

News Release

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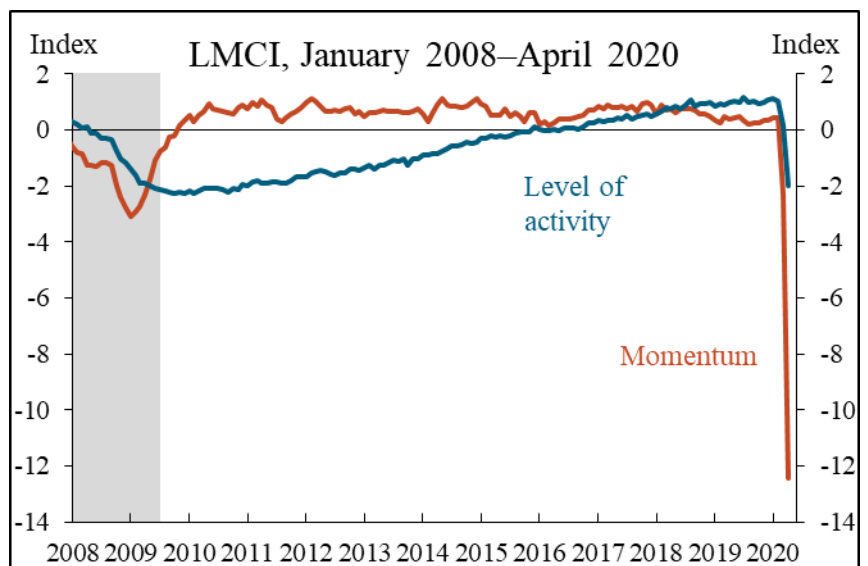
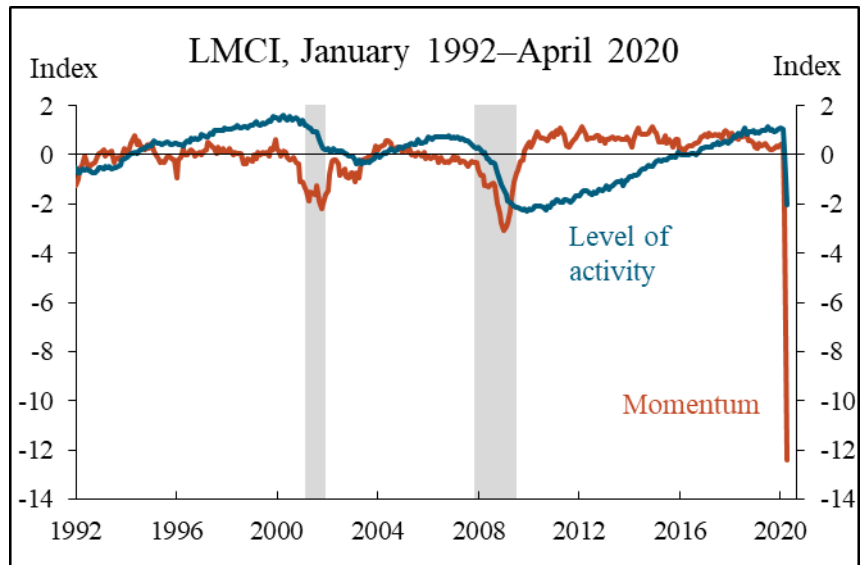
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The KC Fed LMCI suggests the level of activity declined sharply and momentum decelerated sharply in April.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity declined sharply and momentum decelerated sharply in April. The level of activity indicator decreased by 2.18 in April from 0.16 to -2.02 , while the momentum indicator decreased by 10.13 from -2.30 to -12.43 . These are the largest one-month declines in the history of the series.

These readings likely do not fully describe the state of the labor market at the end of April, 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 April 12 through April 18. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for March. Therefore, labor market developments in the latter half of April will likely show up in the May 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 and the five variables that made the largest negative contributions to the momentum indicator in April 2020. The activity indicator decreased 2.96 over the last six months. The largest contributor to the decrease in the level of activity was job losers. In April, job losers accounted for an unprecedented 90 percent of all unemployed. This dynamic, combined with the dramatic rise in the official unemployment rate (U3) and the broad unemployment rate (U6), contributed to a sharp decrease in the activity indicator. Overall, 17 variables made a negative contribution, and seven 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 rose dramatically in April, the rise was largely due to a change in the composition of the workforce as a disproportionate number of low-wage workers lost their jobs. Thus, the drop in the level of activity is likely understated. The momentum indicator was -12.43 in April, where the largest negative contributor was private nonfarm payroll employment. Overall, 12 variables made a negative contribution, and 12 variables made a positive contribution. One of the largest positive contributors to momentum was labor force participation. The LMCI interprets April's sharp drop in participation (2.5 percentage points) as a positive development for the momentum indicator, as the model anticipates participation reverting to trend in the coming months. To the extent April's drop in participation partly reflects misclassified unemployment, the labor market's true momentum may be overstated.

Largest Contributions to the LMCI	
Contributions to the decrease in the level of activity indicator over the last six months	Negative contributions to the momentum indicator in April 2020
Job losers	Private nonfarm payroll employment
Unemployment rate (U3)	Aggregate weekly hours
Broad unemployment rate (U6)	Initial claims
Job leavers	Average hourly earnings
Working part time for economic reasons	Announced job cuts (Challenger-Gray-Christmas)

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

