Charting the Economy

KC Fed's LMCI Suggests the Pre-Pandemic Relationship between Labor Market Variables Has Been Restored

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February 05, 2024

Notes: Chart shows how much of the variance in the LMCI input data is explained by the level of activity and how much by the momentum series. As a baseline, we calculate the explained variance from 1992 to 2014, the period used for the LMCI’s first release. We then add each subsequent year of data to this baseline dataset separately and re-calculate the explained variance. For instance, to calculate the explained variance for 2023, we use data from January 1992 to December 2014 and January 2023 to December 2023, omitting the years in between. Sources: Federal Reserve Bank of Kansas City and authors’ calculations.
The Kansas City Fed’s Labor Market Conditions Indicators (LMCI) summarize the information of 24 labor market variables into two measures: the level of activity and momentum. Typically, these two indicators explain about 80 percent of the variation in their input series, reflecting the well-defined and stable relationships between labor market variables. During the pandemic, these relationships were disrupted and the LMCI’s explanatory power dropped. However, by 2021 the percent of variation explained by the LMCI recovered, suggesting the labor market variables tracked by the LMCI are now behaving much as they were prior to the pandemic (albeit at much tighter levels).

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José Mustre-del-Río is a Research and Policy Officer at the Federal Reserve Bank of Kansas City. He joined the Economic Research Department in August 2011. Prior to joining the department, José received B.S. degrees in economics and applied mathematics from Ohio State University, and M.A. and Ph.D. degrees in economics from the University of Rochester. José's main areas of research are in macroeconomics, labor economics and computational economics.

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After I graduated from Carleton College in 2016 with a BA in mathematics and economics, I was excited to join the research team at the Federal Reserve Bank of Kansas City. During my time as an RA, I supported José Mustre-del-Río, Andy Glover, Brent Bundick, and Lee Smith. Currently, my main role is to help support the monetary policy briefing process. I also run the Kansas City Fed's Labor Market Conditions Indicators (LMCI) model and collaborate with economists on Bank publications. I really appreciate the variety of work I’ve gotten to do at the bank and the flexibility given to RAs to explore their interests.