

Understanding the Unemployment Rate during the COVID-19 Pandemic

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The unemployment rate is a vital tool used to describe the labor market. Monitoring the unemployment rate is essential as the country works to combat COVID-19 and recover from pandemic-related job losses. The most common way of describing the labor market is with the official unemployment rate; however, further context from other measures of labor underutilization provides a more in-depth interpretation. Monitoring a wide range of labor market data is crucial, as many people have different experiences and no one statistic captures all of them. Exploring alternative statistics helps to better understand the labor market impacts of COVID-19 and the recovery so far.

The Unemployment Rate and Montana's experience with COVID-19

The official unemployment rate measures the relative ease or difficulty that unemployed workers have finding jobs by dividing the number of unemployed workers by the total labor force. It provides insight on how hard it is for people looking for work to find a job. Montana's unemployment rate since

LABOR FORCE DEFINITIONS

Labor Force:

All workers who are either employed and unemployed. Only includes civilian, noninstitutionalized workers.

Employed:

People who have jobs and are working. These workers can be full-time, part-time, self-employed, and payroll workers.

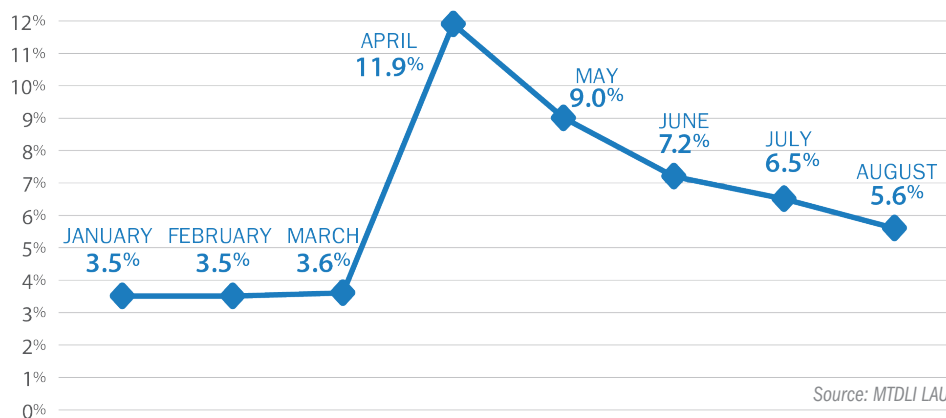
Unemployed:

People who are not working, but are available for work and have made specific efforts to find a job in the past four weeks. Includes those expecting to be called back to their job.

Unemployment Rate:

Unemployed divided by the labor force.

FIGURE 1
Montana Unemployment Rate - 2020



Source: MTDLI LAUS

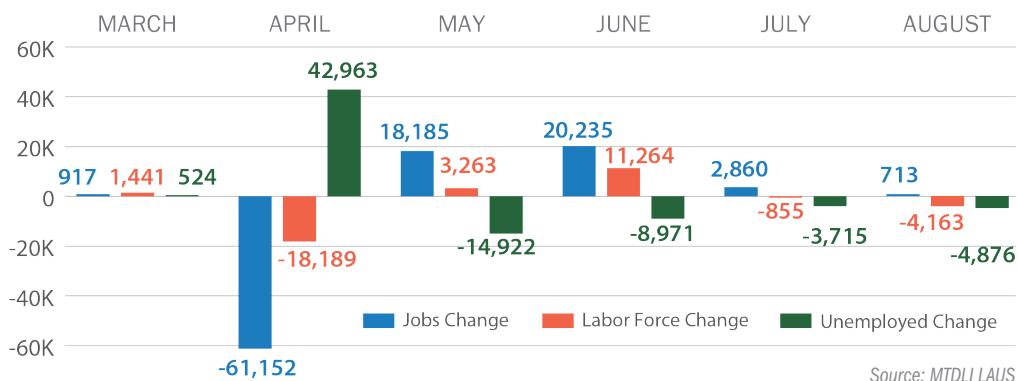
the start of 2020 is shown in **Figure 1**. The effects of COVID-19 and the response to slow its spread began to impact the unemployment rate in March. By April, the unemployment rate rose to a peak of 11.9%. Over the following months, the rate declined considerably to its current position at 5.6% in August. The unemployment rate shows how a large proportion of layoffs were temporary and many workers returned to their jobs as restrictions eased.

