

Alternative Measures of Unemployment and Labor Underutilization

Unemployment rates are among the most closely watched “vital signs” by analysts seeking clues to the health of the economy. Unfortunately, this important economic statistic is often misunderstood. Of particular interest are “underemployed” workers whose circumstances are not fully captured by labor market statistics published each month.

Official Definitions

Labor force, employment and unemployment data are based on the same concepts and definitions as those used for the official national estimates obtained from the Current Population Survey (CPS), a monthly sample survey of households that is conducted for the U.S. Bureau of Labor Statistics by the U.S. Bureau of the Census. Labor force statistics provide the most up-to-date estimates of persons employed and unemployed by place of residence. The employment figures developed from the household survey do not correspond with the nonfarm employment estimates (available by industry and place of work), which are based on data from the monthly Current Employment Statistics (CES) survey.

It is useful to first review the official definitions of civilian labor force, civilian employment, civilian unemployment and the unemployment rate.

Civilian labor force is the sum of civilian employment and civilian unemployment. These individuals are civilians (not members of the Armed Services) who are age 16 years or older, and are not in institutions such as prisons or nursing homes.

Civilian employment includes all individuals who worked at least one hour for a wage or salary, or were self-employed, or were working at least 15 unpaid hours in a family business or on a family farm, during the week including the 12th of the month. Those who were on vacation, other kinds of leave, or involved in a labor dispute, are also counted as employed.

Civilian unemployment includes those individuals who were not working but were able, available, and actively looking for work during the week including the 12th of the month. Individuals who were waiting to be recalled from a layoff, and individuals waiting to report to a new job within 30 days are also considered to be unemployed.

The **unemployment rate** is the number of unemployed as a percentage of the labor force (employed plus unemployed). As a formula, it may be expressed as:

$$\begin{aligned} \text{Unemployment Rate (\%)} &= (\text{Unemployed})/(\text{Employed} + \text{Unemployed}) \quad \text{or} \\ \text{Unemployment Rate (\%)} &= (\text{Unemployed})/(\text{Civilian Labor Force}) \end{aligned}$$

Alternative Measures of Unemployment & Labor Underutilization

The official number of unemployed excludes certain jobless groups, such as those marginally attached to the workforce and discouraged workers (defined below). The U.S. Bureau of Labor Statistics (BLS) has published six monthly alternative measures of labor underutilization for the nation as a whole to account for these groups since the 1990s. These six measures,

known as U-1 through U-6, are based on data from the CPS household survey and are shown in the table below. Measure U-3 is based on the same definition of unemployment used to calculate the official unemployment rate.

Alternative Measures of Labor Underutilization

Measure	Description
U-1	Persons unemployed 15 weeks or longer, as a percent of the civilian labor force.
U-2	Job losers and persons who completed temporary jobs, as a percent of the civilian labor force.
U-3	Total unemployed, as a percent of the civilian labor force (<i>the same definition of unemployment used to calculate the official unemployment rate</i>).
U-4	Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers.
U-5*	Total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers.
U-6*	Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers.

***Important Definitions:** Marginally attached workers are persons who currently are neither working nor looking for work, but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the *marginally attached*, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

U-1 and U-2 are narrower definitions of unemployment than the official measure.

- U-1 only includes those who have been unemployed for 16 weeks or more, a group often considered a proxy for the number of long-term unemployed.
- U-2 includes U-1 plus persons who have completed temporary jobs.

In contrast, U-4 through U-6 are progressively broader gauges of unemployment as they include various subsets of workers marginally attached to the labor force.

- U-4 includes U-3 (total unemployed) plus discouraged workers: those who are willing and able to work, but have become so discouraged about their prospects for obtaining a job that they have stopped looking.
- U-5 includes U-4 (total unemployed plus discouraged workers) plus marginally attached workers: those who want to work and have looked for work, but are not presently in the workforce due to non-job market reasons. U-6 is the most expansive measure, which includes U-5 plus those who would like to work full-time, but can only work part-time due to economic reasons.

The BLS has found that, generally speaking, all six measures of unemployment tend to move together over time, including across business cycles. Similarly, states that have high official unemployment rates (U-3) tend to have high values for the other five measures.

Annual State Level Data Now Available

It is important to note that due to small state sample sizes, monthly state CPS data do not meet BLS publication standards. However, the BLS now publishes these six alternate measures of labor underutilization at the state level, based on 12-month rolling averages. BLS updates these data at the end of every calendar quarter (i.e., March, June, September, and December).

State-level U-3 measures discussed here are derived directly from state-level CPS data. As a result, these U-3 measures may differ from official state unemployment rates. Official labor force statistics, including the unemployment rate, for New York and every other state are developed from statistical models developed by the BLS for use in the Local Area Unemployment Statistics (LAUS) program. These statistical models incorporate CPS estimates, as well as input data from the Current Employment Statistics program and claims for Unemployment Insurance in order to produce the official labor force statistics published each month.