

NEVADA'S ECONOMY

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MEASURING U.S. AND NEVADA UNEMPLOYMENT

Earlier this month, we learned the U.S. unemployment rate was a seasonally adjusted 7.4 percent in July. This July figure is the official unemployment rate, and it is sometimes known as the “U-3” rate. The U-3 unemployment rate is measured as the number of unemployed as a percent of the civilian labor force. To be considered part of the civilian labor force, one must either be working or actively seeking a job.

In contrast, the “U-6” rate, a much broader measure of U.S. unemployment, was a seasonally adjusted 14.0 percent in July. Sometimes called the “underemployment rate,” the U-6 rate includes several groups of people that the U-3 rate does not. It includes marginally attached workers— people who are no longer actively seeking work but have indicated they want a job and have looked for work during the past 12 months, and people who have given up on looking for work because they do not believe they will find jobs. It also includes people who want full-time work but are forced to accept part-time work for economic reasons. The figure is calculated as a percent of the civilian labor force, plus all persons marginally attached to the labor force.

MEASURING U.S. AND NEVADA UNEMPLOYMENT

By including marginally attached workers and those who have been forced to take part-time employment, the U-6 measure provides a more complete picture of the extent to which workers have been displaced by economic conditions. The principal drawback with the U-6 measure is that marginally attached workers and people who want full-time work but are forced to accept part-time work aren't as well measured as those who are actively seeking work. Hence, the resulting estimates can lack precision.

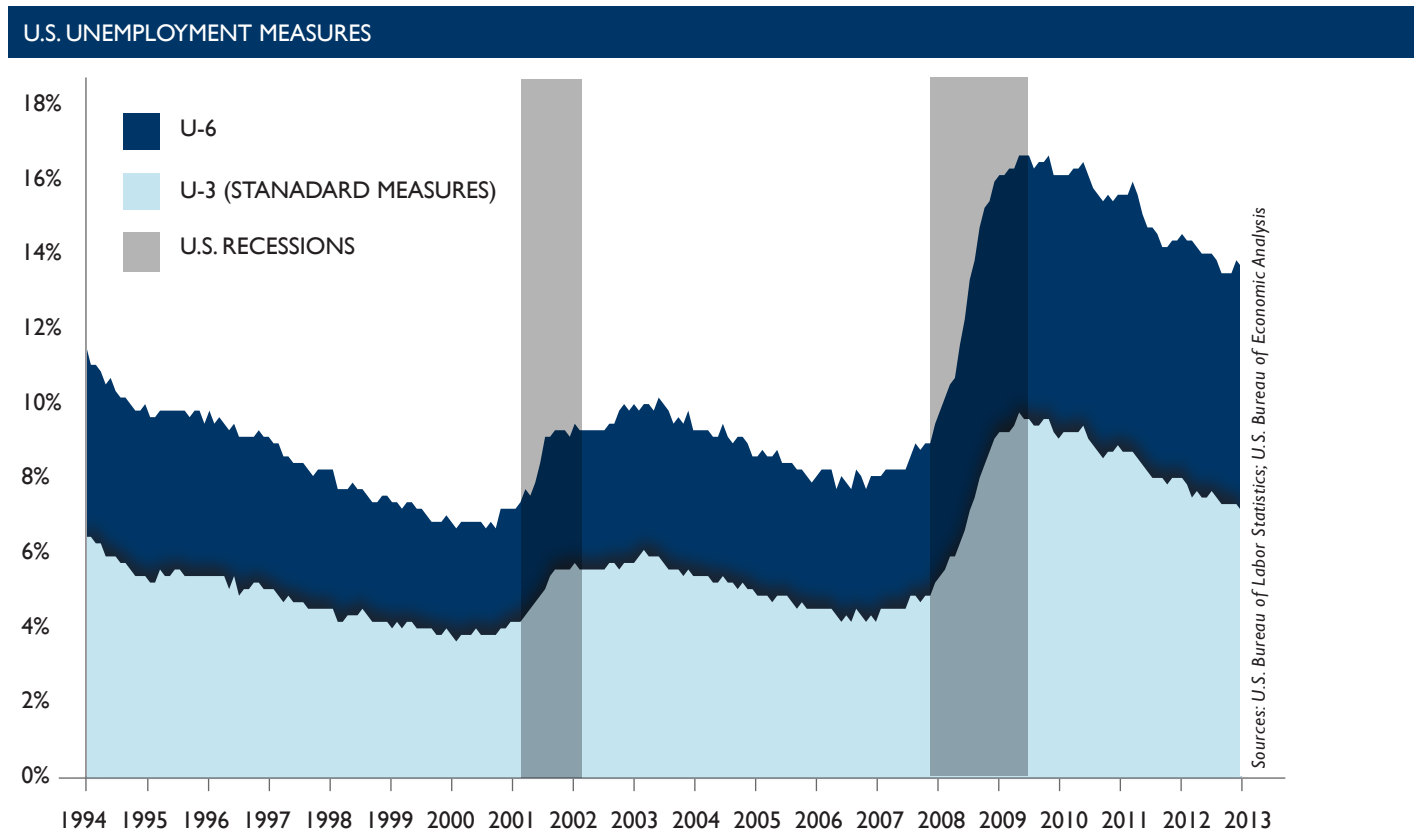
In contrast, the official unemployment rate is measured quite well. Its principal drawback is that it is an incomplete measure of the total number of people out of work.

