

Initial Jobless Claims Only Tell Half the Story, and it's Not the Good Half

October 20, 2020

Contributors: Stephen Douglass



Regular readers will know we've been on somewhat of a campaign against economic disinformation this year, describing how [data errors](#) and [faulty seasonal adjustments](#) have been sending misleading signals about the true state of the labor market. Alas, we are called into action yet again. Every Thursday brings the release of jobless claims data. Like clockwork, the day also brings numerous headlines and commentary lamenting the still-elevated level of initial claims. While it's true that, all else equal, we want the initial claims figure to be as low as possible, this figure only tells half of the unemployment story.

Initial claims represent the *flow* of newly unemployed workers requesting to be added to the unemployment insurance rolls. There is also a measure of the *stock* of workers receiving unemployment insurance, namely continuing claims. If you only look at the initial claims data, you would most likely be alarmed to see over 800 thousand people per week applying for benefits on average since August, as that pace is well above the peak of the 2008 recession. But if you look at the continuing claims data, you'll find that the stock of benefit recipients has been declining by an average of 600 thousand people per week over the same period. Some simple arithmetic therefore tells us that there has been an average gross outflow of 1.4 million people from the unemployment insurance system every week.

Initial claims are the faucet pouring water into the bathtub of unemployment insurance

beneficiaries. It's true that the faucet is wide open, but some people seem to forget that there is also a drain. Let's focus on the fact that the water level is falling! More workers have been leaving the unemployment insurance system than have been joining it since the labor market recovery took off in May, as shown in the chart below. Like most economic data series in 2020, there is some noise in these figures. A small percentage of initial claims are rejected for ineligibility. State unemployment offices have been [overwhelmed](#) by millions of claims, causing delays and data errors (California recently restated their figures and took two weeks off from processing new claims just to work through their backlog). Regulators [have warned](#) that fraud may be rampant, thereby inflating initial claims. Though some workers are just starting to exhaust their typical 26 weeks of state benefits and transition to federal pandemic programs, most of the people who have left unemployment since April have done so by regaining employment.

We are living in the most volatile labor market in American history. We've [shown](#) that unprecedented millions of Americans are shifting every month among employment, unemployment and exiting the labor force. Initial claims are useful as a measure of churn, but they only tell half the story. Assessing the state of the labor market based on initial claims alone is like attempting to value a company based on costs but ignoring revenue. An informed review of the claims data confirms the evidence from other labor market indicators: the economy continues to create more jobs than it destroys. Case in point: last week's data showed the highest level of weekly initial claims since August 14, but also the largest weekly decline in continuing claims since May.

Disclosure Information

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.