CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1080 center@cbpp.org www.cbpp.org

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THE AUGUST UNEMPLOYMENT RATE MASKS THE SEVERITY OF THE DOWNTURN AND THE PROBLEMS OF THOSE EXHAUSTING THEIR UNEMPLOYMENT BENEFITS

By Wendell Primus and Jessica Goldberg

Some have suggested that the current unemployment rate — which has been hovering close to six percent and was 5.7 percent in August 2002 — indicates the recession is quite mild and is harming only a modest number of workers. One implication of this view is that strengthening and extending the federal Temporary Emergency Unemployment Compensation Program, the temporary program providing federally-funded unemployment insurance (UI) benefits to workers that run out of regular state UI benefits, is not necessary.

That assessment is mistaken. Although by some commonly used measures the consequences of the recent downturn have not been as severe as the consequences of the recession of the early 1990s, by certain other measures the recession that began last year has hit workers just as hard as the recession of the early 1990s. In fact, by some important measures, such as the actual number of workers whose federally-funded unemployment benefits are running out before they are able to find a new job — this recession has hit workers *harder* than the last recession. This analysis also examines other reasons why not too much should be read into the downward tick in the unemployment rate in August.

Changes in Unemployment

The most accurate way to evaluate a recession's impact on unemployment is to examine the increase in unemployment during the recession, rather than the overall unemployment rate. Stated somewhat differently, it is the increase in unemployment that measures the degree to which the economic situation of workers has worsened as a consequence of a downturn. By most measures of unemployment, the increase in unemployment during this recession is similar to or exceeds the increase during the recession of the early 1990s.

The official seasonally adjusted unemployment rate issued by the U.S. Department of Labor's Bureau of Labor Statistics (BLS) includes anyone who is classified as unemployed, regardless of the reason for their unemployment. The official unemployment data show substantial increases in both the number of unemployed and the unemployment rate since the recession began in March 2001; these increases are similar to the increases that occurred in the early 1990s recession.

- BLS data indicate that there were 2.3 million more unemployed workers in August 2002 than in February 2001, the month before the recession began. Some 18 months into the recession of the early 1990s, the number of unemployed had increased by 2.6 million, a figure that is only modestly larger.

- Comparing average unemployment over two three-month periods can provide a better picture of changes in unemployment than comparing two single months, since three-month averages incorporate more information and smooth out one-month aberrations. Comparing the three months prior to the start of the current recession in March 2001 to the latest three months for which information is available shows that unemployment grew by 2.5 million workers. During this period, the average three-month unemployment rate grew from 4.1 percent to 5.8 percent, an increase of 1.7 percentage points.

- Some 18 months into the recession of the early 1990s, the average number of unemployed over a three-month period had grown by 2.3 million workers compared to the three months just prior to the recession. During this period the average three-month unemployment rate grew from 5.3 percent to 7.1 percent, an increase of 1.8 percentage points. Thus, comparing the figures from the two downturns, the actual increases in the number of unemployed persons and increases in the unemployment rate are similar.

- It took about 24 months in the 1990 recession for unemployment to peak. Over this period, the three-month average unemployment rate increased 2.2 percentage points. It is too soon to tell whether the unemployment rate has yet peaked as a consequence of the recent downturn.

A second set of indicators comes from the information compiled for the unemployment insurance program. The measure of unemployment used here is the *insured* unemployment rate (IUR), which measures the number of workers that are receiving regular, state-funded unemployment insurance benefits. One advantage of this measure is that since, in most states, an unemployed worker must have a minimum level of earnings and weeks of work history to qualify for unemployment benefits, the IUR measures unemployment among experienced workers with a significant labor force attachment. By contrast, the overall unemployment rate figures also include people who have not recently been working or looking for work, such as new entrants and re-entrants into the labor market.

The proportion of workers receiving regular unemployment benefits has actually risen more during this recession than it did in the last recession.

- Because most unemployment insurance data are not seasonally adjusted and because averaging three months of data is technically better, the remainder of this analysis uses three-month averages, centered two years apart.[1]

- Between June - August 1990 and June - August 1992, the insured unemployment rate increased from 2.4 percent to 3.1 percent, an increase of 0.7 percentage points. During the period from June - August 2000 and June - August 2002, the average three-month IUR increased from 1.7 percent to 2.8 percent, a 1.1 percentage point

[1] We compare changes in unemployment over the two-year period between June – August 2000 and June – August 2002 to changes in unemployment over a comparable two-year period in the previous recession, the period from June – August 1990 to June – August 1992.

increase. The IUR thus has increased more during the current slump than it did in the early 1990s recession. This indicates that for experienced workers, the impact of this recession has been somewhat more severe.

