Economic Bulletin

An Alternative Version of the KC Fed LMCI Suggests Little Change in the Labor Market in September

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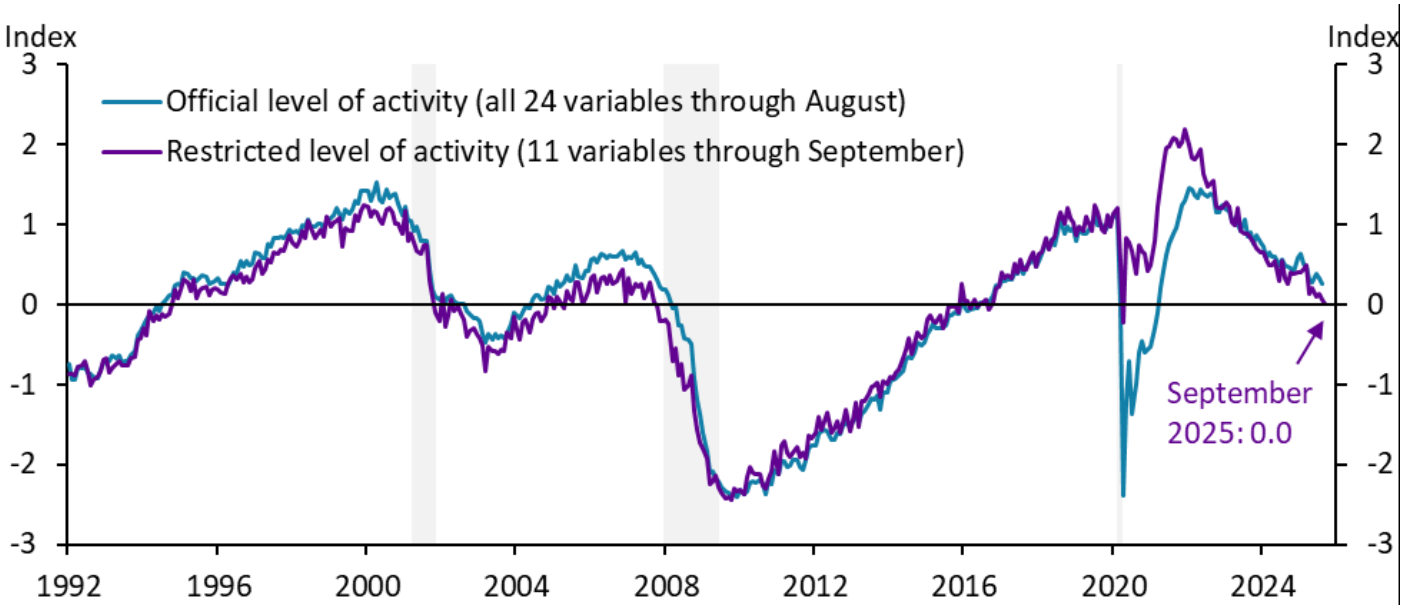
Delays in the release of official government data have increased the need for alternative measures of labor market health. We create an alternative version of the Kansas City Fed's Labor Market Conditions Indicators (LMCI) that excludes delayed government series. The restricted LMCI still provide a timely measure of labor market health that can be used to create real-time forecasts of unemployment and payroll growth. Currently, the restricted LMCI suggest little change in the labor market from August to September.

Recent delays in the release of government data have led researchers to adapt or seek alternatives for official measures of the health of the labor market. For example, 13 of the 24 variables used to construct the Kansas City Fed's Labor Market Conditions Indicators (LMCI) are from the Bureau of Labor Statistics' Employment Situation Report, whose latest release has been delayed.[1] However, because the LMCI retains 11 up-to-date data series, a restricted version of the two headline indicators—level of activity and momentum—may still provide a useful picture of the labor market.[2]

Chart 1 shows that the official level of activity indicator (blue line) and our restricted level of activity indicator (purple line) move together, providing similar views of the labor market. Prior to the pandemic, they show a very strong correlation at 0.99. Although the relationship between the two deviates slightly from 2020 to 2021, their strong co-movement resumes thereafter. Looking at the past couple of months, both indicators have been declining at similar rates, with both series approaching their historical averages.

