

News Release

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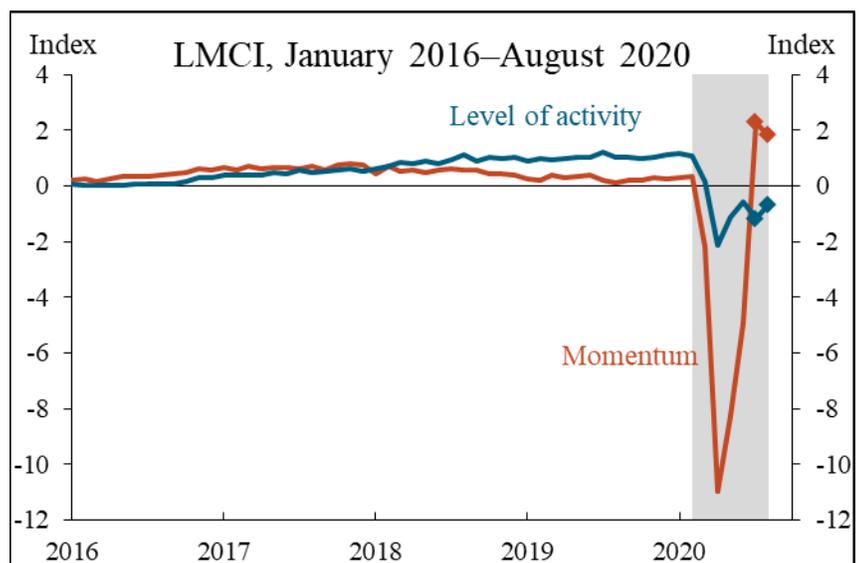
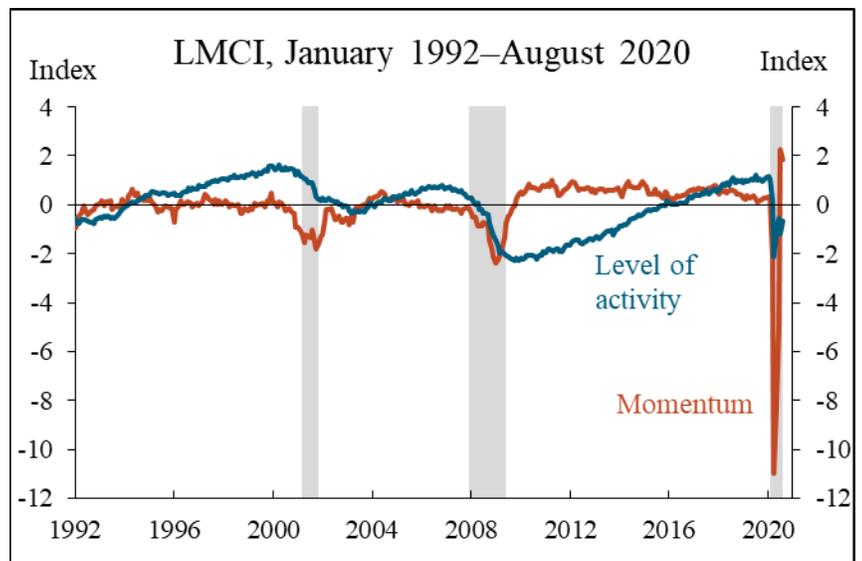
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The KC Fed LMCI suggests the level of activity increased in August while momentum decelerated.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity increased in August while momentum decelerated. The level of activity indicator increased by 0.50 in August from -1.17 to -0.67 , while the momentum indicator decreased by 0.44 from 2.27 to 1.83.

These readings likely do not fully describe the state of the labor market at the end of August, 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 August 9 through August 15. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for July. Therefore, labor market developments in the latter half of August will likely show up in the September 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 1.75 over the last six months. Overall, 17 variables made a negative contribution to the change in the activity indicator over the last six months, one variable made no contribution, 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. Job leavers as a percent of total unemployed is a gauge of workers' confidence about the job market, as most workers would not voluntarily leave a job unless they perceived their job search prospects were good. This series has only rebounded to 4.4 percent from its cyclical low of 2.5 percent in April and still remains 9.0 percentage points below the February 2020 reading of 13.4 percent. The largest positive contributor to the level of activity indicator was the hires rate (JOLTS). After reaching 5.7 percent in June, the hires rate edged down to 4.6 percent in July. Although this rate is still above its near-term low of 3.5 percent seen in April of this year, its recent decline highlights that even some of the positive contributors to the activity indicator appear to be moderating.

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 August 2020
Job leavers	Private nonfarm payroll employment
Job losers	Temporary help employment
Unemployment rate (U3)	Aggregate weekly hours
Unemployment forecast (Blue Chip)	Average hourly earnings
Broad unemployment rate (U6)	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 August 2020. Overall, 12 variables made a positive contribution to momentum in August, and 12 variables made a negative contribution. The momentum indicator was 1.83 in August, where the largest positive contributor was private nonfarm payroll employment. After adding 1.5 million jobs in July, the private sector added 1.0 million jobs in August. Thus, this component of the momentum indicator remained strong in August but decelerated somewhat, contributing to the momentum indicator's decline. The variable that made the largest negative contribution to momentum was initial claims. Starting with last Thursday's release, the Department of Labor switched from using multiplicative factors to additive factors to seasonally adjust initial claims data. The old multiplicative factors were inflating initial claims during the pandemic, while the new additive factors result in lower seasonally adjusted initial claims. Therefore, the August initial claims data appear disproportionately lower compared with other recent months. To the extent August's lower initial claims number partly reflects this change in methodology, the labor market's true momentum may be overstated.

