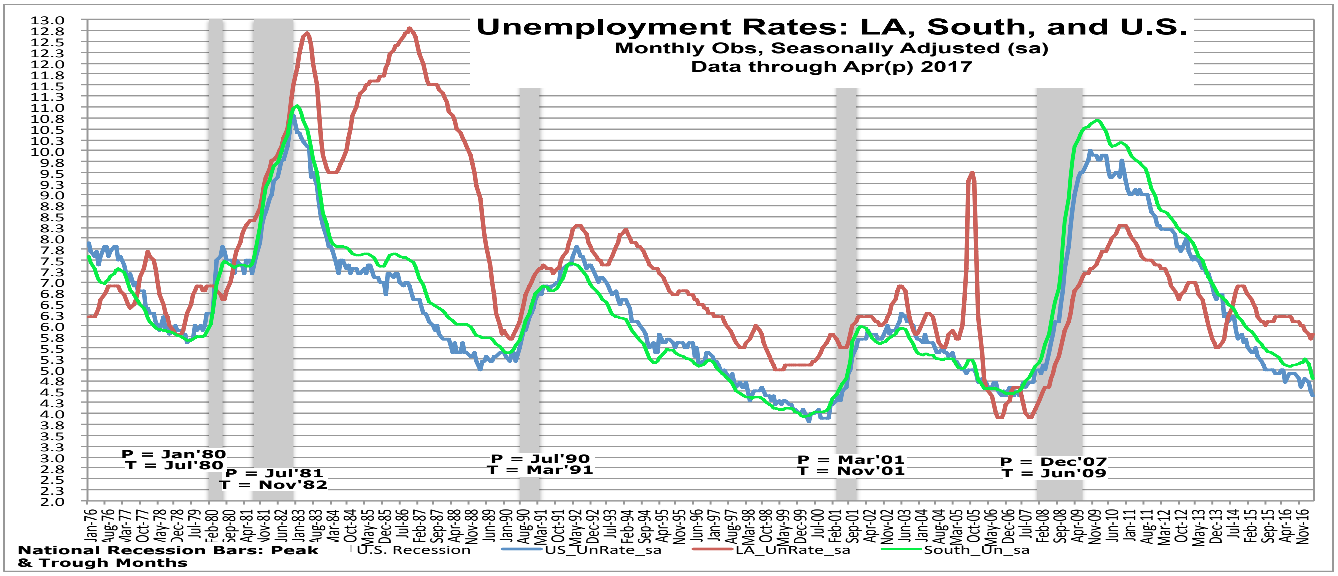
Louisiana Relative Unemployment Rates, April 2017



One of the most referenced metrics of economic performance at the both the national and state levels is the unemployment rate. This metric is the ratio of individuals reporting that they are unemployed but seeking employment to the number of individuals in the civilian labor force, both employed and seeking employment. The chart above displays a long-term historical record of the unemployment rate for Louisiana, the South[1], and the national economy as a whole. National recessions are depicted by the gray columns with peak (P) and trough (T) months designated for each. While the performance of Louisiana in the early years of the most recent national economic recovery was quite good relative to the South and the nation as a whole, for all practical purposes this performance was entirely a phenomenon of the post-hurricane Katrina & Rita period, beginning immediately after the storms and continuing into mid-2014. This performance is not completely disconnected from the overall economic business cycle, though, as evidenced by the sharp rise associated with the 2008-2009 national recession and fairly steady decline through 2013 as the economic recovery took hold in Louisiana around the start of 2010.

Prior to the post-Katrina/Rita period the Louisiana unemployment rate had essentially always exceeded the rates for the South and the nation, while generally following the national business cycle in a comparable fashion. Two standout exceptions to this pattern are easily identified in the chart above. The first is the mid-1980s oil bust when the state rate rose sharply and stayed far above the rates of the South and the nation as we experienced our own oil-based recession while falling energy prices benefited the rest of the nation; reflected in falling unemployment rates. The second is the spike up in the state rate in the immediate aftermath of hurricanes Katrina & Rita in 2005. For much of the time since then the state rate was lower than the South and the nation even as all three rates rose during the national recession and fell during the national recovery.