Movement in the unemployment rate is affected by three changing factors - the labor force, employment, and unemployment. **Figure 2** shows the monthly change in the labor force, employment, and unemployment from March through August 2020. In April, employment fell by 61,152, and unemployment rose by 42,963. The discrepancy between the loss of jobs and the increase in unemployment is because 18,189 workers left the labor force. Three factors contributed to labor force exits. School and day care closures forced some working parents to drop out of the labor force to care for their children, some workers at high mortality risk for COVID-19 stopped working, and the stay-at-home order.

Had all workers who lost their jobs stayed in the labor force in April, the unemployment rate would have been closer to 15%. In May and June, many workers returned to the labor force as the stay-at-home order was lifted, and businesses began to reopen. By the end of August, the labor force's cumulative net loss was 8,700 workers compared to the pre-pandemic peak. The labor force declined in July and August, likely due to two factors. First, increasing COVID-19 case counts during the second wave of infection likely deterred some workers from working. Second, the \$600 additional benefit payment from the CARES Act ended in July, decreasing the incentive for individuals to remain unemployed and actively seeking work.

Beyond the economic factors that move the unemployment rate, methodological issues can also play a role. The Current Population Survey (CPS) surveys people around the U.S. in the week that includes the 12th of the month to ask about their employment status.¹ In Montana, closures and layoffs due to the pandemic began at the end of March—after the survey week. As a result, most of the employment impacts in March were

FIGURE 2
Montana Labor Force, Employment, & Unemployment
 Monthly Change, March-August 2020



¹ The Current Population survey, administered by the Census Bureau, is one of the survey components used in calculating the monthly unemployment rates

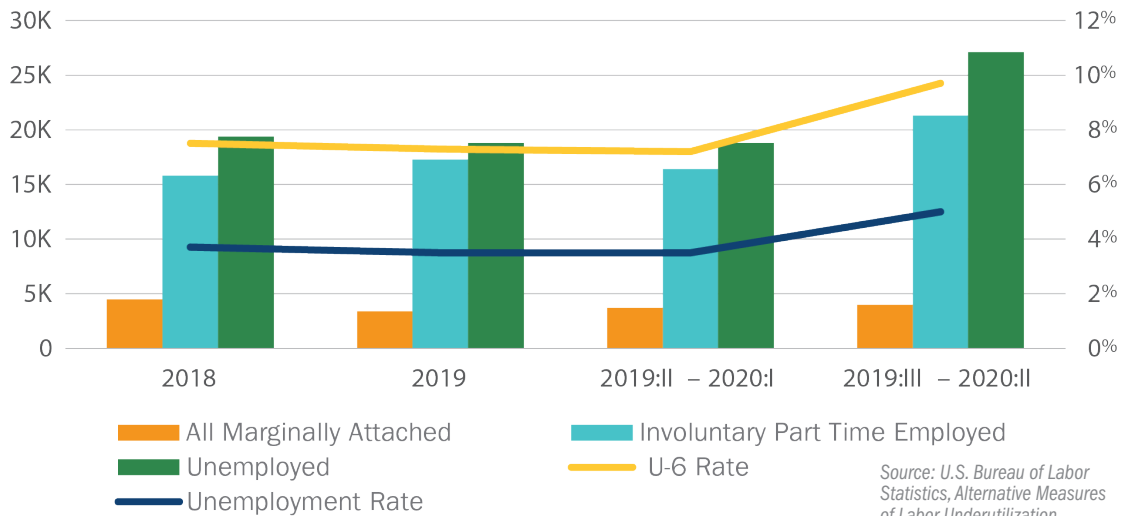
not captured in the unemployment rate for that month. The nature of layoffs and job losses in the spring also posed a challenge for determining employment status, including how to define the work status of people on temporary layoffs or temporarily staying home from work without pay due to public health orders or health reasons. Many people were classified as employed but not at work, rather than unemployed and on temporary layoff. In April, this misclassification caused an underestimation of the unemployment rate, with the BLS estimating that the national unemployment rate was 4.8% higher than published.² However, these issues have been addressed, and the issue has been mostly eliminated in more recent releases.