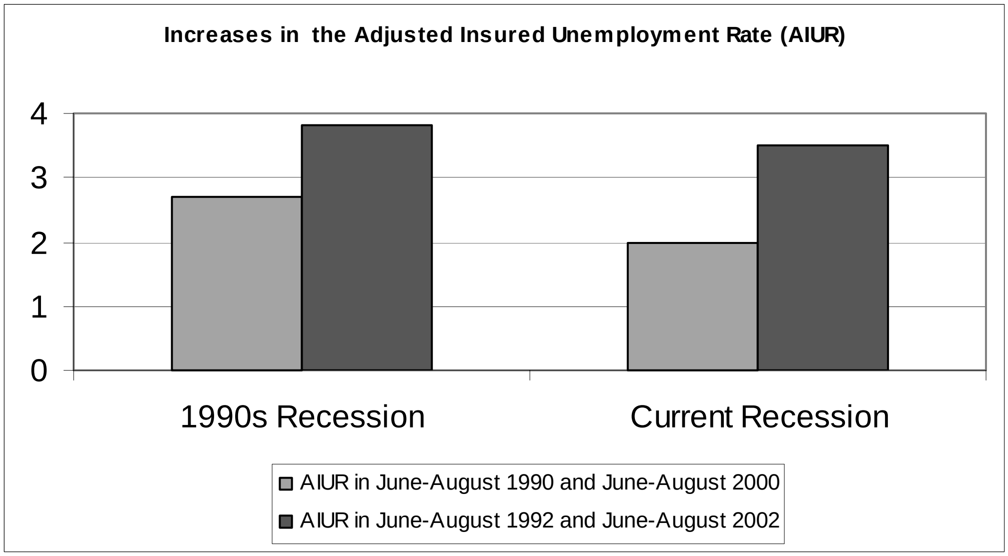
Although the IUR is a better measure of unemployment among experienced workers than the official unemployment rate, it has several defects itself.[2] Of special note here, the IUR does not take into account experienced workers who have been unemployed for such a long period of time that they have exhausted their regular unemployment benefits, which typically end after 26 weeks or less. These workers *do not count as unemployed* in the IUR. Thus, unemployed workers who are receiving additional weeks of federally funded unemployment benefits or who have exhausted their benefits — that is, workers who presumably have had the most trouble finding a job and whose economic situation is especially perilous — are not counted by this measure.

As a result, it is also worth examining a third measure of unemployment, the Adjusted Insured Unemployment Rate (AIUR), which modifies the IUR so that it also incorporates a measurement of those who have exhausted their regular unemployment benefits.

- The AIUR has increased more sharply in the past two years than it did during a comparable two-year period in the early 1990s recession.
- The AIUR increased by 1.5 percentage points between June - August 2000 and June - August 2002.[3] During a comparable two-year period of the last recession, it rose by 1.1 percentage points. (See Figure on next page.)
- In 36 states, the AIUR has increased more in this recession than in the last recession.
- In this recession, AIURs have increased by two percentage points or more in five states: Massachusetts, Michigan, North Carolina, Oregon, and Washington. In the prior recession, only one state had an AIUR increase of two percentage points or more.
- AIURs have increased by one percentage point or more in 36 states in this recession, compared to 23 states in the prior recession.

[2] The IUR includes only unemployed workers receiving regular state-funded unemployment benefits. Some workers who are experienced — such as workers employed for a considerable number of years in part-time jobs — do not receive unemployment insurance benefits because of eligibility restrictions. In addition, just who is eligible for unemployment insurance varies widely among the states.

[3] The Adjusted Insured Unemployment Rate (AIUR) is the IUR rate for a month, with an adjustment to count as unemployed those individuals who exhausted their regular benefits in the prior three months. It does not include unemployed workers with unemployment spells of more than 39 weeks. This definition was used in the Emergency Unemployment Compensation (EUC) program in the early 1990s.



In summary, data from the unemployment insurance system that reflect the impact of the downturn on experienced workers show somewhat greater increases in unemployment in this recession than in the prior recession.

