

# News Release

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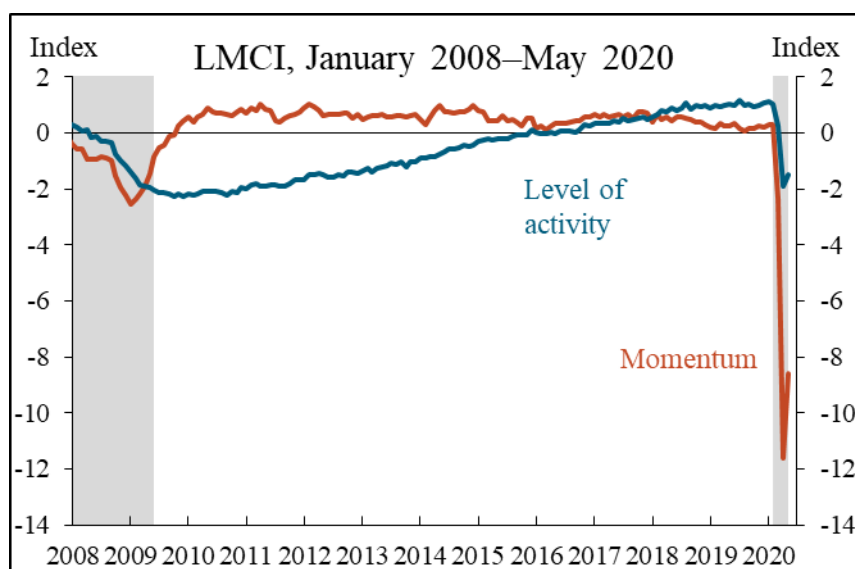
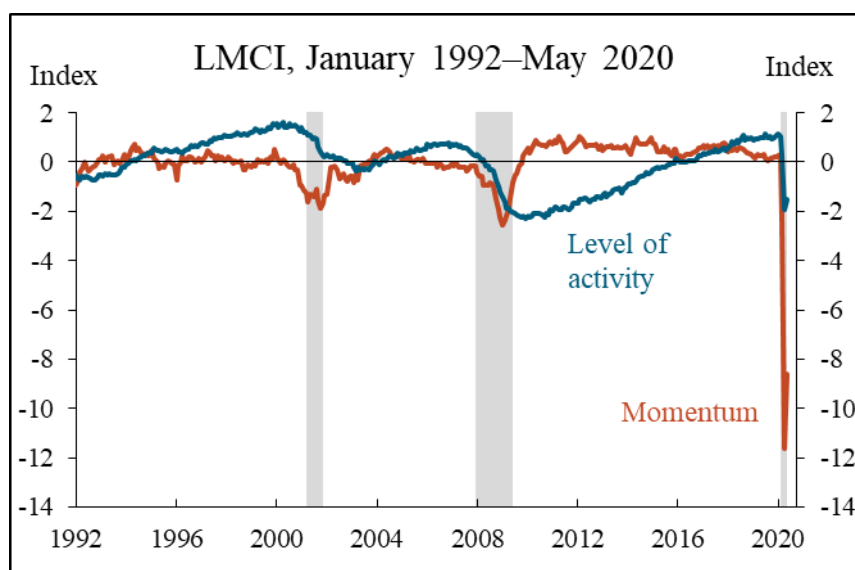
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## The KC Fed LMCI suggests both the level of activity and momentum rebounded slightly in May.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest both the level of activity and momentum rebounded in May from their historic lows. The level of activity indicator increased by 0.43 in May from  $-1.92$  to  $-1.49$ , while the momentum indicator increased by 3.04 from  $-11.62$  to  $-8.58$ . These are the largest one-month increases in the history of the series. The previous largest increase in the level of activity indicator occurred in December 2015, when the level of activity increased by 0.21. The previous largest increase in momentum occurred in February 2002, when momentum increased by 0.65.

These readings likely do not fully describe the state of the labor market at the end of May, as many of the input data series reflect conditions early in the month. For example, data from the Bureau of Labor Statistics' Household Survey are from the reference period of May 10 through May 16. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for April. Therefore, labor market developments in the latter half of May will likely show up in the June 2020 LMCI readings.



The table to the right shows the five labor market variables that made the largest contributions to the decrease in the activity indicator over the last six months. The activity indicator decreased by 2.48 over the last six months. The largest contributor to the decrease in the level of activity was the unemployment rate (U3). Although the unemployment rate fell 1.4 percentage points in May to 13.3 percent, it remains 9.8 percentage points above the November 2019 reading of 3.5 percent. Overall, 16 variables made a negative contribution to the change in the activity indicator over the last six months, and eight variables made a positive contribution. The largest positive contributor to the level of activity indicator was average hourly earnings. However, this signal is likely misleading. Although average hourly earnings remained elevated in May, this was largely due to a large number of low-wage workers remaining jobless. Thus, the true level of activity is likely lower than the May reading suggests.

<b>Largest Contributions to the LMCI</b>	
<b>Contributions to the decrease in the <i>level of activity</i> indicator over the last six months</b>	<b>Negative contributions to the <i>momentum</i> indicator in May 2020</b>
Unemployment rate (U3)	Private nonfarm payroll employment
Job losers	Aggregate weekly hours
Broad unemployment rate (U6)	Average hourly earnings
Job leavers	Temporary help employment
Working part time for economic reasons	Initial claims

*Note: Contributions are ordered from largest in absolute value to smallest.*

The table also shows the five variables that made the largest negative contributions to the momentum indicator in May 2020. The momentum indicator was  $-8.58$  in May, where the largest negative contributor was private nonfarm payroll employment. In May, private nonfarm payroll employment rose by an unprecedented 3.1 million jobs. However, the LMCI uses as its input the three-month percent change in private nonfarm payroll employment; though May's gains were significant, the level of private employment is still nearly 14 percent below its level in February. Overall, 15 variables made a negative contribution to momentum in May, and nine variables made a positive contribution. The variable that made the largest positive contribution to momentum was expected job availability from the University of Michigan Survey of Consumers. In May, the number of respondents expecting unemployment to decline in the next year rose notably. Thus, the rebound in the momentum indicator reflects improving sentiment of the medium-term outlook for the labor market.