Impacts on the Employed – Full and Part-Time Schedules

In recent months, the increases in Montana’s unemployment rate were dampened by workers leaving labor force. The unemployment rate also does not provide information about workers who involuntarily had their work hours reduced due to the pandemic. One alternative measure of labor underutilization, the U-6, provides more context by including workers marginally attached to the labor market and counting workers involuntarily working part-time. The U-6 is calculated by summing all unemployed, marginally attached, and



FIGURE 3
Montana U-6 Underutilization Rate



² <https://www.bls.gov/covid19/effects-of-covid-19-pandemic-and-response-on-the-employment-situation-news-release.htm>

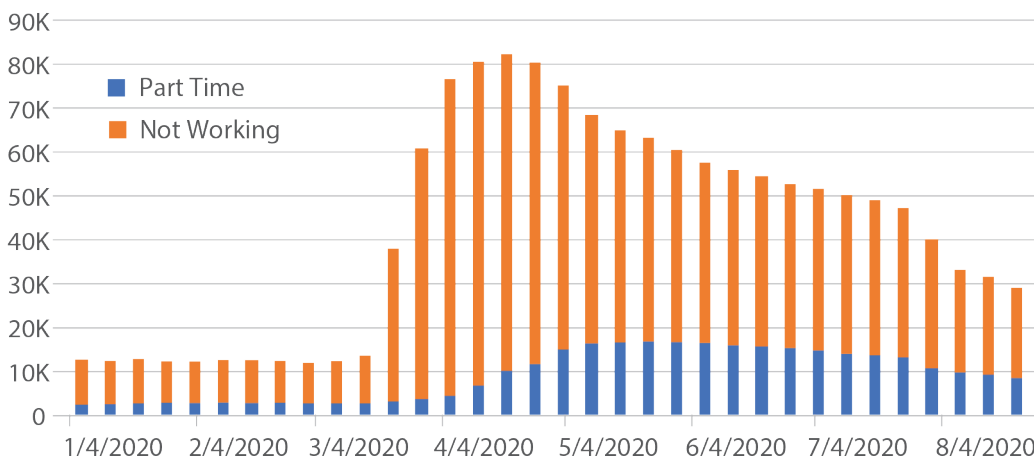
involuntary part-time workers and dividing that by the total number of people in or marginally attached to the labor force. By accounting for other types of workers who desire more work but cannot obtain it, the U-6 provides a broad measure of labor underutilization. **Figure 3** shows Montana's recent U-6 unemployment rate and its components.³

In 2018 and 2019, the U-6 rate was 3.8 percentage points higher than the official unemployment rate because of the inclusion of marginally attached and involuntary part-time workers. The U-6 for Montana is published as a rolling 4-quarter average and is, therefore, less volatile than the official monthly unemployment rate. However, Montana's labor market changes in the second quarter of 2020 were large enough to pull the U-6 up to 9.7% from 7.2%. The adjustment after moving the data forward one quarter emphasizes the significant changes in the second quarter of 2020. Increasing unemployment was a piece of that growth, with the unemployment rate rising 1.5 percentage points for the comparable

four-quarters. The U-6 increased by 2.5 percentage points, greater than the change in the unemployment rate, suggesting the availability of work decreased in ways not fully measured by the unemployment rate. The number of workers who are involuntarily part-time employed jumped by nearly 30% to 21,300. In contrast to the difference in part-time work, the number of marginally attached and discouraged workers grew only slightly.