Workers Exhausting Unemployment Insurance Benefits

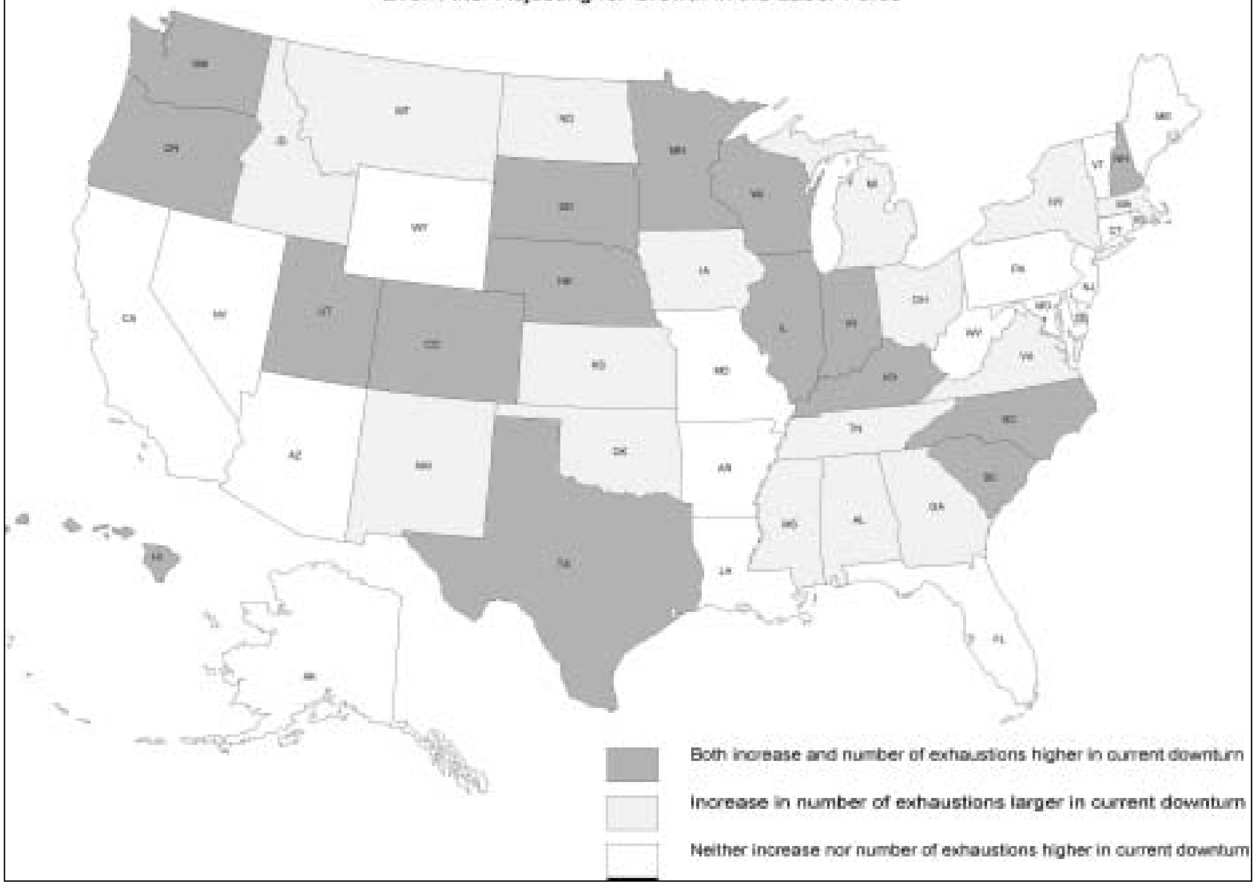
The importance of the recent unemployment increase is magnified by the recent increase in the number of workers that are exhausting their weeks of unemployment insurance benefits without finding a job. These workers have significant work experience but are unable to find a job before their benefits expire. The exhaustee data show that, in some respects, current labor market problems are worse than those in the early 1990s.

- The number of unemployed workers whose regular state-funded unemployment benefits ran out before they were able to find a job was 1,185,000 larger in the six-month period from February - July 2002 (the latest six-month period for which these data are available) than in the six-month period from February – July 2000. (Due to seasonal fluctuations, a six-month period is used here and is compared to the same six-month period from two years ago.) This 1,185,000 increase in the number of workers exhausting benefits substantially exceeds the increase in the comparable period of the recession of the early 1990s.[4]

- The total number of exhaustions also is greater in this recession than in the last: 2.3 million workers have exhausted their regular UI benefits over the past six months, as

[4] The number of unemployed workers who exhausted their regular UI benefits was 875,000 larger in the six-month period from February to July 1992 than in the six-month period from February to July 1990. This increase of 875,000 is substantially smaller than the increase of 1,185,000 in the number of exhaustees between February – July 2000 and February – July 2002.

