News Release

The Federal Reserve Bank of Kansas City
Denver • Oklahoma City • Omaha

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

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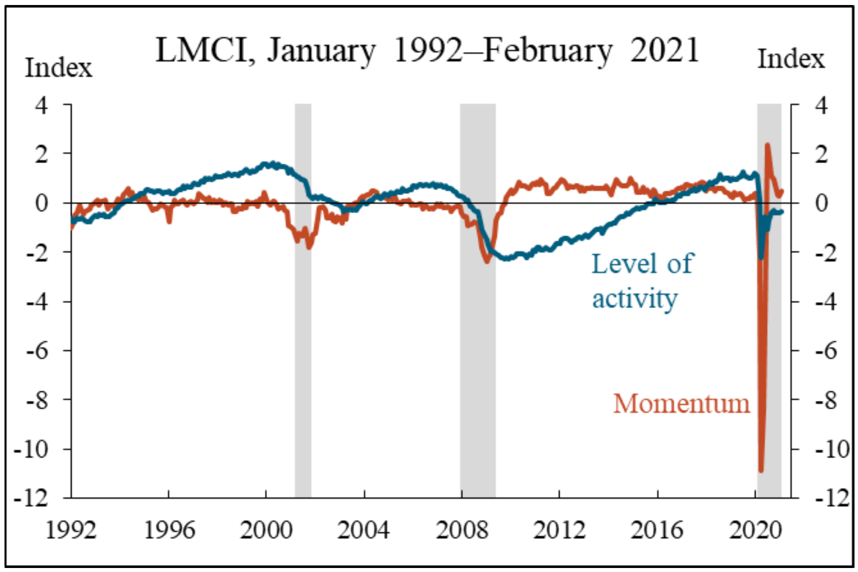
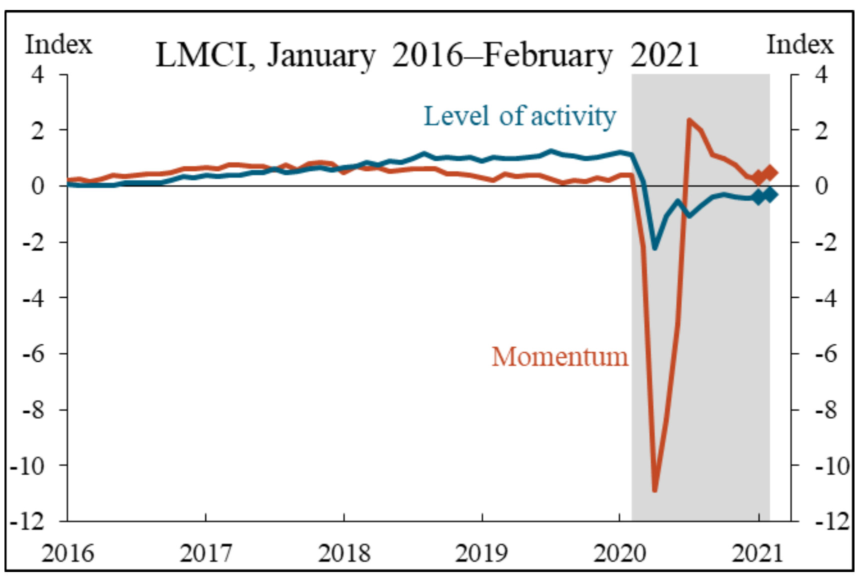
Contact: Bill Medley
816-881-2556
Bill.Medley@kc.frb.org

The KC Fed LMCI suggests the level of activity increased modestly in February while momentum accelerated.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity increased modestly in February while momentum accelerated. The level of activity indicator increased by 0.08 in February from −0.41 to −0.33. Meanwhile, the momentum indicator increased by 0.22 from 0.26 to 0.48, its first monthly increase since July 2020.





These readings likely do not fully describe the state of the labor market at the end of February, as many of the input data series reflect conditions early in the month. In particular, the series do not include the effects of the decrease in new COVID-19 cases or the acceleration in vaccine administration that occurred later in the month. For example, data from the Bureau of Labor Statistics' Household Survey are from the reference period of February 7 through February 13. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for January. Therefore, labor market developments in the latter half of February, including the labor market response to recent COVID-19 developments, will likely show up in the March 2021 LMCI readings.

The table to the right shows the five labor market variables that made the largest contributions to the increase in the activity indicator over the last six months. The activity indicator increased by 0.38 over the last six months. Overall, 14 variables made a positive contribution to the change in the activity indicator over the last six months, one variable made no contribution, and nine variables made a negative contribution. The largest positive contributor to the level of activity was the three-month percent change in average hourly earnings. After declining by 0.80 percent from May to August 2020, average hourly earnings rose 1.04 percent from November 2020 to February 2021. The recent rise in average hourly earnings, however, is largely due to a change in the composition of the workforce, as a disproportionate number of low-wage workers lost their jobs. From November 2020 to February 2021, the leisure and hospitality sector lost 168,000 jobs on net. Over the same period, total private nonfarm payrolls increased by 281,000 jobs. Absent these compositional changes that have artificially driven up earnings growth, the increase in the level of activity indicator over the last six months would likely be smaller. The largest negative contributor to the level of activity was the percent of unemployed that have been unemployed 27 or more weeks. This series has risen dramatically over the last six months from 11.7 percent in August 2020 to 41.5 percent in February 2021 as workers laid off in the early months of the pandemic have transitioned into long-term unemployment.

Largest Contributions to the LMCI

Contributions to the increase in the *level of activity* indicator over the last six months	**Positive contributions to the *momentum* indicator in February 2021**
Average hourly earnings	Temporary help employment
Unemployment forecast (Blue Chip)	Unemployed 27 or more weeks
Unemployment rate (U3)	Announced job cuts (Challenger-Gray-Christmas)
Job losers	Expected job availability (U of Michigan)
Job leavers	Manufacturing employment index (ISM)

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 February 2021. The momentum indicator was 0.48 in February. Overall, 14 variables made a positive contribution to momentum in February, and 10 variables made a negative contribution. The largest positive contributor was the three-month percent change in temporary help employment. Temporary help employment increased by 8.3 percent from November 2020 to February 2021. The largest negative contributor to momentum was initial claims in regular state programs. In each week of February 2021, 0.49 percent of the labor force, on average, made an initial unemployment insurance claim. This is well above pre-pandemic levels. However, February's reading is lower than January's reading of 0.53 percent and thereby contributed to the increase in the momentum indicator. The initial claims data used in the LMCI do not include data from federal unemployment insurance programs, which have become much more important during the pandemic. In February 2021, the federal government's Pandemic Unemployment Assistance program had about 54 percent as many initial claims as regular state programs. If initial claims in federal programs had been included in the LMCI input data, the momentum indicator would likely have been lower the last nine months.