U.S. UNEMPLOYMENT

As shown in Chart 1, the two measures of unemployment provide somewhat similar pictures of U.S. economic activity. Both measures began rising before the last two recessions. During the most recent recession, the standard U-3 measure increased by 5.6 percentage points to reach a high of 10.0 percent. Over the same period, the U-6 measure increased at a slightly slower rate, rising by 8.9 percentage points to reach a high of 17.1 percent.

During the recovery, the U-3 measure has declined by 2.6 percentage points to a figure of 7.4 percent. The U-6 measure has declined at a slower rate, falling by 3.1 percentage points to a figure of 14.0 percent.

Chart 1



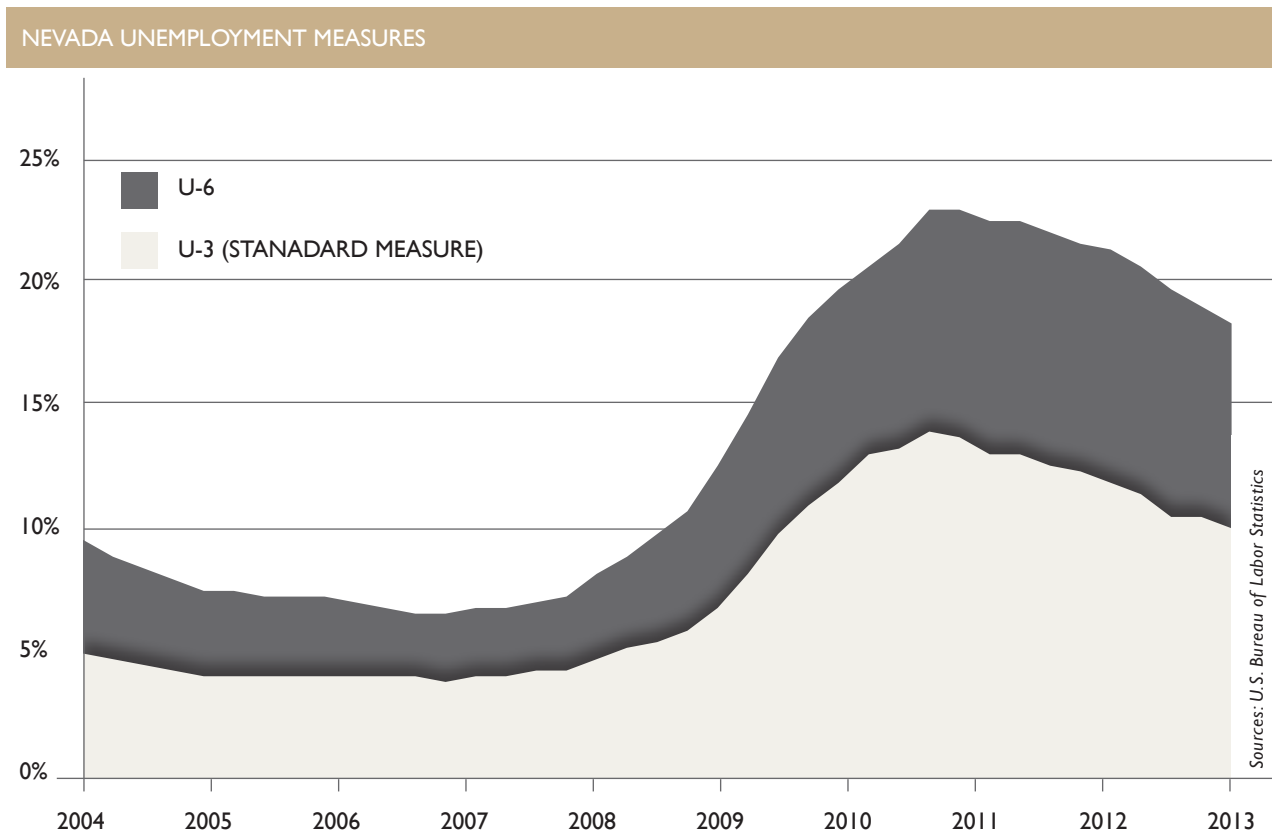
From the prerecession low, the U-6 measure shows the current U.S. unemployment rate as having increased by a somewhat greater percentage than the standard U-3 measure shows. The different experience with the two rates indicates the current U.S. U-3 unemployment rate is being held down, in part, by an increase in the number of workers who are marginally attached to the work force, or are who are working part-time but would prefer to work full-time. As the U.S. economy continues its recovery, further declines in the U-3 unemployment rate (that is frequently reported in the news) could be slowed a little as discouraged workers return to the labor force, and part-time workers transition to full-time work.

NEVADA UNEMPLOYMENT

As shown in Chart 2, the U-3 and U-6 measures of unemployment also provide somewhat similar pictures of the Nevada economy. (A small sample size means Nevada's figures are reported as four-quarter moving averages.