FINANCIAL FAQs

JOBLESS CLAIMS MISLEADING INDICATOR

Initial claims for unemployment benefits fell last week to 302,000, well below what economists were expecting, the Labor Department reported Thursday. This could presage an uptick in payroll employment for June, reversing the trend of recent months. Only 75,000 payroll jobs were created in May and job creation has been declining since February. The drop in weekly initial jobless claims could therefore be misleading.

First-time claims fell by 35,000 from the previous week's revised figure of 337,000. The four-week average of new claims fell by 5,750 to 327,750. The four-week average smoothes out one-time events like weather and strikes and is considered a better indicator of labor market conditions.

The number of people collecting unemployment benefits fell by 5,000 to 2.42 million in the week ending May 27. It reversed three weeks of gains. The four-week average of continuing claims rose by 8,500 to 2.41 million.

Although the unemployment rate was essentially unchanged in May at 4.6 percent, long-term unemployment ticked up and slightly and remains uncharacteristically high, says Jared Bernstein of the Economic Policy Institute. “In May, 18.8 percent of the unemployed had been jobless for at least half a year, suggesting a higher share of persons is stuck in unemployment than might be expected given the low and declining jobless rate,” said Bernstein. “The implication is that it will take more robust job creation to ameliorate this serious problem of extended joblessness.”

The insured unemployment rate -- the percentage of those eligible for benefits who are collecting -- remained at 1.9%. Initial claims have stayed at about the same level over the past year. Continuing claims are down about 7%.

Initial claims represent job destruction, while the level of continuing claims indicates how hard or easy it is for displaced workers to find new jobs. Economists say the steady decline in continuing claims in the past few months indicates the labor market is still strengthening.

But there is concern about the decline in both weekly hours—down 0.1 percent—and aggregate hours—down 0.2 percent. Both of these measures, along with the slowing of job growth, suggest rather the opposite, the weakening of labor demand.

This seems to counter concerns of Federal Reserve officials, who have been concerned that tight labor markets will translate into higher wages and into higher prices for almost everything.

So analysts are uncertain about whether the Fed will raise overnight interest rates for a 17th time in late June. Policymakers may pause their campaign and reassess how much progress their 16 rate hikes have made in cooling the economy and reducing inflationary pressures.