Thirty-three States Have Experienced Greater Increases in Exhaustions of Regular UI Benefits in this Downturn than in the Previous Recession, Even After Adjusting for Growth in the Labor Force



compared to 2.0 million for a six-month period at a comparable point in the last recession.[5] Nationally, the number of exhaustions has doubled in the past two years.

- Data for each state on the number of exhaustions during the past six months are shown in the attached table. The number of exhaustions by state in the comparable six-month period of 2000 also is shown, as is the increase by state in the number of exhaustions between the February - July 2000 period and the February - July 2002 period. The table also provides state-by-state data on the increase in exhaustions during a comparable period in the recession of the early 1990s.

  For example, in Alabama, 24,811 workers exhausted their regular state-funded benefits during the February – July 2002 period. This is 11,289 more than the number of workers who exhausted their regular benefits during February – July 2000. By contrast, the increase in the number of workers exhausting their benefits between February – July 2000 and February – July 2002 was 7,701. Thus, the increase in the number of exhaustees in Alabama between February – July 2000 and

[5] As a percentage of the covered labor force, the number of exhaustions was similar to, but slightly lower, in the past six months than in the comparable six months of the last recession**.**

February – July 2002 was 47 percent greater than the increase in the number of exhaustees over the comparable two-year period in the previous recession.

- In 14 states, the increase in the number of exhaustions over the past two years was at least twice as large as the increase in the number of exhaustions over the comparable two-year period of the previous recession. These states include Colorado, Indiana, Kentucky, Massachusetts, Michigan, Minnesota, Nebraska, New Hampshire, North Carolina, North Dakota, South Dakota, Texas, Utah, and Wisconsin.

To be sure, the size of the labor force has grown since the early 1990s, so the increase in the number of exhaustees partly reflects the increase in the number of workers. But even after adjusting for changes in the size of the labor force, the increase in the number of workers exhausting regular, state-funded unemployment benefits is greater in this recession than it was in the previous recession.

After adjusting for changes in the size of the labor force, 32 states and the District of Columbia have experienced greater increases in the number of unemployed workers exhausting their regular benefits during the current downturn than during the prior recession.[6] In 16 of these states, both the *increase* in the number of exhaustions and the *number of exhaustions itself* are larger in the current downturn, even after adjusting for changes in the size of the labor force, than in the previous recession.

The August Unemployment Data

The recent decline in the unemployment rate, from 5.9 percent in July to 5.7 percent in August, received attention as a positive sign for the labor market and the economy. While any signs of improvement in the labor market constitute good news, one should be hesitant about making too much of the August data, particularly in the context of assessing whether the unemployment insurance program needs strengthening.

- A one-month change of 0.2 percentage points does not make a trend. Several more months of similar data, or a more substantial drop in the rate, are needed before it would become clear that the labor market is improving. As BLS itself noted: “Both the unemployment rate, 5.7 percent, and the numbers of unemployed persons, 8.1 million, were *little changed* over the month” (emphasis added).[7]

- The August unemployment rate of 5.7 percent is the same as the unemployment rate in March, when Congress created the TEUC program to address the rise in unemployment during the recession.

- The August labor market data included a much less encouraging figure that did not make the headlines. “Non-farm payroll employment” — generally considered to be the best measure of the number of jobs in the economy — increased by only 39,000,

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[6] The “covered labor force” is all employees for whom UI taxes are paid. The UI system covers 97 percent of all wage and salary workers.

[7] “The Employment Situation: August 2002,” U.S. Department of Labor, September 6, 2002.

to 130.8 million. This is a barely perceptible increase in the number of jobs and is more indicative of a stagnant labor market than of a growing labor market.

- The proportion of the labor force that consists of people who lose their jobs involuntarily — the population that the unemployment insurance program is primarily designed to serve — failed to decline at all in August.

- Many economists predict that unemployment will increase in subsequent months. Just a few weeks ago, CBO predicted that unemployment will remain near 6 percent until the second half of next year.