¹) Both measures rose substantially in recent years. From a low of 4.1 in 2006, Nevada's standard U-3 measure increased by 10.3 percentage points, to reach a high of 14.4 percent. (Nevada's figures are four-quarter moving averages, which is necessitated by a small sample size.) From a low of 6.8 percent in 2006, Nevada's U-6 measure increased at a slightly slower rate, rising by 16.9 percentage points, to reach a high of 23.7 percent in first quarter 2011.



Chart 2



During the recovery, the U-3 measure has declined by 4.0 percentage points, to a figure of 10.4 percent in second quarter 2013.² The U-6 measure has declined at a slower rate, falling by 4.7 percentage points to a figure of 19.0 percent.

From the prerecession low, the U-6 measure shows the current Nevada unemployment rate as having increased by a somewhat greater percentage than the standard U-3 measure shows. The different experience with the two rates indicates the current Nevada

U-3 unemployment rate is being held down to some extent by an increase in the number of workers who are marginally attached to the work force or who would prefer to work full time. That finding suggests the Nevada unemployment rate could prove to be slow to fall as the state economy continues its recovery. Discouraged workers will return to the labor force and part-time workers will transition to full-time work.

¹The four-quarter moving averages yield higher U-3 rates for 2013 than is reported in the monthly U-3 series for Nevada, but these averages accurately capture the relationship between the U-3 and U-6 series.

²Monthly data show Nevada had a seasonally adjusted U-3 unemployment rate of 9.5 percent in July. We estimate the U-6 unemployment rate at about 18.1 percent.



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