

News Release

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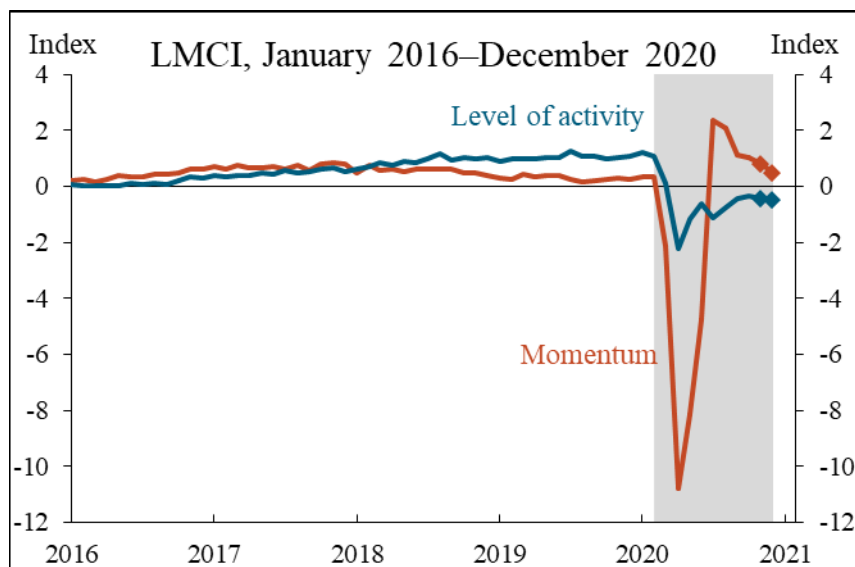
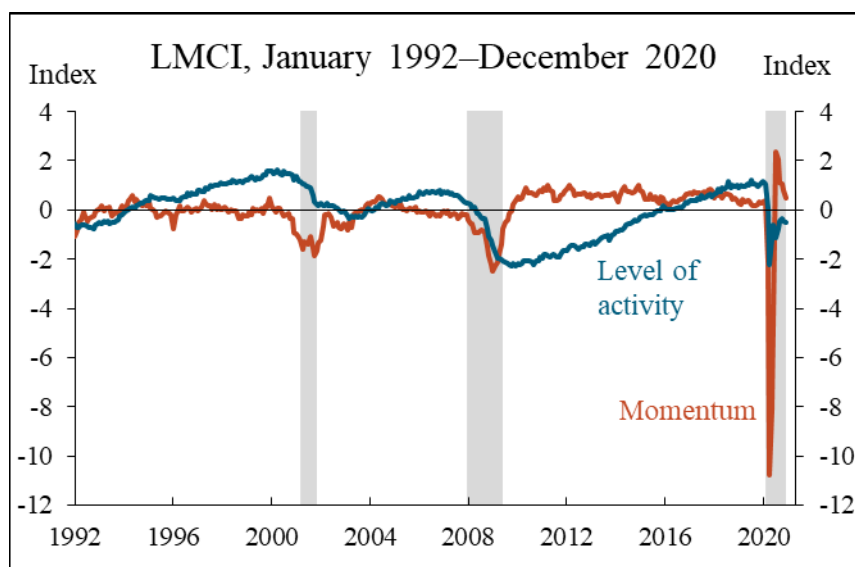
FOR IMMEDIATE RELEASE
January 13, 2021

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The KC Fed LMCI suggests the level of activity declined modestly in December while momentum continued to decelerate.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity declined modestly in December while momentum continued to decelerate. The level of activity indicator decreased by 0.08 in December from -0.44 to -0.52 . Meanwhile, the momentum indicator decreased by 0.32 from 0.79 to 0.47, suggesting labor market momentum has continued to decelerate though it remains positive.

These readings likely do not fully describe the state of the labor market at the end of December, as many of the input data series reflect conditions early in the month. In particular, the series do not include the effects of the continued rise in COVID-19 cases and related containment measures. For example, data from the Bureau of Labor Statistics' Household Survey are from the reference period of December 6 through December 12. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for November. Therefore, labor market developments in the latter half of December, including the labor market response to recent COVID-19 developments, will likely show up in the January 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 0.10 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 over the last six months was the unemployment rate (U3). This series dropped from 11.1 percent in June to 6.7 percent in December. The largest negative contributor to the level of activity indicator was job flows from unemployment to employment as a percent of the unemployed. This series has declined from a historical high of 36.6 percent in June to a more typical rate of 22.7 percent in December.

Largest Contributions to the LMCI	
Contributions to the increase in the <i>level of activity</i> indicator over the last six months	Positive contributions to the <i>momentum</i> indicator in December 2020
Unemployment rate (U3)	Temporary help employment
Broad unemployment rate (U6)	Unemployed 27 or more weeks
Unemployment forecast (Blue Chip)	Aggregate weekly hours
Working part time for economic reasons	Expected job availability (U of Michigan)
Job leavers	Private nonfarm payroll employment

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 December 2020. Overall, 13 variables made a positive contribution to momentum in December, and 11 variables made a negative contribution. The momentum indicator was 0.47 in December, where the largest positive contributor was the three-month percent change in temporary help employment. Temporary help employment increased by 9.4 percent from September to December. The variable that made the largest negative contribution to momentum was the three-month percent change in average hourly earnings. Average hourly earnings rose by 1.3 percent from September to December. The recent rise in 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. In December alone, the leisure and hospitality sector lost nearly 500,000 jobs, more than accounting for the 140,000 decline in total nonfarm payrolls. Absent these compositional changes that have artificially driven earnings growth up and momentum down, the deceleration in the momentum indicator would likely be smaller.

