

## A frequently used and occasionally misunderstood economic indicator

**P**eople interested in the economy – and who isn't these days? – know that the U.S. unemployment rate has soared over the last year and a half. The Federal Reserve, investors and politicians are among those watching the rate closely for signs that the country is emerging from a deep national recession.

In Alaska, there's also been heightened interest in the unemployment rate as a signal of how the broader economic troubles are affecting things here. Although the state's unemployment rate is up noticeably, the overall increase has been smaller than in most other parts of the country.

Aside from the insight it gives into the health of the economy, over \$60 billion in federal dollars are distributed throughout the country each year based on unemployment rates. The money goes for everything from job training and economic development to emergency food and housing assistance.

### An economic headliner

Nationally, only the jobs report, which is released with the unemployment numbers on the first Friday of every month, rivals the attention given to the unemployment rate as an indicator of the country's general economic health.<sup>1</sup> A rising rate is generally considered a sign of a weakening economy and a falling rate suggests that things are getting better, although there are exceptions in both cases.

### Understanding what the rate means

Despite the unemployment rate's prominence, it may not be obvious what the rate represents. Alaska's 7.2 percent August unemployment rate (not seasonally adjusted<sup>2</sup>) does not mean, for example, that 7.2 percent of the state's working-age population is not working.

What it does mean is that 7.2 percent of the labor force is unemployed. The key concept is that the population is made up of three parts: people who are employed, people who are unemployed, and people who are not part of the labor force. (See Exhibits 1 and 2.)

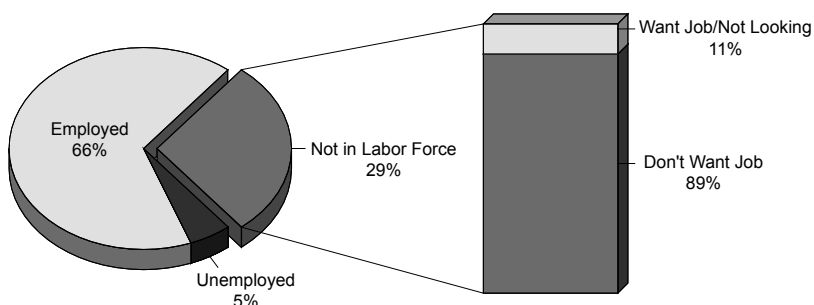
Only the people actively looking for work are considered unemployed. Retirees, for example, and stay-at-home parents who choose not to work, are among those considered outside of the labor force.

A little more than a third of the nation's 16-and-older population falls into this category, or about

<sup>1</sup> The gross domestic product is also a critical indicator, especially during recessionary periods, but GDP data are only available quarterly and with a longer lag than either the jobs numbers or the unemployment rate.

<sup>2</sup> August's seasonally adjusted rate was 8.3 percent.

### 1 Three Parts of the Population<sup>1</sup> Alaska, August 2009



<sup>1</sup> Ages 16 and older

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

## Two Parts of the Labor Force Alaska, August 2009 **2**

80 million Americans. That means that if a supermarket line had 15 people in it, and those 15 people represented the U.S. population with its nearly 10 percent unemployment rate, 9 of the people in line would have jobs, 1 would be unemployed, and the remaining 5 would not have jobs but would also not be looking for work.

### Alaska's younger labor force

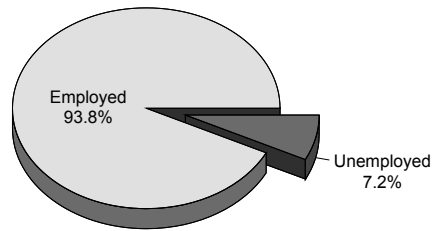
In Alaska, the numbers are slightly different because a smaller share of the state's population is retirement-aged. In August, for example, 71 percent of the state's 16-and-older population was either working or actively seeking a job. Of the remaining 29 percent not in the labor force – about 145,000 people – an estimated 89 percent said they didn't want a job and the remaining 11 percent did want to work but hadn't been actively looking for a job for a variety of reasons. (See Exhibit 1.)

### Unemployment rates in rural Alaska are understated

People who did not work but said they wanted a job are a relatively small but important group. That's a part of the population that is sometimes considered the uncounted unemployed. It's an issue particularly in rural Alaska, where unemployment rates are often already among the highest in the nation. A significant percentage of these areas' working-age populations can disappear from the important calculation because they stop looking for work when they believe there is simply no work available.

