

# News Release

THE FEDERAL RESERVE BANK of KANSAS CITY  
DENVER • OKLAHOMA CITY • OMAHA

One Memorial Drive • Kansas City, MO 64198 • Phone: 816.881.2683

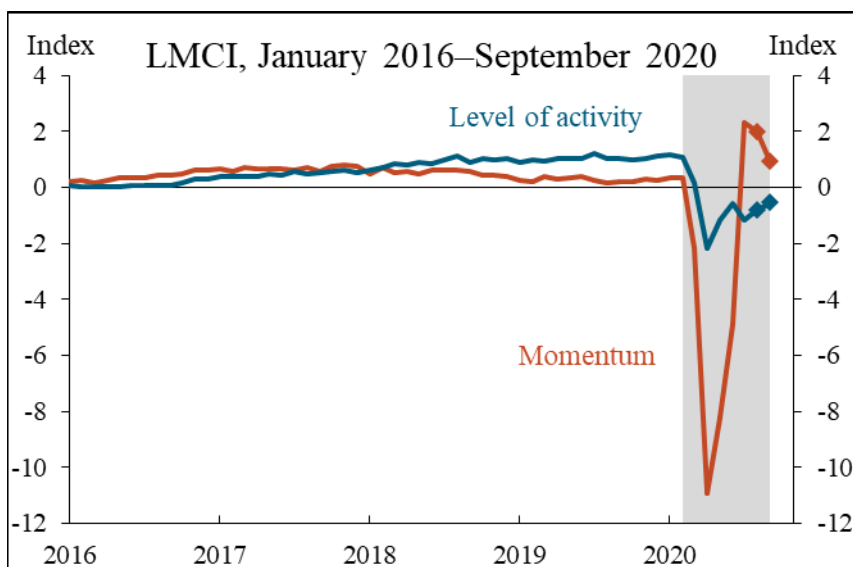
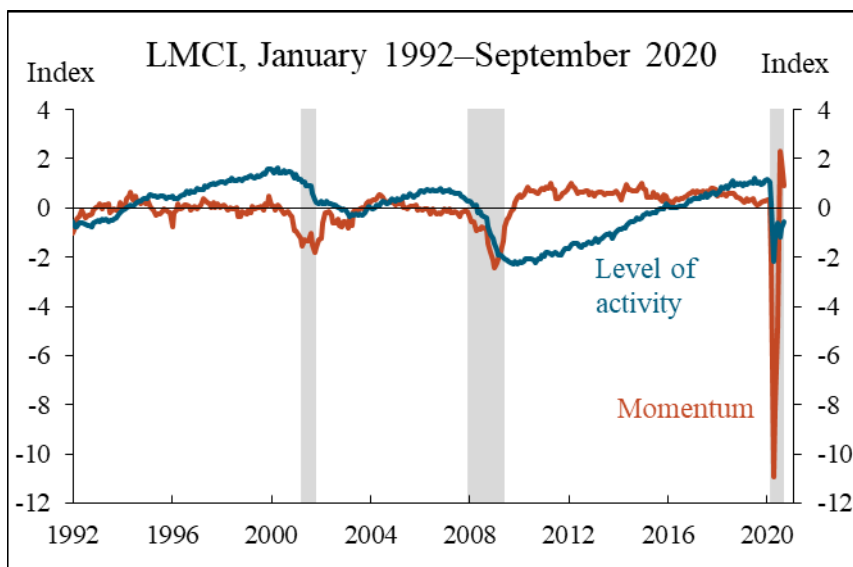
FOR IMMEDIATE RELEASE  
October 7, 2020

Contact: Bill Medley  
816-881-2556  
[Bill.Medley@kc.frb.org](mailto:Bill.Medley@kc.frb.org)

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

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity increased in September while momentum decelerated. The level of activity indicator increased by 0.25 in September from  $-0.82$  to  $-0.57$ , suggesting current activity has improved but remains below historical norms. Meanwhile, the momentum indicator decreased by 1.06 from 1.97 to 0.92, suggesting labor market momentum has weakened slightly from the historical highs of the previous two months but remains strong.

These readings likely do not fully describe the state of the labor market at the end of September, 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 September 6 through September 12. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for August. Therefore, labor market developments in the latter half of September will likely show up in the October 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 0.73 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 Blue Chip's four-quarter-ahead unemployment rate forecast. This series has only rebounded to 7.5 percent from its cyclical high of 9.3 percent in June and still remains 3.8 percentage points above the March 2020 reading of 3.7 percent. A 7.5 percent unemployment rate forecast for the second quarter of 2021 might seem surprising given that the actual unemployment rate in September 2020 was 7.9 percent. However, the Blue Chip September forecast was released September 10 and does not reflect the most recent employment report. The largest positive contributor to the level of activity indicator was the hires rate (JOLTS). The hires rate has edged steadily down from a 6.2 percent reading in May to a 4.5 percent reading in August. Although this rate is still above its near-term low of 3.5 percent in April, its recent decline highlights that even some of the positive contributors to the activity indicator appear to be moderating.

<b>Largest Contributions to the LMCI</b>	
<b>Contributions to the decrease in the <i>level of activity</i> indicator over the last six months</b>	<b>Positive contributions to the <i>momentum</i> indicator in September 2020</b>
Unemployment forecast (Blue Chip)	Temporary help employment
Unemployment rate (U3)	Aggregate weekly hours
Job losers	Private nonfarm payroll employment
Job leavers	Average hourly earnings
Quits rate (JOLTS)	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 September 2020. Overall, 13 variables made a positive contribution to momentum in September, and 11 variables made a negative contribution. The momentum indicator was 0.92 in September, where the largest positive contributor was the three-month percent change in temporary help employment. Temporary help employment increased by 10.5 percent from June to September. However, this increase is smaller than the 17.7 percent increase in the series from May to August and thereby contributed to the momentum indicator's decline. The variable that made the largest negative contribution to momentum was initial claims. On September 3, the Department of Labor switched from using multiplicative factors to additive factors to seasonally adjust initial claims data. The old multiplicative factors inflated initial claims during the pandemic, while the new additive factors have resulted in lower seasonally adjusted initial claims. Although claims data in the last week of August were seasonally adjusted using this new methodology, September is the first month to use the new methodology throughout. Therefore, the September initial claims data appear disproportionately lower compared with other recent months. To the extent September's lower initial claims number partly reflects this change in methodology, the labor market's true momentum may be overstated.

