News Release

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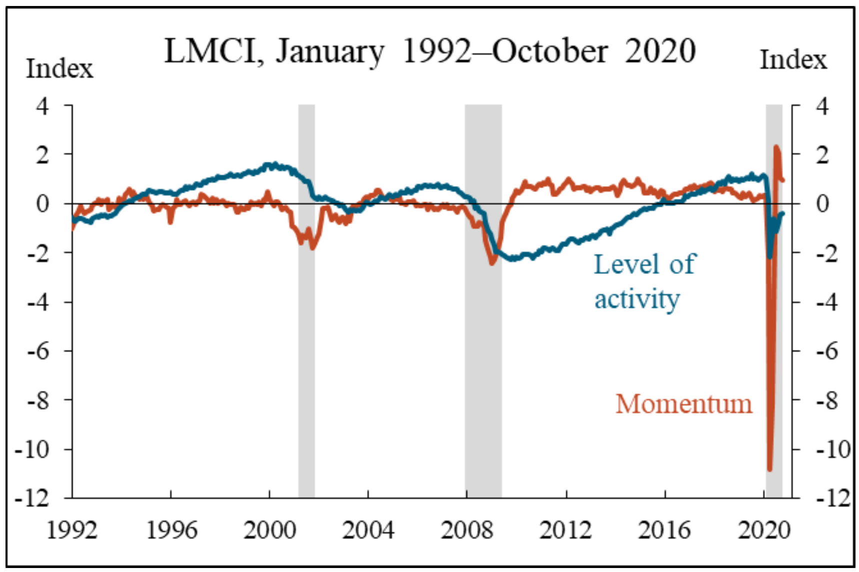
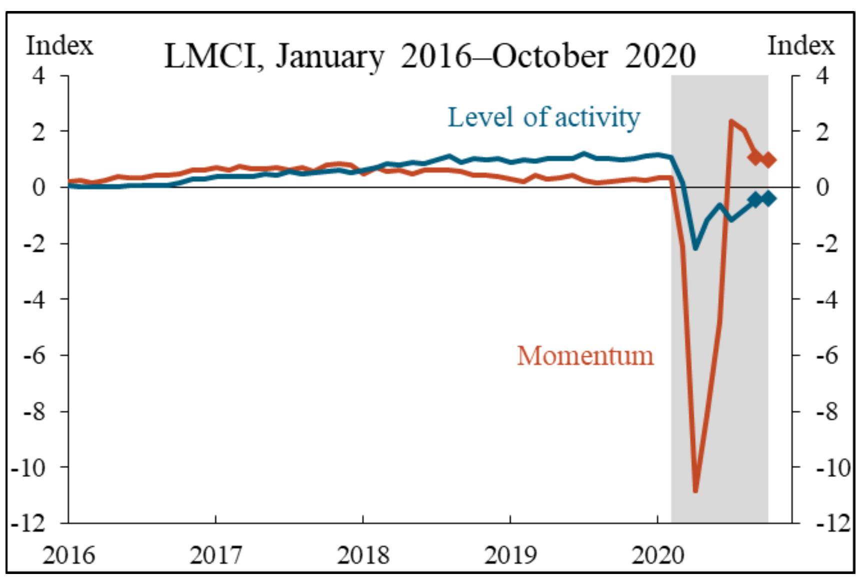
The KC Fed LMCI suggests the level of activity increased modestly in October while momentum decelerated moderately.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity increased modestly in October while momentum decelerated moderately. The level of activity indicator increased by 0.05 in October from −0.46 to −0.41, suggesting current activity has improved but remains below historical norms. Meanwhile, the momentum indicator decreased by 0.10 from 1.05 to 0.95, suggesting labor market momentum has weakened slightly from the historical highs of the last few months but remains strong.



LMCI, January 1992–October 2020

These readings likely do not fully describe the state of the labor market at the end of October, 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 October 11 through October 17. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for September. Therefore, labor market developments in the latter half of October will likely show up in the November 2020 LMCI readings.



LMCI, January 2016–October 2020

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 1.78 over the last six months. Overall, 16 variables made a positive contribution to the change in the activity indicator over the last six months, and eight variables made a negative contribution. The largest positive contributor to the level of activity was the unemployment rate (U3). This series has dropped to 6.9 percent from its cyclical high in April of 14.7 percent. The largest negative contributor to the level of activity indicator was the three-month percent change in average hourly earnings. However, this signal is likely misleading. Average hourly earnings rose dramatically in April largely due to a change in the composition of the workforce as a disproportionate number of low-wage workers lost their jobs. Since April, low-wage workers have returned to employment, reversing this artificial boost and bringing earnings growth more in line with historical norms. However, since the LMCI interprets the deceleration in earnings growth as a deterioration in economic conditions, the gains in the level of activity over the last six months are likely understated.

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 October 2020**
Unemployment rate (U3)	Temporary help employment
Broad unemployment rate (U6)	Aggregate weekly hours
Working part time for economic reasons	Private nonfarm payroll employment
Hires rate (JOLTS)	Expected job availability (University of Michigan)
Job flows from U to E	Unemployed 27 or more weeks

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 October 2020. Overall, 14 variables made a positive contribution to momentum in October, and 10 variables made a negative contribution. The momentum indicator was 0.95 in October, where the largest positive contributor was the three-month percent change in temporary help employment. Temporary help employment increased by 9.8 percent from July to October. However, this increase is smaller than the 11.1 percent increase in the series from June to September and thereby contributed to the momentum indicator's decline. The variable that made the largest negative contribution to momentum was job losers as a percent of the unemployed. Job losers made up 70 percent of the unemployed in October. While this reading is below the April reading of 89.4 percent, it is still well above pre-pandemic levels, placing a drag on momentum.