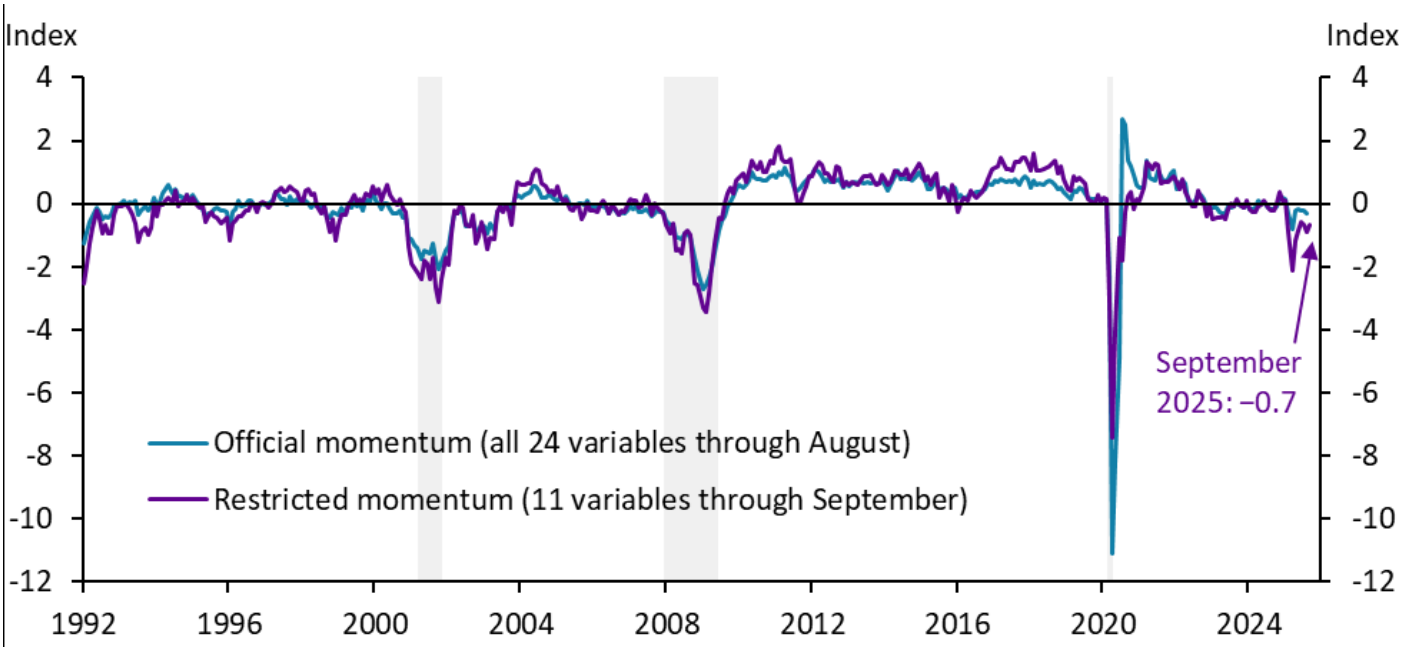
Chart 1: Our restricted level of activity indicator behaves much like the official level of activity indicator



Note: Gray shaded areas represent National Bureau of Economic Research (NBER)-defined recessions.
Sources: Federal Reserve Bank of Kansas City, NBER (Haver Analytics), and authors' calculations.

Chart 2 shows that much like with the level of activity, the momentum indicator constructed with only 11 input series behaves much like its unrestricted counterpart. Indeed, the pre-pandemic correlation between the two measures is 0.95. Because the restricted momentum indicator (purple line) excludes payroll growth and the unemployment rate, it exhibits smaller swings than the baseline momentum indicator during the pandemic. However, with fewer other input series, it responds more strongly to the sharp increase in announced layoffs in March of this year. Overall, both measures have been retracing their dips from earlier in the year but remain below zero.

