Initial Jobless Claims Report – Seasonally Unadjusted Data Should Help to Overcome Distortions from Seasonal Adjustments

July 9, 2009

Initial jobless claims fell 52,000 to 565,000 for the week ended July 4. Seasonal distortions arising from the smaller-than-expected layoffs in the auto sector and the holiday shortened week are cited as reasons for the large drop in the seasonally adjusted data.

Using seasonally unadjusted jobless claims numbers eliminates the problem of interpreting data with seasonal distortions. Seasonally unadjusted data indicate (see chart 2) that on a year-to-year basis, initial jobless claims advanced 56% in June vs. larger gains in the prior months. The peak appears to have occurred in February (86% yoy increase). Chart 2 points out that the worst in the labor market is most likely behind us.
Continuing claims, which lag initial claims by one week, increased 159,000 to 6.883 million and the insured unemployment rate rose to 5.1% from 5.0% in the prior week.

I have been answering questions about the unemployment rate and initial jobless claims in recent days. The July 7 edition of this comment included remarks about the unemployment rate. For purposes of economic analysis, initial jobless claims are a leading indicator (see chart 1) of turning points of business cycles. The number of initial jobless claims is one of the components of the Index of Leading Economic Indicators.

Here are some nitty gritty aspects about initial jobless claims I have gathered from the Department of Labor. Initial jobless claims are a weekly count of the number of people filing for unemployment insurance and states fund this program, with the unemployed eligible for 26 weeks of compensation, well known information. The Extended Benefits (EB) program, a statutory program, (20 weeks in duration) is funded by the federal government and is triggered if a state has a very high jobless rate (after 26 weeks under the state program). The Emergency Unemployment Compensation (EUC) program is a federally funded program which has been effective since June 30, 2008, with unemployed individuals eligible to stay in the program until May 2010 and new entrants permitted until December 31, 2009). This program consists of two tiers of duration of unemployment compensation -- 20 weeks and 13 weeks. The EUC program kicks in after the regular unemployment compensation period of 26 weeks has expired. States make decisions about when EUC and EB programs are applicable. Putting these different programs together, an unemployed individual in a state with a high unemployment rate can effectively receive unemployment compensation for 79 weeks. A spokesperson of the Department of Labor indicated that 19 states are using the EUC and EB programs.