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KENTUCKY

LABOR FORCE UPDATE

Why Did Kentucky's Unemployment Rate Fall?

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The COVID-19 pandemic significantly disrupted economic activity in the United States and Kentucky. Social distancing orders designed to reduce the spread of the virus contributed to numerous businesses reducing their operations and employment. These reductions were reflected in the state's unemployment rate, which jumped from 4.2 percent in February to 16.6 percent in April (Figure 1). Despite the on-going pandemic, Kentucky's unemployment rate then declined quickly and was back down to 4.4 percent by June – the lowest rate in the nation and similar to rates before the pandemic.

Kentucky's unemployment rate was 4.4 percent in June, down from a high of 16.6 percent in April this year.

The low unemployment rate in Kentucky and some of its communities has been interpreted as indicating the economy recovered. However, a closer look at the employment data shows the unemployment rate does not provide a complete picture of the situation in the state and its counties. While Kentucky's economy has recovered much of its initial economic losses, it has not yet returned to pre-pandemic levels.

Figure 1: Kentucky's Unemployment Rate in 2020



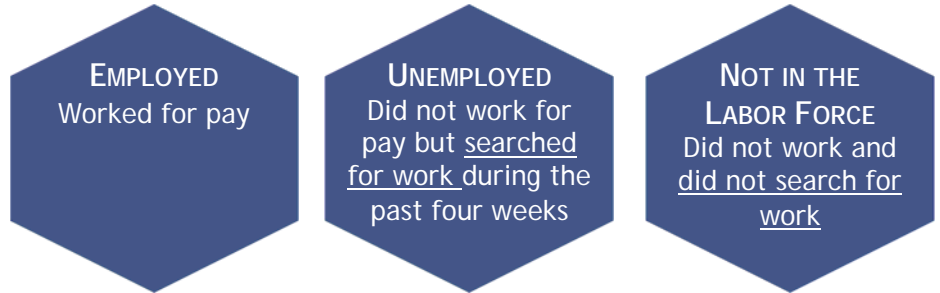
Note: Estimates are seasonally adjusted. September 2020 data are preliminary.

Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics.



Why Did Kentucky's Unemployment Rate Fall?

The U.S. Bureau of Labor Statistics (BLS) estimates state unemployment rates monthly. The rates are based primarily on surveys that ask residents about their employment and whether they were searching and available for work during the survey reference period. Based on their answers, respondents are assigned to one of three categories.



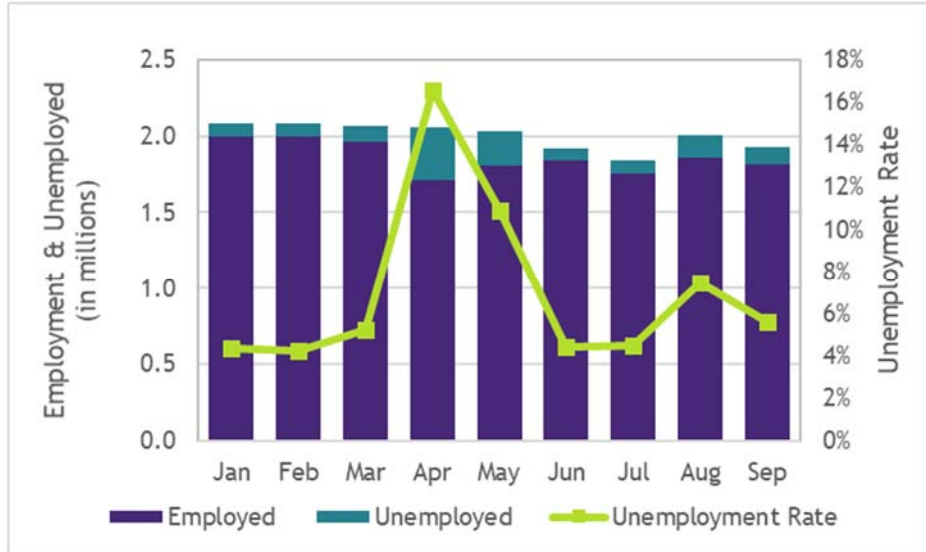
Those who worked for pay are classified as **employed**. Those who did not have a job but searched for work during the prior four weeks are classified as **unemployed**. Job search includes activities such as completing applications or going to interviews. These two groups make up the **labor force**.

A person who does not have a job and did not search for work during the past four weeks is classified as **not being in the labor force**. People are not in the labor force for many reasons. For example, full-time students and retirees are often not in the labor force. However, individuals who recently lost their jobs but did not search for work would also be classified as not being in the labor force rather than being unemployed. This is true even if they would like a job.

$$\text{Unemployment Rate} = \frac{\text{number of people unemployed}}{\text{number of people unemployed \& employed}}$$

The unemployment rate equals the number of people unemployed divided by the number of people in the labor force. Those not in the labor force are not counted in this rate regardless of whether they would like to work. As a result, the official unemployment rate does not reflect these workers.

