News Release
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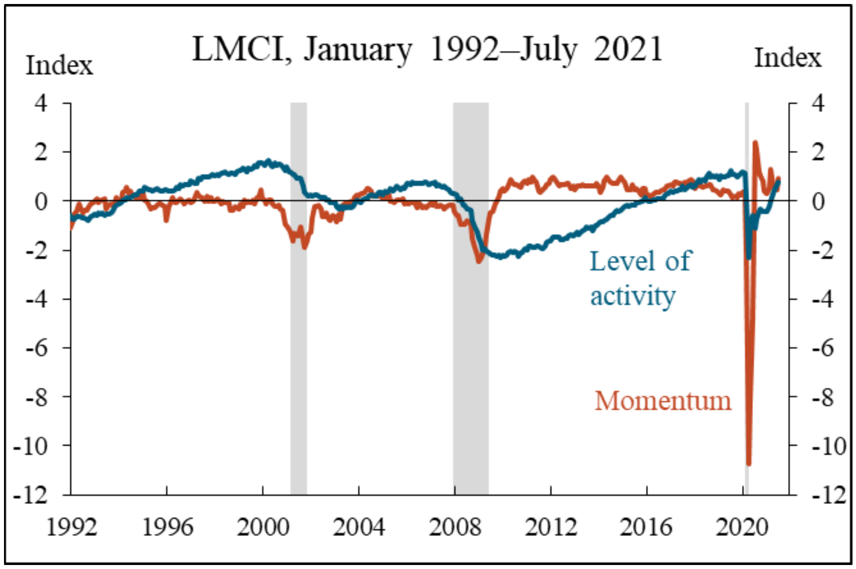
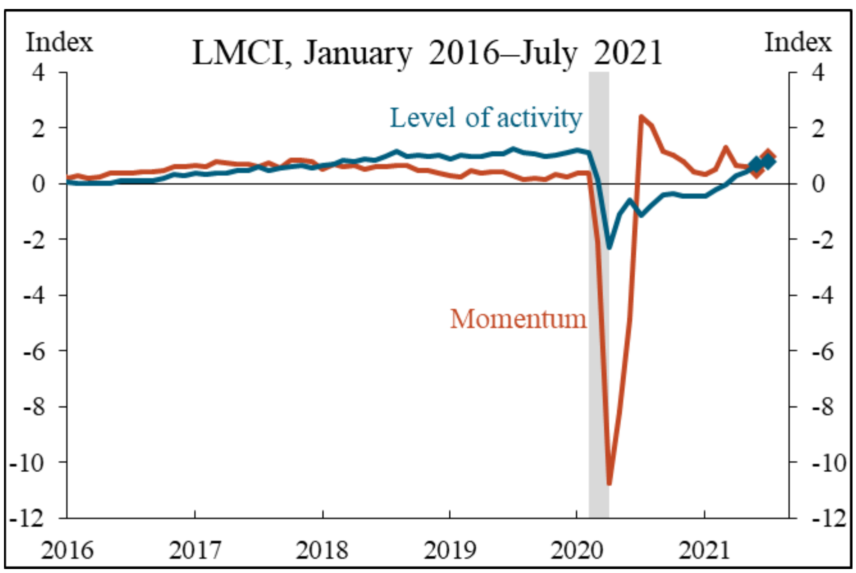
The KC Fed LMCI suggests the level of activity continued to increase in July while momentum accelerated.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity continued to increase in July while momentum accelerated. The level of activity indicator increased by 0.07 in July from 0.68 to 0.75. This recent increase builds on a five-month period of especially strong growth, with the level of activity increasing 1.18 since its January reading of −0.43. Meanwhile, the momentum indicator increased by 0.51 in July from 0.43 to 0.94. Both indicators remained above their longer-run averages in July.





These readings likely do not fully describe the state of the labor market at the end of July, as many of the input data series reflect conditions early in the month. In particular, the series do not include the effects of the surge in COVID-19 cases or the tightening of some states' COVID-19 restrictions that occurred later in the month. For example, data from the Bureau of Labor Statistics' Household Survey are from the reference period of July 11 through July 17. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for June. Therefore, labor market developments in the latter half of July, including the labor market response to recent COVID-19 developments, will likely show up in the August 2021 LMCI readings.

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 1.18 since January. Overall, 20 variables made a positive contribution to the change in the activity indicator over the last six months. Meanwhile, only four variables made a negative contribution—a similar number to last month but still historically low. The largest positive contributor to the level of activity was the Conference Board's job availability index. The index increased by 46.2 over the last six months from 98.2 in January to 144.4 in July, the highest reading in more than two decades. Index values greater than 100 indicate that more people believe jobs are plentiful than believe they are hard to get. The largest negative contributor to the level of activity was the University of Michigan's expected job availability index. The index actually increased by 33 over the last six months from 5 in January to 38 in July, indicating more people believe unemployment will decrease in the next year than believe it will increase. An increase in this index is negatively associated with the level of activity (but positively associated with momentum) because expected job availability is often highest early in a recovery, when the labor market has room for improvement, and declines as labor market activity reaches its peak. That said, the index's negative contribution to the level activity was quantitatively very modest, suggesting the signal for activity from this particular indicator is weak.

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 July 2021**
Job availability index (Conference Board)	Expected job availability (U of Michigan)
Job leavers	Unemployed 27 or more weeks
Percent of firms with positions not able to fill right now (NFIB)	Private nonfarm payroll employment
Percent of firms planning to increase employment (NFIB)	Announced job cuts (Challenger-Gray-Christmas)
Job losers	Aggregate weekly hours

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 July 2021. The momentum indicator was 0.94 in July. Overall, 18 variables made a positive contribution to momentum in July, and six variables made a negative contribution. The largest positive contributor was the University of Michigan's expected job availability index. The index came in at 38 in July, down from a series high of 41 in June. In the July survey, 52 percent of respondents believed that unemployment would decrease in the next year, while 33 percent expected it would stay the same and 14 percent believed it would increase. The largest negative contributor to momentum was the three-month percent change in average hourly earnings. Average hourly earnings rose by 1.5 percent from April to July, well above the series average of 0.8 percent. Higher wage growth is negatively associated with momentum because it is often associated with slower employment growth in subsequent months. While average hourly earnings increased from April to July in all major industries, wage growth was particularly strong in the leisure and hospitality sector, with wages rising 5.1 percent over the last three months. To the extent that the recent rise in average hourly earnings reflects one-time signing bonuses, this negative contribution may be transitory, and labor market momentum may thereby strengthen in the coming months.