

US Macroeconomics

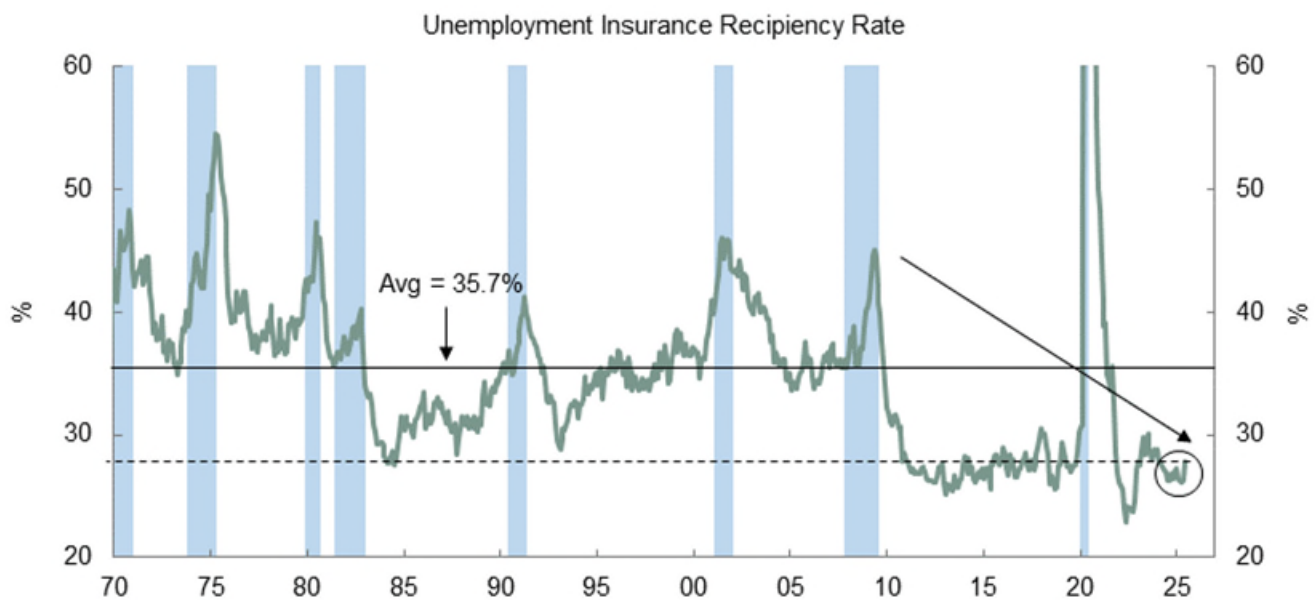
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Unreliable Claims: Why UI Data May be Missing the Mark

Although continuing jobless claims are slowly *trending* higher, the *level* of initial claims still sits near historic lows. The range of available data suggests that employment is strong in level terms but is decelerating in terms of its growth rate. Behind today's ultra-low initial jobless claims figure of 217,000 however, is a series of factors that may be chilling the use of unemployment insurance (UI) that we detail here. As a result, these data may not be entirely faithful to the underlying labor market picture.

To receive unemployment benefits, applicants need to be eligible across a few parameters. First, states individually determine eligibility, and this can sometimes lead to widely varying eligibility rates and reciprocity. **UI reciprocity has collapsed since 2009 and is around record lows.** This is shown below, which charts the percentage of those receiving benefits divided by the number of unemployed persons (known as the "UI reciprocity rate"). This data series is one indication to us that **states may be tightening requirements leading to fewer claimants.**



Source: Department of Labor, BLS, Haver, SMBC Nikko

Second, and on a closely related note, **benefits received under these programs may be too low** when compared to the benefits of working part-time or freelancing. Put another way, 'why bother filing if UI benefits are so low?' Some astute empirical [analysis](#) supports this thesis. If this were the case, one should expect to see a cyclical rise in the number of people "working part time for economic reasons", and indeed this is occurring.



Source: BLS, Haver, SMBC Nikko

Third, new entrants into the labor market are not allowed to collect benefits. This is particularly important because unemployment amongst young, newly graduated workers is appreciably higher than the overall national rate. These new labor market entrants may not be finding jobs or collecting benefits and are thus not counted in the jobless claims data. Yet, these folks would, be considered ‘unemployed’ by any nontechnical definition.

Lastly, some states have provisions either limiting or outright disqualifying applicants from collecting benefits if they have received severance. This mainly applies to “white-collar” occupations and may be a secondary factor contributing to the artificially low claims figures.

Another argument some analysts have made in the past is that benefits have been used-up because over 23 million people were collecting unemployment insurance during the pandemic (week ending May 8, 2020), and thus cannot collect again. Although this is possible, we are less convinced of this argument because states generally allow workers to re-file for benefits after working for a period of time.

Among the factors listed, suspected changes to eligibility and/or to the size of benefits, in our view, offer the most compelling reasons for why jobless claims data may no longer be as reliable as they once were. This is especially the case when also considering current cyclical dynamics, where elevated rates of unemployment for younger workers often goes undetected by these high-frequency jobless claims data but are captured in the BLS’ comprehensive establishment survey. The establishment survey suggests that although the labor market is strong in level terms, it is slowing, best demonstrated by the trend in private payrolls and the narrowing breadth of job growth.

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