Figure 2: Kentucky's Unemployment Rate, Employment, and Labor Force, 2020



Note: Estimates are seasonally adjusted. September 2020 data are preliminary.
Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics.

Figure 2 shows recent monthly estimates of the unemployment rate, the number of people employed and the number of people unemployed (combined this is the total labor force) for Kentucky. The estimates suggest that employment did improve after April but did not reach pre-pandemic levels. However, the number of people in the labor force, either employed or unemployed, declined. In July, the BLS estimated that there were 247,000 fewer people in Kentucky's labor force than in January. As of September, there were still 159,500 fewer people in Kentucky's labor force than in January.



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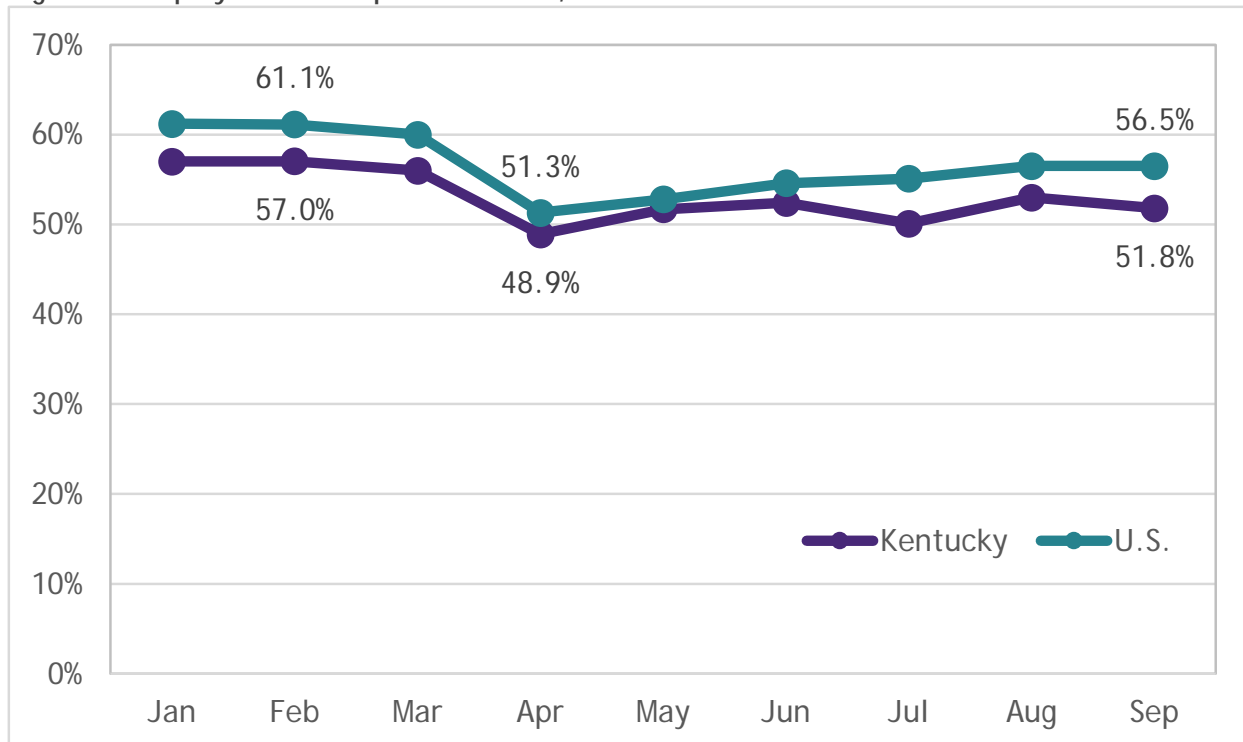
These estimates indicate that many workers lost their jobs and stopped looking for work as the pandemic progressed. A few potential explanations for this could be expectations of being called back to work by their employers or the state waiving its job search requirement to receive unemployment benefits. Regardless of the reason, the data indicate that workers left the labor force and were not counted as unemployed in the official unemployment rate. As a result, the rate understates the portion of workers who are without work.

Estimates of Kentucky's unemployment rate have also been unusually volatile over the past few months. To some degree this could reflect volatility in the labor market. That is, workers' situations might be changing rapidly. It might also be due to the difficulty measuring people's employment situation. Determining whether individuals are unemployed or not in the labor force and estimating their numbers has been more challenging during the pandemic. The BLS reported that the response rates for its survey declined during the pandemic, which can potentially affect the accuracy of estimates.