While the State's unemployment rate was considerably lower than that of the South and the nation as a whole for much of the post-Katrina/Rita period, the headline concept itself has become less meaningful as an indicator of the state of the labor market and the health of the economy in general than it has been in the past. During much of the recovery, beginning in late 2009 (U.S.) and early 2010 (LA) labor force participation exhibited a distinct decline, contributing to the decline in the headline unemployment rate [2]. The declining unemployment rate was influenced by the fact that unemployed individuals ceased even looking for work rather than because unemployed individuals were able to find employment.

The State's headline unemployment rate climbed sharply through much of 2014. However, this may not have reflected labor market weakness so much as a sharp upturn in state labor force participation (shown on the following graph) as people re-entered the job market expecting to find employment. This is often considered a sign of increasing optimism concerning the job market and economy in general. However, these jobseekers may not have found employment as the economy weakened in 2015, even though the state unemployment rate continued to fall in 2015, because the state labor force participation rate fell through much of 2015. The state unemployment rate began rising in 2014 and has remained elevated and higher than that of the South or the U.S. since then as lower oil prices have persisted and worked their way through the state economy. This difficult labor market was ameliorated somewhat at first by a participation rate that also bumped up somewhat in late 2014, but which has since fallen, exacerbating the headline unemployment rate. The rate has fallen since about mid-2016, but so has the participation rate.

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[1] Here the south constitutes the U.S. Department of Labor, Bureau of Labor Statistics southeast region of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, plus the states of Arkansas and Louisiana.

[2] For any given number of individuals that leave the labor force, a greater proportional reduction to the number of unemployed occurs (the numerator) than the proportional reduction that occurs to the number of labor force participants (the denominator). Thus, the unemployment rate ratio declines.

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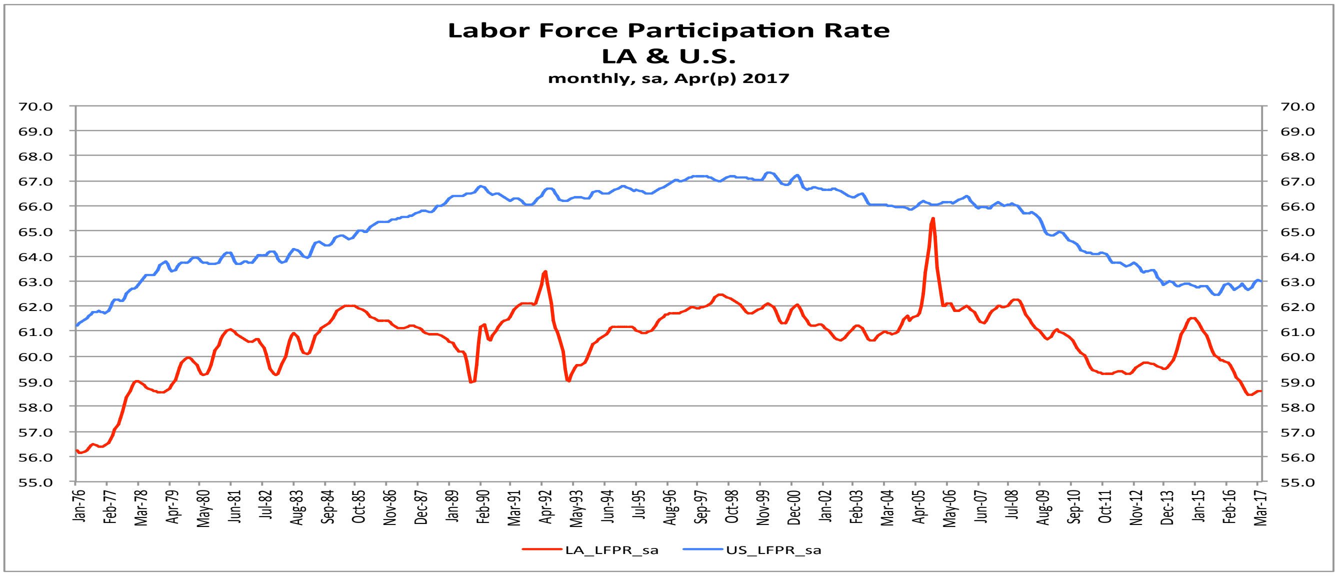