Chart 2: Our restricted momentum indicator behaves much like the official momentum indicator

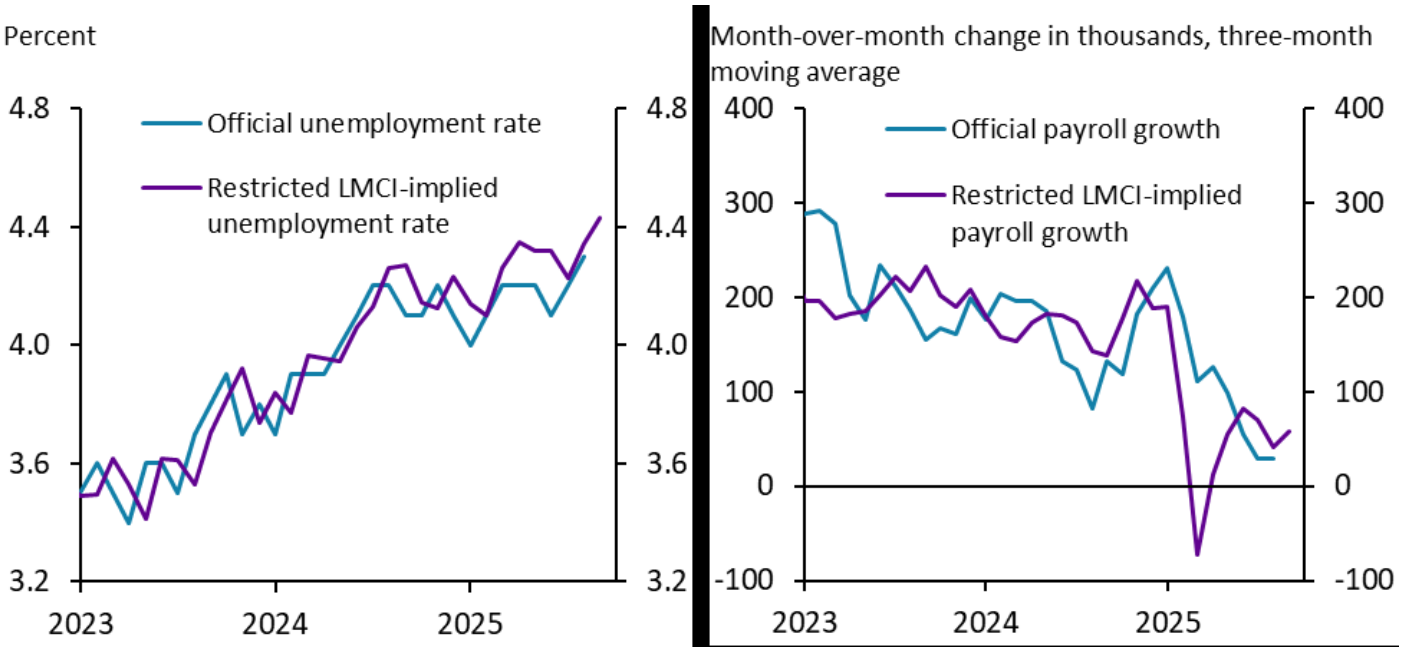


Note: Gray shaded areas represent NBER-defined recessions.
Sources: Federal Reserve Bank of Kansas City, NBER (Haver Analytics), and authors' calculations.

Since our restricted LMCI series closely match the official LMCI series, we use the restricted series to evaluate the health of the labor market in September 2025. In September, our restricted level of activity declined from 0.06 to zero, which represents the indicator's historical average. Although the zero reading suggests that activity is no longer above its historical average, the pace of decline in the index is in line with recent month-to-month declines in both the official and restricted level of activity indicators. In September, our restricted momentum indicator increased by 0.18, from 0.88 to 0.70. This change is also in line with recent month-to-month changes in both the official and restricted momentum indicators. Additionally, because the indicators are constructed such that their historical average is zero and their standard deviation is one, this reading suggests that momentum in the labor market, though below its historical average, is well within the range of typical deviations from this average. Overall, these readings suggest that the labor market is continuing to cool at the slow but steady rate we have seen over the last two years, and activity remains near historical levels.