In Montana, some workers who have shifted to part-time work for economic reasons can claim Unemployment Insurance (UI) to help recover a portion of their lost wages. Data from Montana's UI program published by the Montana Department of Labor & Industry show the portion of UI claimants who remained employed but still had adverse impacts on their earnings.⁴ **Figure 4** shows UI claims separated by part-time work status in 2020. During the initial shutdown in March and April, part-time workers were a smaller number of claimants. As the gradual reopening began in late May and June, businesses were

FIGURE 4
Work Status of UI Claimants



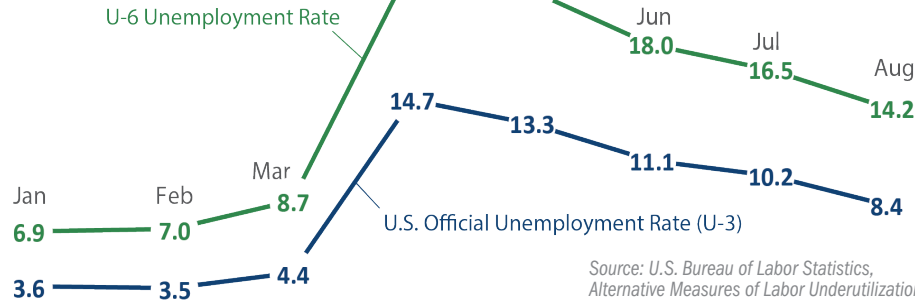
Source: MTDLI Research and Analysis Bureau

³ State level alternative measures of labor underutilization are produced quarterly and published as a rolling average of the most recent four quarters

⁴ <https://lmi.mt.gov/home/job-tracking>

FIGURE 5

US Unemployment Rate and U-6 - 2020



opening at reduced capacity, and many workers were only able to be on part-time schedules, leading to an increasing number of UI claimants with part-time earnings. The numbers of both unemployed and part-time employed claimants have declined going into August. Still, the number of part-time claimants remains around 9,000, further demonstrating that COVID-19 has impacted worker hours in addition to reducing total employment.

National Comparison

Like Montana, the U.S. unemployment rose the most in April, reaching a high of 14.7% before descending to 8.4% in August. Nationally, the U-6 followed a similar trend as it grew as high as 22.8% before declining to 14.2% in August. The U-6 in the U.S. remains double its pre-pandemic level. At the national level, the U-6 is published monthly and provides more recent data. While it is not specifically Montana data, it provides insight into the trends that could be occurring in Montana before state-specific data becomes available. Prior to March, the national U-6 was lower than Montana's. This suggests that Montana's U-6 will continue to rise as more timely state-specific data becomes available.

FIGURE 6

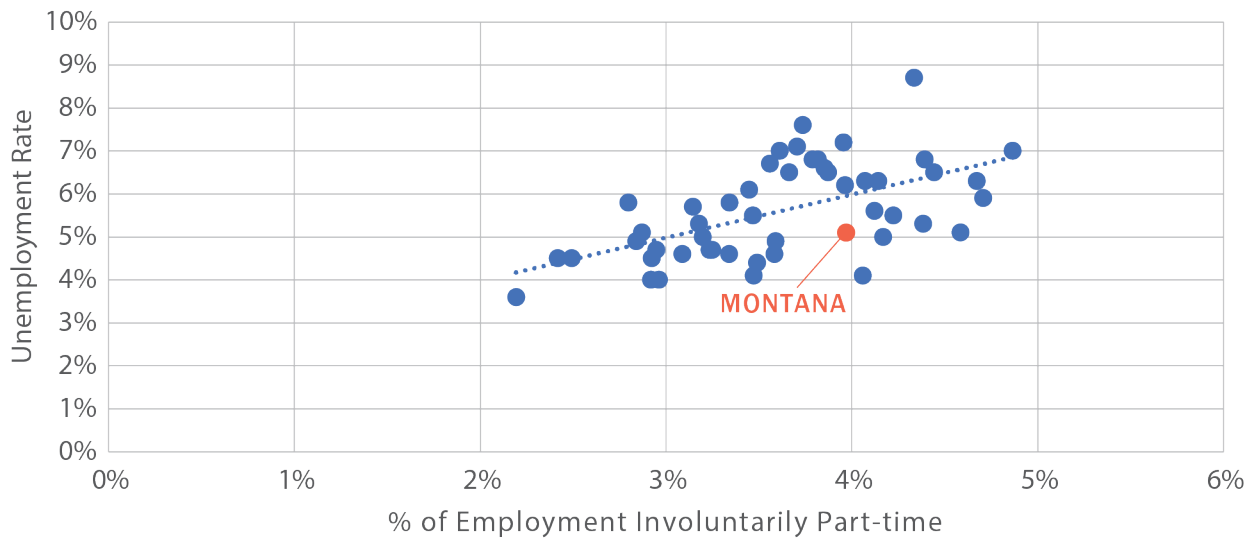
U-6 vs. Unemployment Rate by State 2019Q3-2020Q2