Conclusion

The current recession is at least as severe as the last one in terms of the number of experienced workers that are becoming unemployed, and is more severe in terms of the increase in the number of workers that are running out of regular unemployment benefits before they are able to find a job. Yet the Temporary Emergency Unemployment Compensation (TEUC) program established in the March stimulus legislation is considerably less generous than similar legislation enacted during the early 1990s recession. The current legislation is scheduled to expire at the end of 2002 and thus would be in place for just nine and one half months, while the earlier program lasted 30 months. In addition, in virtually all states, the current program provides fewer weeks of federal UI benefits to unemployed workers whose regular unemployment benefits have run out than were provided in the early 1990s recession.

In a separate analysis, the Center on Budget and Policy Priorities estimated that by the end of December 2002, approximately 2.2 million workers will have exhausted their TEUC benefits before finding work. This substantially exceeds the 1.4 million workers who exhausted their temporary federal benefits before finding work in a comparable period of the early 1990s recession.[8] When these facts are examined in combination, the case for strengthening and extending the current TEUC program is strong.

[8] Wendell Primus and Jessica Goldberg, Number *of Workers Exhausting Federal Unemployment Insurance Benefits Will Reach an Estimated 1.5 Million by the End of September and Exceed Levels in the Last Recession*, Center on Budget and Policy Priorities, September, 2002.

Table 1
Comparison of Number — and Increase in the Number — of Unemployed Workers Exhausting Their Regular UI Benefits in This Recession and the Prior Recession

	Number of Exhaustions		Increase in Exhaustions	
	February-July 2000	**February-July 2002**	**Between Feb - July 2000 and Feb- July 2002**	**Between Feb - July 1990 and Feb- July 1992**
Alabama	13,522	24,811	11,289	7,701
Alaska	9,319	11,212	1,893	3,772
Arizona	11,169	23,909	12,740	9,492
Arkansas	11,959	22,346	10,387	9,221
California	196,454	331,345	134,891	170,464
Colorado	10,392	32,146	21,754	5,964
Connecticut	12,464	27,274	14,810	18,286
Delaware	2,453	4,714	2,261	2,794
DC	4,141	9,156	5,015	4,376
Florida	38,832	87,680	48,848	60,038
Georgia	19,310	57,284	37,974	26,519
Hawaii	3,661	7,255	3,594	3,426
Idaho	6,747	12,243	5,496	3,830
Illinois	45,547	104,891	59,344	35,402
Indiana	17,938	47,726	29,788	10,526
Iowa	8,148	17,620	9,472	6,684
Kansas	8,415	16,030	7,615	4,236
Kentucky	9,052	20,268	11,216	4,485
Louisiana	10,956	17,572	6,616	6,375
Maine	6,173	7,040	867	8,103
Maryland	13,617	23,983	10,366	14,384
Massachusetts	28,434	70,247	41,813	13,845
Michigan	45,081	92,523	47,442	23,357
Minnesota	14,125	37,228	23,103	5,126
Mississippi	7,812	14,809	6,997	4,533
Missouri	19,004	37,034	18,030	15,198
Montana	4,167	5,936	1,769	1,343
Nebraska	4,066	9,457	5,391	2,248
Nevada	11,006	22,984	11,978	8,588
New Hampshire	211	4,565	4,354	1,437
New Jersey	57,138	103,141	46,003	50,117
New Mexico	4,619	8,176	3,557	2,010
New York	89,381	192,570	103,189	81,812
North Carolina	22,321	70,222	47,901	18,466
North Dakota	2,655	3,599	944	302
Ohio	24,163	62,664	38,501	26,702
Oklahoma	5,686	14,059	8,373	5,465
Oregon	19,188	40,693	21,505	15,194
Pennsylvania	47,826	100,322	52,496	47,276
Puerto Rico	28,871	32,547	3,676	8,844
Rhode Island	6,747	9,710	2,963	6,350
South Carolina	10,941	31,917	20,976	13,320
South Dakota	346	1,004	658	54
Tennessee	22,321	46,642	24,321	12,999
Texas	83,863	192,695	108,832	44,555
Utah	5,979	14,800	8,821	2,865
Vermont	1,226	3,025	1,799	2,135
Virginia	11,562	34,393	22,831	17,184
Virgin Islands	241	444	203	436
Washington	31,062	58,069	27,007	14,979
West Virginia	4,468	6,154	1,686	4,233
Wisconsin	20,212	51,632	31,420	6,505
Wyoming	1,494	1,877	383	935
Total	**1,096,485**	**2,281,643**	**1,185,158**	**874,491**

Source: U.S. Department of Labor