News Release
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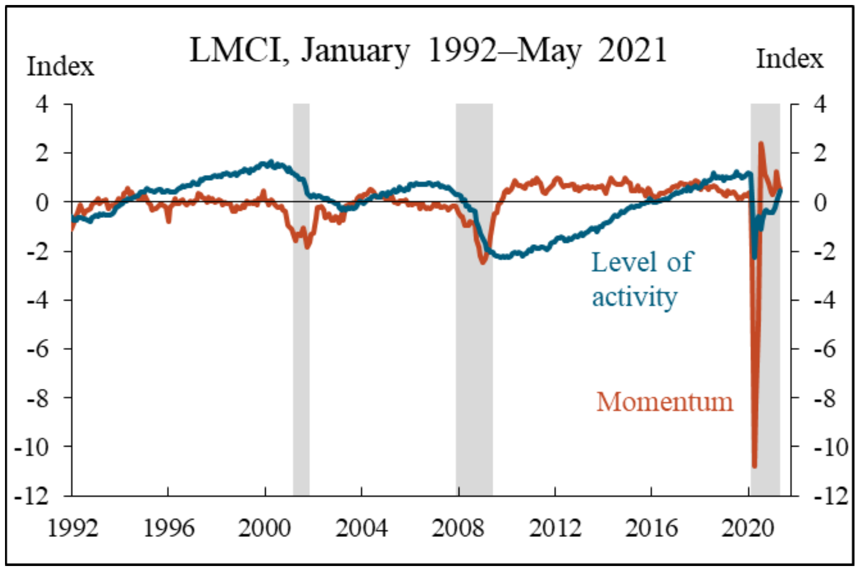
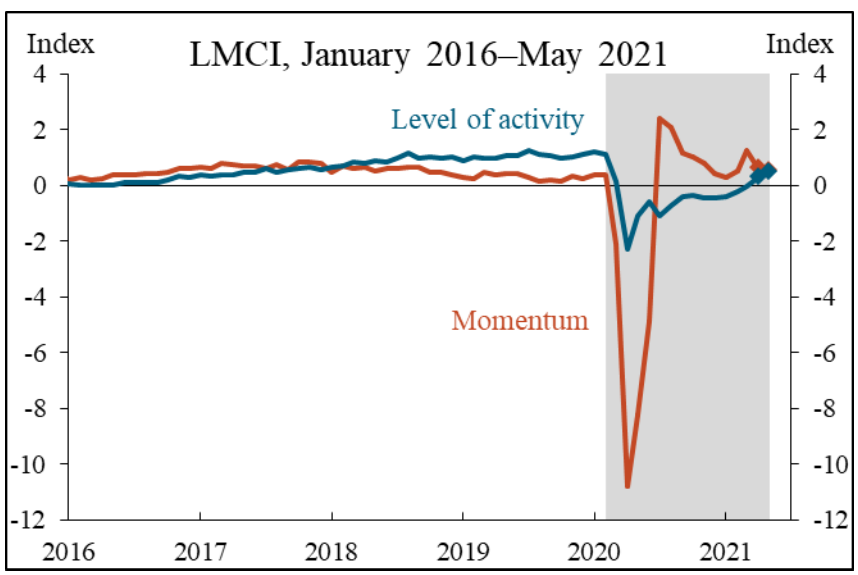
The KC Fed LMCI suggests the level of activity continued to edge up in May while momentum was little changed.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity continued to edge up in May while momentum was little changed. The level of activity indicator increased by 0.17 in May from 0.30 to 0.47. With strong increases in February, March, and April as well, the level of activity has increased 0.89 over the last four months from −0.42 in January. Meanwhile, the momentum indicator was little changed in May at 0.54. Both indicators remained above their longer-run averages in May.





These readings likely do not fully describe the state of the labor market at the end of May, as many of the input data series reflect conditions early in the month. In particular, the series do not include the effects of continued vaccine administration or the loosening of many states' COVID-19 restrictions that occurred later in the month. For example, data from the Bureau of Labor Statistics' Household Survey are from the reference period of May 9 through May 15. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for April. Therefore, labor market developments in the latter half of May, including the labor market response to recent COVID-19 developments, will likely show up in the June 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 0.90 since November 2020. Overall, 17 variables made a positive contribution to the change in the activity indicator over the last six months, one variable made no contribution, and six variables made a negative contribution. The largest positive contributor to the level of activity was the percent of firms with positions not able to fill right now (NFIB). The series rose 14 percentage points over the last six months, from 34 percent in November 2020 to 48 percent in May 2021, the highest reading in the history of the series. 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 over the last six months, from 36.8 percent in November 2020 to 40.9 percent in May 2021, as workers laid off earlier in the pandemic have transitioned into long-term unemployment. However, the series decreased in April and May from a March 2021 reading of 43.4 percent, and so is producing less of a drag on activity than in recent months.

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 May 2021**
Percent of firms with positions not able to fill right now (NFIB)	Expected job availability (U of Michigan)
Unemployment forecast (Blue Chip)	Unemployed 27 or more weeks
Job availability index (Conference Board)	Aggregate weekly hours
Quits rate	Announced job cuts (Challenger-Gray-Christmas)
Average hourly earnings	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 May 2021. The momentum indicator was 0.54 in May. Overall, 15 variables made a positive contribution to momentum in May, and nine variables made a negative contribution. The largest positive contributor was the University of Michigan's expected job availability index. The index came in at 37 in May, the highest reading in the history of the series. Positive index values indicate that more people believe that unemployment will decrease in the next year than believe it will increase. In the May survey, a record 54 percent of respondents believed that unemployment would decrease in the next year, while 28 percent expected it would stay the same and 17 percent believed it would increase. 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 1.5 percent from February to May, well above the series average of 0.7 percent. Higher wage growth is negatively associated with momentum because it is often associated with slower employment growth in subsequent months. While average hourly earnings increased from February to May in almost all major industries, wage growth was particularly strong in the leisure and hospitality sector, with wages rising 4.1 percent over the last three months.