The exclusion of these people from the unemployment rate is also an issue nationally – some claim that the unemployment rate should count people who say they would like to work but have become discouraged and stopped looking for a job<sup>3</sup> – but to a lesser degree because in most parts of the country job seekers can expand their job searches to neighboring towns

<sup>3</sup> The Bureau of Labor Statistics publishes what they call "alternative measures of labor underutilization" that calculate rates that do count discouraged workers and others who are not counted as being part of the labor force in the official unemployment rate. The measure with the most expansive definition in the numerator of the calculation is called "U-6" and the national U-6 rate in August 2009 was 16.8 percent (seasonally adjusted).



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

and cities if job prospects are limited locally. In rural Alaska, much of which is off the road system, commuting to a job in another town or city is more complicated.

### What's called the unemployment rate is sometimes something else

In casual exchanges about unemployment rates in some of Alaska's economically distressed villages, extraordinarily high unemployment rates of 30 percent and higher are sometimes cited despite the fact that official rates very rarely rise above 30 percent.<sup>4</sup> What is most likely meant when someone says that a certain Alaska village has a 70 percent unemployment rate is that only 30 percent of the population has jobs.

And in fact the percentage of a population that is working is sometimes more meaningful in assessing an area's economic health than the official unemployment rates. That's because when enough people become discouraged and stop looking for work the unemployment rate actually falls – even though nothing positive has happened for the economy – because those people drop out of the labor force and are no longer counted as being unemployed.

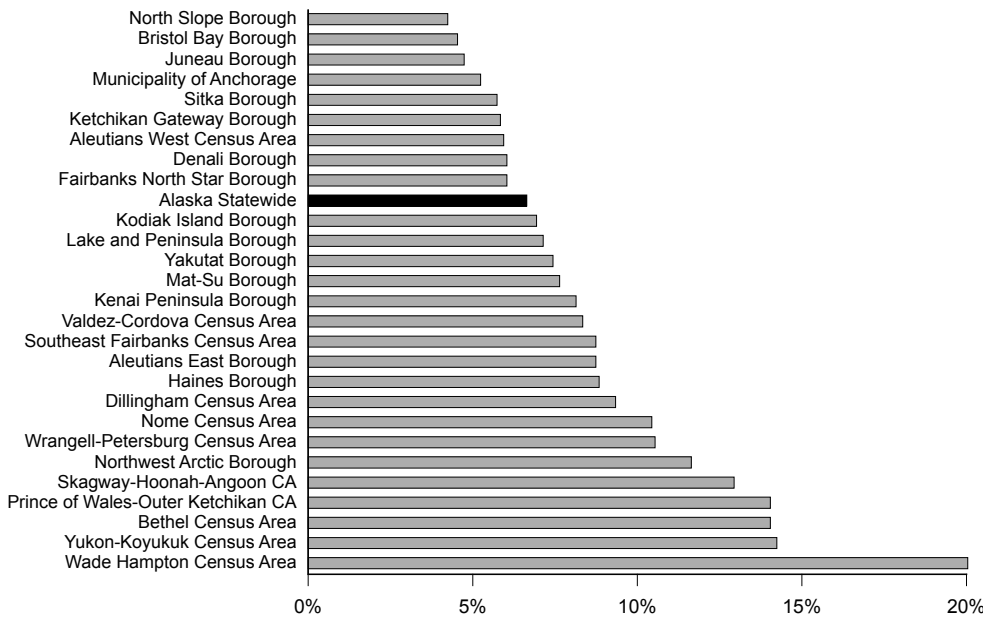
### How the rates are calculated

It would be easy to calculate a precise unemployment rate if you could account for what every person living in Alaska was up to every

<sup>4</sup> It's unlikely that 30 percent of the labor force would be actively seeking work for more than a very short period of time; when unemployment rises to those levels, people tend to move to where jobs are more plentiful, or drop out of the labor force and figure out how to manage without a job.

### 3 A Wide Range of Rates

#### Average monthly unemployment rates, 2008



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

month. But that’s a lot to ask for. It would mean knowing about the guy who works on the North Slope who moved from Anchorage to Palmer last month and also about the woman who used to be self-employed designing jewelry but who decided to take a few months off to take care of her grandkids.

It would take knowing those kinds of things for about half a million working-age people living in Alaska. And since the unemployment rate is produced just a few weeks after a month ends, you’d have to know those things right away.

