NEWS RELEASE

FEDERAL RESERVE BANK of KANSAS CITY

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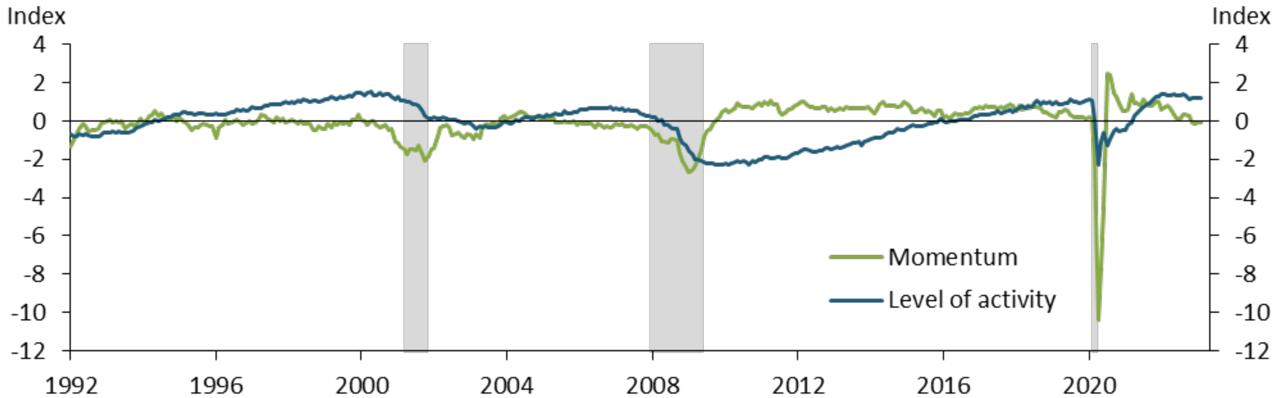
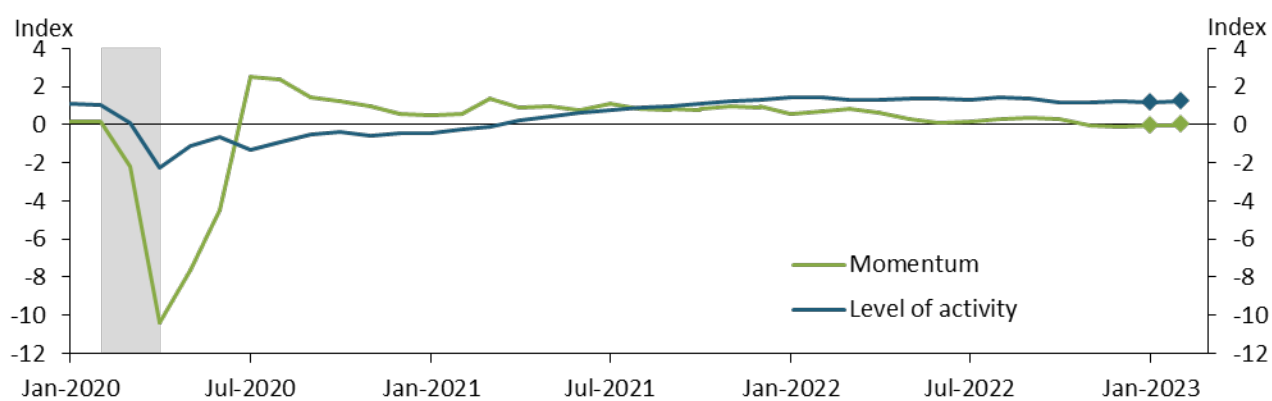
The KC Fed LMCI suggests the level of activity and momentum were little changed in February.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity and momentum were little changed in February. The level of activity indicator was little changed at 1.21 in February, while the momentum indicator was −0.04, unchanged from its revised January level. Momentum has been negative for four consecutive months. However, the level of activity remains high.

LMCI January 1992–February 2023



LMCI January 2020–February 2023



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. For example, data from the Bureau of Labor Statistics' Household Survey are from the reference period of February 12 through February 18. 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 will likely show up in the March 2023 LMCI readings.

The level of activity indicator has decreased by 0.21 since August but remains more than one standard deviation above its historical norm. The first column of the table below shows the five labor market variables that made the largest contributions to the 0.21 decrease. Overall, 12 variables made a negative contribution to the change in the activity indicator over the last six months, one variable made no contribution, and 11 variables made a positive contribution. The largest contributor to the decrease in the level of activity was job flows from unemployment to employment as a percent of total unemployed. In February, 29 percent of workers who were unemployed in the previous month became employed compared with 32 percent in August 2022. The downward trend in job flows from unemployment to employment suggests unemployed workers are finding new jobs less quickly, thus contributing to the decline in activity.

Largest Contributions to the LMCI

Contributions to the decrease in the *level of activity* indicator over the last six months	**Negative contributions to the *momentum* indicator in February 2023**
Job flows from U to E	Average hourly earnings
Quits rate	Expected job availability (U of Michigan)
Percent of firms planning to increase employment (NFIB)	Temporary help employment
Unemployment forecast (Blue Chip)	Unemployed 27 or more weeks
Hires rate	Job flows from U to E

Note: Contributions are ordered from largest in absolute value to smallest.

The second column of the table shows the five variables that made the largest negative contributions to the momentum indicator in February 2023. Overall, 12 variables made a negative contribution to momentum in February, and 12 variables made a positive contribution. As was the case for most of last year, the largest negative contributor to momentum was the three-month percent change in average hourly earnings for production and nonsupervisory employees. Historically, higher wage growth is negatively correlated with the LMCI's momentum indicator because higher wage growth is often associated with slower employment growth in subsequent months, thus signaling less momentum in the labor market.