The chart above depicts labor force participation rates for the nation as a whole and for Louisiana[3]. Both the nation and the state of Louisiana have exhibited similar broad trends in labor force participation rates, with a modest downward trend beginning in the late-1990s, and accelerating distinctly as the recovery from the 2008-2009 national recession began. When the state rate stopped declining it had materially stepped down from earlier periods. As a result, the headline unemployment rate for the state was less meaningful as an indicator of the state of the labor market and the health of the economy in general than it has been in the past, as is the case with the headline unemployment rate of the nation as a whole. As the state participation rate rose distinctly during 2014, the state unemployment rate worsened through much of 2014 before beginning another downtrend during 2015. These trends reversed in late 2015 and again in 2016. Until the participation rate stabilizes, the unemployment rate will continue to be less meaningful as an economic indicator.

In addition, state level unemployment rates are less reliable than the same concept at the national level due to the relatively small sample sizes at the state level[4]. Their absolute level in any particular month can have considerable uncertainty associated with it. Some confidence in the state economy could be taken from the fact that, until the second half of 2014, the Louisiana unemployment rate has exhibited a consistently lower level than the South and the nation for every month since 2006. This may have reflected positive changes in the economy, the labor market, and the labor force in the aftermath of the natural disasters of hurricanes Katrina and Rita in 2005.

Relying on unemployment rates as an indicator of economic health, even in the post-storm era has its cautions though. Broader measures of unemployment evidence the weakness of the headline rate as an indicator at both the national and state levels. The broadest measure of unemployment[5] is reported for the nation at 8.6% as of April 2017. Being a broader measure it is always going to be higher than narrower measures. However, what is significant is that this current rate is still about 5% higher than its low point of 8.2% for 2006 before the 08/09 recession; although this gap has been steadily closing. At the state level, this broad measure is reported on a 4-quarter moving average basis in order to increase its reliability. For the annual period ending in March of 2017, the latest data available to date, the broad rate reported for Louisiana was 10.5%; a broad state rate that is still some 46% higher than the average for 2007 of 7.2%, the pre-recession low point for Louisiana. Unfortunately, this gap is closing only very slowly.

Until late-2014, the state's headline unemployment rate had been indicating that the state has experienced a strong economic recovery relative to the South and the nation as a whole. However, the unemployment rate as an indicator of economic conditions is fairly unreliable at the state level in general and has become less reliable in this recovery. Its relative position over much of this period appeared to be telling us that the Louisiana economy was markedly different since the hurricanes of 2005. However, since mid-2014, and the sustained drop-off in oil and natural gas prices, the state unemployment rate has returned to its historical position of a higher rate than the South and the nation as whole. While the unemployment rate has been declining since about mid-2016, so has the participation rate. The combination of the two metrics is still not telling as encouraging a story as just the headline unemployment rate itself is suggesting.

[3] Monthly participation rates are estimated by Moody's Analytics based on the household employment survey of the Bureau of Labor Statistics of the U.S. Department of Labor.
[4] Other data and statistical modeling are combined with survey data to arrive at the monthly reported state rates.
[5] The broadest measure of unemployment is referred to as U6, and is calculated as the total number of unemployed in the traditional measure (called U3) plus all marginally attached workers, plus total employed part-time for economic reasons (they would rather have a full-time job), all as a percent of the civilian labor force plus all marginally attached workers.

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