While the LMCI provide a useful gauge of the labor market's health in September, we can also use them to provide real-time economic forecasts of key labor market variables such as the unemployment rate and payrolls. The left panel of Chart 3, which builds on Glover, Mustre-del-Río, and Pollard (2021), shows that in a simple forecasting model of the unemployment rate, the restricted LMCI provides a useful estimate of the current unemployment rate.[3] As can be seen from the panel, the forecast tracks the official unemployment rate well for the past few years. Currently, the forecast based on the restricted LMCI implies an unemployment rate for September 2025 of 4.4 percent, only a slight increase from August's official unemployment rate of 4.3 percent.

Chart 3: The restricted LMCI suggests that the unemployment rate rose slightly in September and employment growth increased slightly



Sources: U.S. Bureau of Labor Statistics (Haver Analytics), Federal Reserve Bank of Kansas City, and authors' calculations.

The right panel of Chart 3, which builds on Lusompa and Mustre-del-Río (2025), shows that the restricted LMCI can also provide a useful real-time forecast of payroll growth.[4] Outside of the predicted drop in payrolls earlier this year (related to the aforementioned spike in announced layoffs), the forecast using the restricted LMCI tracks official payroll growth well. Currently, the forecast implies that the economy added an average of 60,000 jobs a month from July to September, a slight acceleration from the official three-month average of 29,000 from June to August, but within the range of other alternative payroll estimates.[5]

In summary, when official data sources are delayed or unavailable, the LMCI can still provide a timely measure of the labor market's health. Additionally, this data-restricted LMCI can be used to forecast key labor market measures such as the unemployment rate or payroll growth. Accordingly, we calculate the LMCI for September and find that the restricted version suggests little change in the labor market from August to September. While official statistics remain vital data sources for researchers, the LMCI's long history and wide variety of inputs may make it a useful alternative for policymakers facing data delays.

Download Materials

Data file.

Endnotes

[1] The 13 variables that typically enter in the LMCI whose latest release has been delayed are the official unemployment rate (U3), the broad unemployment rate (U6), job flows from unemployment to employment, the employment-population ratio, the share of individuals working part-time for economic reasons, job leavers as a percentage of total unemployed, unemployed for 27 or more weeks as a percentage of total unemployed, job losers as a percentage of total unemployed, average hourly earnings of production and nonsupervisory employees, private nonfarm payroll employment, aggregate weekly hours, temporary help employment, and the labor force participation rate.

[2] The 11 variables used in the construction of the restricted LMCI are the expected unemployment rate in four quarters from Blue Chip, the quits rate, the job availability index from the Conference Board, the percentage of firms with positions not able to fill right now from NFIB, the hires rate, the percentage of firms planning to increase employment from NFIB, initial claims (calculated as a four-week average through the week ending September 20), expected job availability from the University of Michigan Survey of Consumers, the manufacturing employment index from ISM, announced job cuts from Challenger-Gray-Christmas, and expected job availability from the Conference Board. Note the most recent readings for both the quits and hires rate from JOLTS were released on September 30.

[3] To construct this real-time forecast, we estimate a linear regression of the current unemployment rate on its one-month lag and the current readings for the restricted level of activity and momentum. The coefficients of this regression are estimated using data through December 2019.

[4] To construct this real-time forecast, we estimate a linear regression of the three-month moving average of payroll growth on the current readings for the restricted level of activity and momentum. The coefficients of this regression are estimated using data through December 2019.

[5] The latest release from ADP implies a three-month moving average of payrolls of 23,000. Meanwhile, the corresponding figure from Revelio Labs is 41,000. As the LMCI-implied estimate has a standard error of +/ 130,000 jobs, the differences across all these numbers are not statistically significant.

Article Citations

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