

News Release

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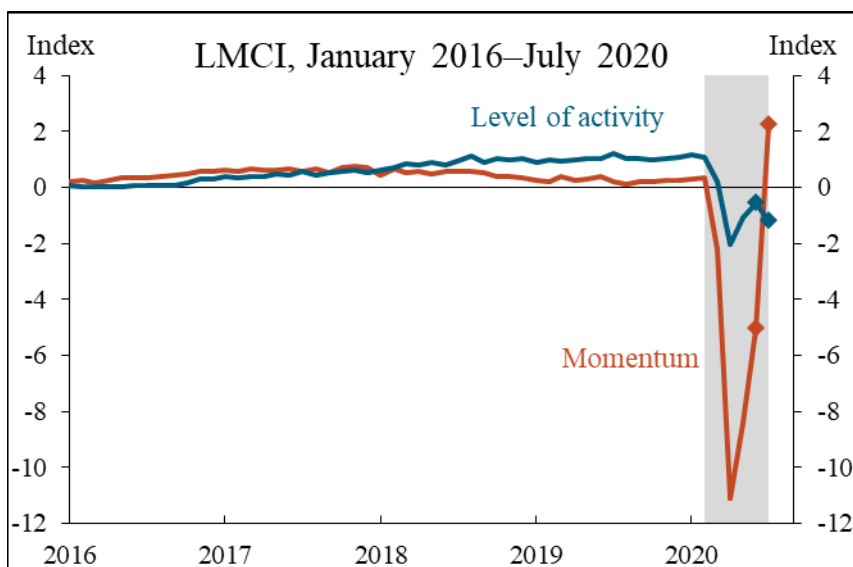
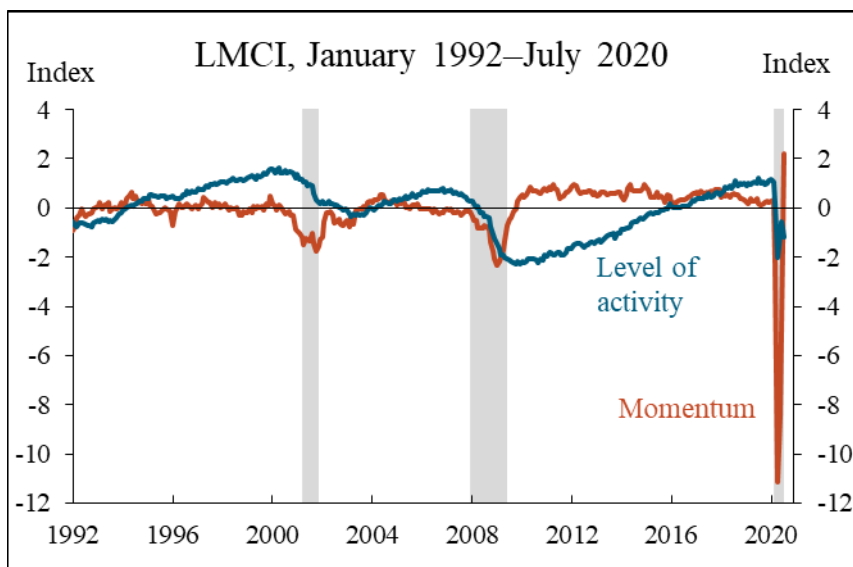
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The KC Fed LMCI suggests the level of activity declined in July even as momentum continued to rebound.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity declined in July even as momentum continued to rebound. The level of activity indicator decreased by 0.62 in July from -0.56 to -1.18 , while the momentum indicator increased by 7.30 from -5.07 to 2.23. This is the largest one-month increase in the momentum indicator in the history of the series. The previous largest increase in the momentum indicator occurred in June 2020, when momentum increased by 3.36.

These readings likely do not fully describe the state of the labor market at the end of July, 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 July 12 through July 18. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for June. Therefore, labor market developments in the latter half of July will likely show up in the August 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 2.34 over the last six months. Overall, 18 variables made a negative contribution to the change in the activity indicator over the last six months, and six variables made a positive contribution. The largest negative contributor to the level of activity was job leavers as a percent of total unemployed. This series has only rebounded to 3.5 percent from its cyclical low of 2.5 percent in April and still remains 10.7 percentage points below the January 2020 reading of 14.2 percent. Job leavers as a percent of total unemployed is a gauge of workers' confidence about the job market, as workers would not voluntarily leave a job unless they perceived their job search prospects were good. Commensurate with the low fraction of job leavers, the quits rate (another measure of voluntary turnover) in JOLTS remains depressed. The largest positive contributor to the level of activity indicator was the hires rate (JOLTS). After falling to 3.5 percent in April 2020, the hires rate rebounded to 5.5 percent in June, 1.2 percentage points above the January 2020 reading of 4.3 percent.

Largest Contributions to the LMCI	
Contributions to the decrease in the <i>level of activity</i> indicator over the last six months	Positive contributions to the <i>momentum</i> indicator in July 2020
Job leavers	Aggregate weekly hours
Job losers	Average hourly earnings
Unemployment rate (U3)	Private nonfarm payroll employment
Broad unemployment rate (U6)	Temporary help employment
Unemployment forecast (Blue Chip)	Expected job availability (University of Michigan)

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

The table also shows the five variables that made the largest positive contributions to the momentum indicator in July 2020. Overall, 11 variables made a positive contribution to momentum in July, and 13 variables made a negative contribution. The momentum indicator was 2.23 in July, where the largest positive contributor was aggregate weekly hours, a measure of total hours worked in the economy. Aggregate weekly hours have been increasing since May. However, the LMCI uses as its input the three-month percent change in aggregate weekly hours. For example in the previous run of the LMCI, weekly hours in June were compared with weekly hours in March and, therefore, showed up as a decline despite increasing from May to June. This month, weekly hours in July are compared with weekly hours in April, the series' cyclical low; thus, the July level reads as an 11.4 percent increase, the largest increase in the history of the series. The top four positive contributors to momentum (aggregate weekly hours, average hourly earnings, private nonfarm payroll employment, and temporary help employment) are all input into the LMCI as a three-month percent change. Therefore, the unprecedented increase in momentum largely reflects gains from April rather than changes in the labor market over the past month. The variable that made the largest negative contribution to momentum was announced job cuts (Challenger-Gray-Christmas). After recording only 170,000 job cuts in June, Challenger-Gray-Christmas reported 263,000 job cuts in July.

