NEWS RELEASE

FEDERAL RESERVE BANK of KANSAS CITY

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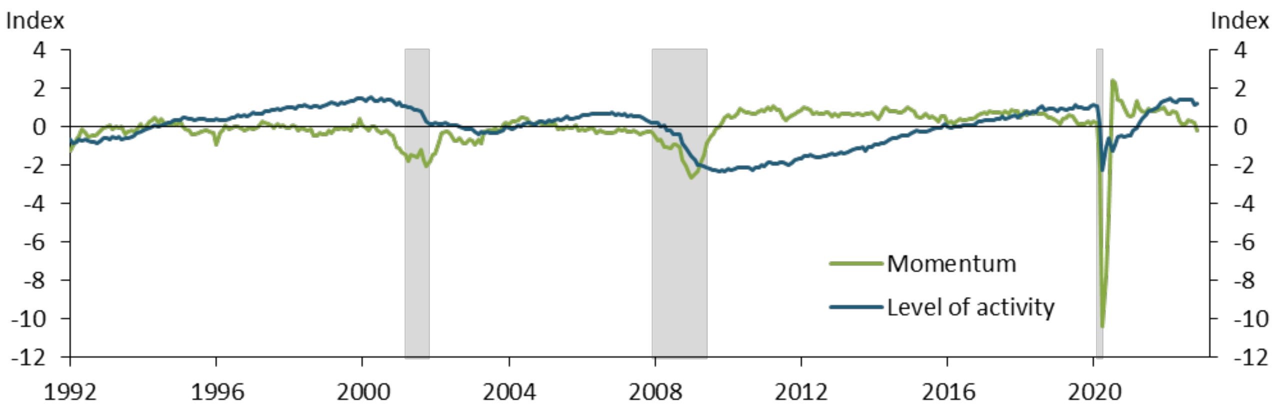
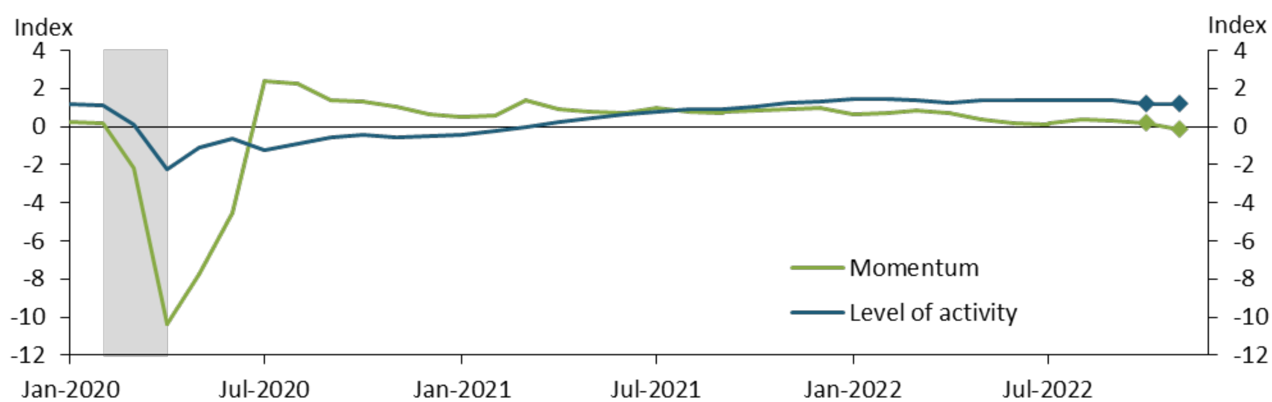
The KC Fed LMCI suggests the level of activity was little changed while momentum decelerated in November.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity was little changed while momentum decelerated in November. The level of activity indicator was little changed in November at 1.18. Meanwhile, the momentum indicator declined by 0.36, from 0.19 to −0.17. As seen in the chart below, the momentum indicator dropped below its longer-run average in November, but the level of activity indicator remained high.

LMCI January 1992–November 2022



LMCI January 2020–November 2022



These readings likely do not fully describe the state of the labor market at the end of November, 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 November 6 through November 12. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for October. Therefore, labor market developments in the latter half of November will likely show up in the December 2022 LMCI readings.

The level of activity indicator has decreased by 0.22 since May. However, the level of activity remains more than one standard deviation above its historical norm. The first column of the table below shows the five labor market variables that made the largest contributions to the 0.22 decrease. Overall, 16 variables made a negative contribution to the change in the activity indicator over the last six months, and eight variables made a positive contribution. The largest negative contributor to the level of activity was the percent of firms planning to increase employment (NFIB). In November, 18 percent of firms surveyed by the NFIB were planning to increase employment in the next three months compared with 26 percent in May. The largest positive contributor to the level of activity was job leavers as a percent of total unemployed. In November, job leavers made up 13.9 percent of the unemployed compared with 12.8 percent in May. This means that an increased percentage of unemployed people left their jobs voluntarily rather than being fired, consistent with a tight labor market favoring workers. However, the downward trend in the NFIB series suggests there may be fewer job openings in the months ahead.

Largest Contributions to the LMCI

Contributions to the decrease in the *level of activity* indicator over the last six months	**Negative contributions to the *momentum* indicator in November 2022**
Percent of firms planning to increase employment (NFIB)	Average hourly earnings
Quits rate	Temporary help employment
Unemployment forecast (Blue Chip)	Expected job availability (U of Michigan)
Percent of firms with positions not able to fill right now (NFIB)	Job flows from U to E
Hires rate	Manufacturing employment index (ISM)

Note: Contributions are ordered from largest in absolute value to smallest.

The second column of the table shows the five variables that made the largest negative contributions to the momentum indicator in November 2022. Overall, 12 variables made a negative contribution to momentum in November, and 12 variables made a positive contribution. As in prior months, the largest negative contributor to momentum was the three-month percent change in average hourly earnings for production and nonsupervisory employees. Historically, higher wage growth is negatively correlated with the LMCI's momentum indicator because higher wage growth is often associated with slower employment growth in subsequent months.

As highlighted previously, momentum turned negative (that is, fell below its longer-run average) in November. This is noteworthy as it is the first time since late 2009 (other than briefly during the pandemic) in which momentum has been negative. Additionally, sustained readings of momentum below zero preceded both the 2001 and 2007 recessions. The largest contributor to this change in momentum was announced job cuts (Challenger-Gray-Christmas), which more than doubled (from 21 to 47 job cuts per 100,000 members of the labor force) between October and November and have now surpassed pre-pandemic levels (44 job cuts per 100,000 members of the labor force).