Other Economic Measures

Other economic measures also suggest that Kentucky's economy is recovering but remains below pre-pandemic levels. Kentucky's employment to population ratio, which measures the percentage of the population aged 16 and over who are employed, was 57 percent just before the pandemic. This ratio had fallen to 48.9 percent by April (Figure 3). As of August, this figure had improved to 53 percent, still four percentage points below its pre-pandemic level. The U.S. employment to population ratio was 4.6 percentage points lower than its pre-pandemic level. This suggests the pandemic's effects were similar for Kentucky and the nation.

Figure 3: Employment to Population Ratio, 2020



Note: Estimates are seasonally adjusted.

Source: U.S. Bureau of Labor Statistics, Current Population Survey.



Why Did Kentucky's Unemployment Rate Fall?

Non-farm employment tells a similar story (Figure 4). Estimates of non-farm employment come from a survey of businesses and measures the number of jobs in the economy. In March and April, Kentucky's employment decreased by 326,300 jobs. This was 16.7 percent lower than employment in January. By September, the state recovered 63 percent of these jobs and was 6.2 percent lower than in January. U.S. employment followed a similar path and was down 6.9 percent from January.

Conclusions

The unemployment rate is an important measure of the economy. However, month-to-month changes in the unemployment rate can be difficult to interpret without considering the degree to which workers are moving in or out of the labor force. Recent estimates indicate that Kentucky's unemployment rate did not decrease mainly because workers went back to their jobs. Instead, it appears to have decreased primarily because many of the workers who lost jobs were no longer classified as being unemployed.

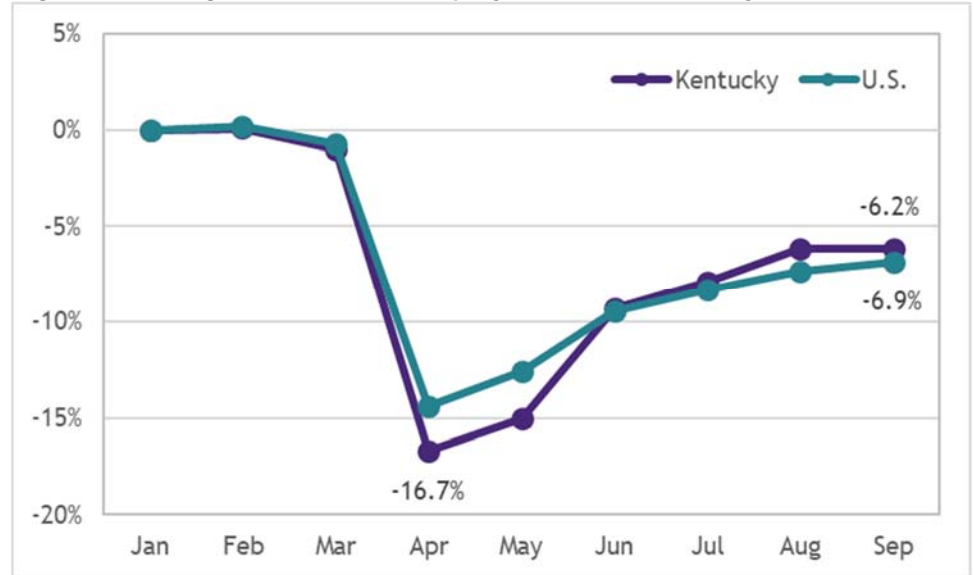
Kentucky's economy has begun to recover as businesses reopened and learned to adapt their operations to reduce the risk of spreading COVID-19. Total non-farm employment suggests that as of September, Kentucky recovered about 63 percent of jobs lost in the early months of the pandemic. So, while Kentucky's economy is recovering, much like the rest of the nation, it has not yet fully recovered.

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Figure 4: Change in Non-Farm Employment from January 2020



Note: Estimates are seasonally adjusted. September 2020 data are preliminary.
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics.



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Further Information

You can find current and historical information on unemployment rates, in the following reports and dashboard by visiting the KYSTATS website (<https://kystats.ky.gov/>).

Labor Force (LAUS)

Current and historical monthly estimates of unemployment rates for the U.S., Kentucky, counties, metropolitan statistical areas (MSA), local workforce areas (LWA) and area development districts (ADD).

- 2020 Current LAUS
- Historical LAUS - Substate
- Historical LAUS - KY Statewide

<https://kystats.ky.gov/KYLM>

Civilian Labor Force Report

This interactive report allows users to explore estimates from the U.S. Bureau of Labor Statistics' Local Area Unemployment Statistics (LAUS) program and the Current Population Survey (CPS).

https://kystats.ky.gov/Reports/Tableau/CLFR_2019



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