running at an average pace of 722,000 per week over the past month. While this is a vast improvement from the multi-million weekly prints of last spring, it is still far above the weekly claims figures in a typical recession. Many commentators have pointed to these data as evidence of a weak labor market. However, if the number of jobless claims were consistent with the historical relationship to the number of benefits actually being paid, then the weekly figure would be running at 386,000 per week. Our guess is the talking heads would be telling a different story under those circumstances.

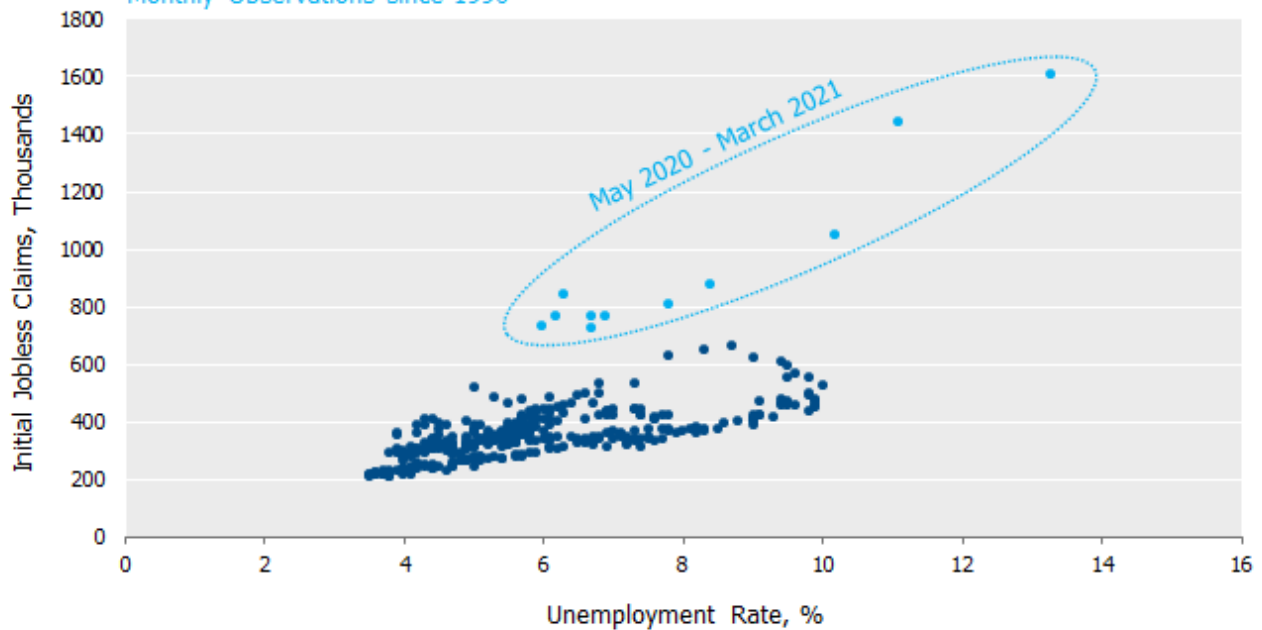
Figure 2: Adjusting Initial Claims for the Lower Acceptance Rate

Date	Initial Claims	Accepted Initial Claims	Acceptance Rate	Adjusted Initial Claims*
11/06/2020	728	183	25%	408
11/13/2020	732	184	25%	410
11/20/2020	762	192	25%	427
11/27/2020	719	181	25%	403
12/04/2020	853	227	27%	504
12/11/2020	873	232	27%	516
12/18/2020	803	213	27%	474
12/25/2020	763	203	27%	451
01/01/2021	781	169	22%	376
01/08/2021	904	196	22%	436
01/15/2021	886	192	22%	427
01/22/2021	836	181	22%	403
01/29/2021	837	181	22%	403
02/05/2021	863	208	24%	462
02/12/2021	847	204	24%	454
02/19/2021	747	180	24%	400
02/26/2021	761	183	24%	408
03/05/2021	734	177	22%	393
03/12/2021	765	184	22%	410
03/19/2021	658	159	22%	352
03/26/2021	728	175	22%	390

*Number of claims that would have been filed to achieve the reported number of accepted claims, assuming the historical 45% acceptance rate.
Source: Department of Labor, Bloomberg.

We can also demonstrate the inflated nature of initial claims by comparing them to the unemployment rate. As shown in Figure 3, the most recent months deviate substantially from the historical pattern. The unemployment rate has registered between 6.0 and 6.2% on 19 occasions in the past thirty years prior to the pandemic. In those months, initial jobless claims averaged 377,000 with a range of 303,000-483,000. That's about half the level of initial claims in the past two months when the unemployment rate printed 6.0 and 6.2%. The picture below makes it obvious.

Figure 3: Unemployment Rate vs. Initial Claims
Monthly Observations since 1990



Source: BLS, Department of Labor, Bloomberg.

Originally published on April 14, 2021. Revised on April 27, 2021.

Disclaimer: By accepting this material, you acknowledge, understand and accept the following:

This material has been prepared by NISA Investment Advisors, LLC ("NISA"). This material is subject to change without notice. This document is for information and illustrative purposes only. It is not, and should not be regarded as "investment advice" or as a "recommendation" regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) NISA is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to NISA that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. NISA does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. NISA shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of NISA except for your internal use. This material is being provided to you at no cost and any fees paid by you to NISA are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of NISA and (ii) the terms contained in any applicable investment management agreement or similar contract between you and NISA.