U-6 Rate			Unemployment Rate		
Rank	State	Level	Rank	State	Level
1	N. Dakota	6.4%	1	N. Dakota	3.6%
2	Utah	7.2%	2	Utah	4.0%
3	S. Dakota	7.4%	3	Nebraska	4.0%
4	Nebraska	7.5%	4	Idaho	4.1%
5	Alabama	7.6%	5	Maine	4.1%
23	Montana	9.7%	18	Montana	5.0%
46	Michigan	12.0%	46	California	7.0%
47	Mississippi	12.0%	47	Pennsylvania	7.1%
48	Alaska	12.2%	48	Mississippi	7.2%
49	California	12.4%	49	Michigan	7.6%
50	Nevada	13.4%	50	Nevada	8.7%

Source: U.S. Bureau of Labor Statistics, Alternative Measures of Labor Underutilization

The most recent data available shows Montana's U-6 rate is the 23rd lowest among states. Shown in **Figure 6**, this puts Montana around the middle. For the official unemployment rate, Montana sits slightly higher, ranking 18th. In 2019, Montana's U-6 rate ranked 32nd among states, suggesting

FIGURE 7
Unemployment Rate vs. Involuntary Part-Time Work, U.S. States



Source: U.S. Bureau of Labor Statistics, *Alternative Measures of Labor Underutilization*

that while COVID-19 has increased the share of workers who are marginally attached to the labor force or working part-time involuntarily, the increase was smaller than many other states. During good economic conditions, Montana’s U-6 rate is higher than the national average. Moving to the top half of states following the pandemic demonstrates Montana’s economic resilience.

In May, conditions in Montana allowed for a gradual reopening of businesses. However, reopening in a way that accommodates social

distancing does have a trade off and could be a part of why Montana has a slightly higher level of involuntary part-time workers relative to its unemployment rate. **Figure 7** shows involuntary part-time work’s share of total employment against the unemployment rate. Montana has some of the highest percentages of involuntary part-time work in the nation, yet is among the lower unemployment rates. The trade off between partial work and complete shutdown has been successful for Montana’s economy.

Conclusion

Business closures in the initial response to the COVID-19 pandemic pushed Montana’s unemployment rate up beyond the levels seen during the Great Recession. Unemployment rates have improved now that many temporary layoffs have ended, and some businesses have resumed hiring. However, there continue to be impacts unmeasured by the usual statistics. Thousands of workers have left the labor force, whether out of concern for their personal health or the need to stay home and care for family. Other workers have had hours reduced as businesses deal with a changing business climate, either due to people changing their consumer habits because of COVID-19 or a decline in disposable incomes for people who have lost jobs and been impacted by the recession. As unemployment rates decline, these remaining impacts will need to be addressed for Montana’s economy to return to its pre-pandemic heights.