That’s obviously not practical so the state and federal agencies responsible for producing the unemployment rate<sup>5</sup> piece together the information they have on employment and unemployment and supplement it with a monthly survey of about 1,000 Alaska households.<sup>6</sup>

The use of a survey, in addition to the imprecision of the other information used, means that

<sup>5</sup> Because so much federal money is distributed based on unemployment rates, the methods are tightly controlled by the Bureau of Labor Statistics so as to be consistent throughout the country.

<sup>6</sup> The entire survey, called the Current Population Survey, includes about 60,000 households nationwide.

the unemployment rate is an estimate – and a rather rough one – rather than an exact calculation. For Alaska, the error range of the statewide unemployment rate is plus or minus a full percentage point.<sup>7</sup>

#### Pitfalls to avoid

Given that it’s an estimate, one of the most frequent misuses of unemployment rates is to read too much into small monthly changes. Even at the state level, a single month’s change is very rarely large enough to be statistically significant. For smaller areas, including a relatively high population area like Anchorage, it’s even less likely that a single month’s change

will be big enough to indicate real economic change with certainty.

So rather than trying to read something into small changes to the unemployment rate or the specific rate for a single month, it’s better to look for trends in the rate over several months. To meaningfully analyze the differences between Alaska’s boroughs and census areas, it’s best to average the rates over a full calendar year to even out the rates’ inherent volatility.

#### High unemployment in Wade Hampton

With those caveats in mind, the average monthly 2008 rates for Alaska’s boroughs and census areas indicate that the North Slope Borough had the lowest unemployment rates and the Wade Hampton Census Area had the highest. (See Exhibit 3.) And over the first eight months of 2009, every borough and census area has recorded higher rates.

What’s also sufficiently clear is that the Bristol Bay Borough, Juneau and Anchorage are among the areas that have lower than average rates and

<sup>7</sup> The error range is calculated at a 90 percent confidence interval.

that the Yukon-Koyukuk, Bethel and Prince of Wales-Outer Ketchikan census areas all have relatively high rates.

### Comparing Alaska's numbers with other states'

For the state as a whole, recent unemployment rates provide insight into the impact the recession has had on Alaska compared to other states. (See Exhibit 4.) From the start of the national recession in December 2007 through August 2009, the most recent data available, the unemployment rates in all 50 states have risen by significant amounts.

Some of the increases have been dramatic, particularly in Nevada and Michigan, where rates have climbed about eight percentage points. At the other end of the spectrum, North Dakota had the smallest increase over that period at just 1.2 percentage points and Alaska had the second smallest at 2.0.

Other than Alaska, the other states that have fared relatively well are predominantly inland states, several of which share Alaska's dependence on oil and gas as an economic driver. Among these are North Dakota, South Dakota and Montana. The other common thread is that they are states where housing prices neither soared nor subsequently plummeted as they did elsewhere.

At the other end of the spectrum are states that have been particularly exposed to the bursting housing bubble – Nevada, California and Florida, among others – and those that depend heavily on manufacturing jobs – Michigan being the most obvious.

## The Recession's Scorecard **4**

### Change in unemployment rates

	Percentage Point Increase December 2007 to August 2009
North Dakota	1.2
<b>Alaska</b>	<b>2.0</b>
Arkansas	2.2
South Dakota	2.2
Nebraska	2.3
Montana	2.8
Vermont	2.8
Iowa	3.0
Kansas	3.0
Oklahoma	3.0
Utah	3.0
Colorado	3.2
Connecticut	3.2
Minnesota	3.2
Virginia	3.2
Mississippi	3.4
New Hampshire	3.4
Maryland	3.6
Texas	3.6
Wyoming	3.7
Louisiana	3.9
Maine	3.9
New Mexico	3.9
Pennsylvania	4.0
Hawaii	4.1
Missouri	4.2
Delaware	4.3
Wisconsin	4.3
Illinois	4.4
New York	4.4
Massachusetts	4.6
Washington	4.6
West Virginia	4.7
Arizona	4.8
Ohio	5.0
Georgia	5.1
New Jersey	5.2
Idaho	5.3
Indiana	5.4
Tennessee	5.5
Kentucky	5.6
South Carolina	5.7
North Carolina	5.8
Florida	5.9
California	6.3
Alabama	6.6
Rhode Island	6.8
Oregon	6.9
Michigan	7.9
Nevada	8.0

Source: U.S. Department of Labor,  
Bureau of Labor Statistics