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Unemployment claims, the original high-frequency economic indicator

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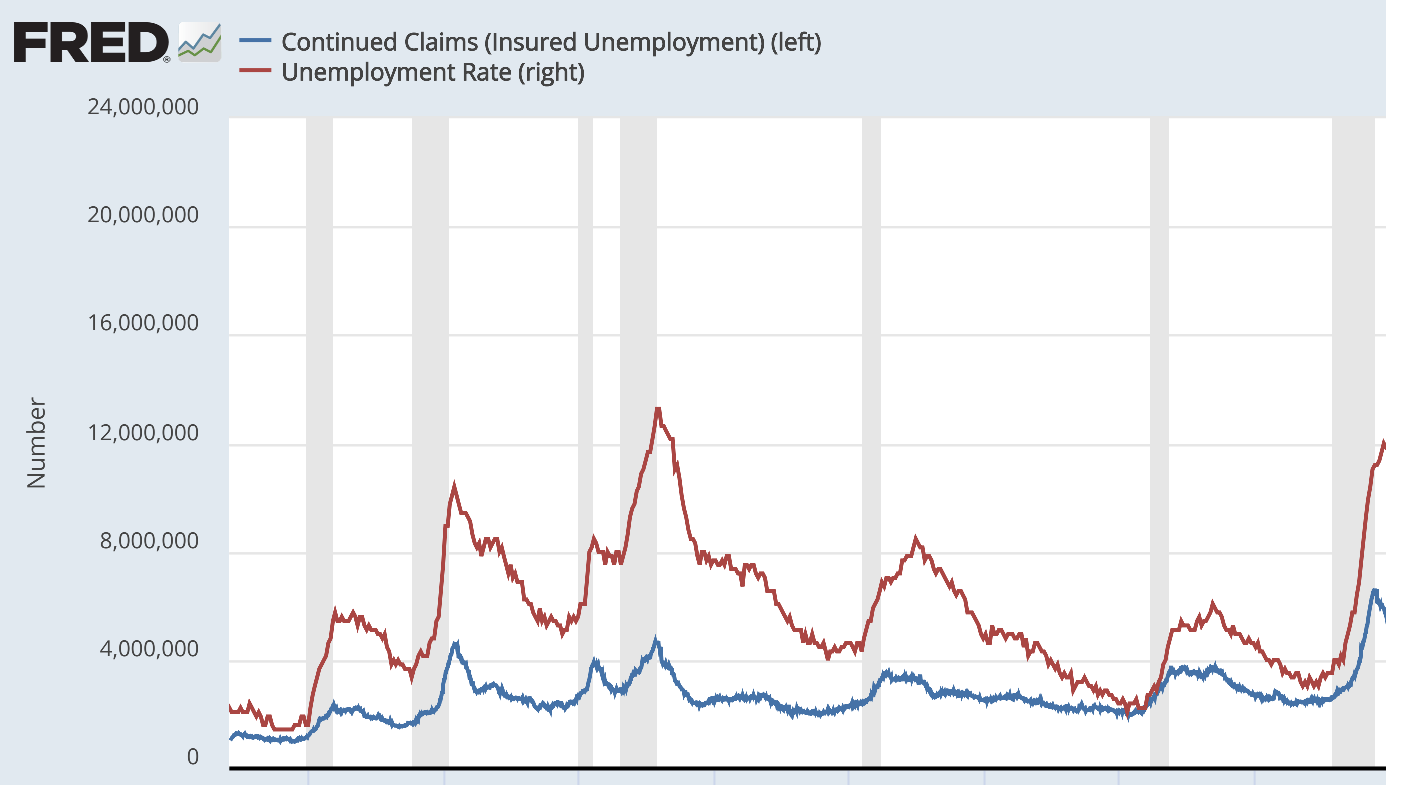

The economy is susceptible to shocks such as pandemics, natural disasters, and financial panics, which can have serious implications. And it can be challenging for economists to capture these economic effects in real-time, as many key economic indicators are released with a considerable lag. For example, real GDP for the second quarter of 2023 was released on July 27, 2023, about one month after the quarter ended. Unemployment rate data, from example, is more timely: Measures for the middle of July were released last week, on August 4, 2023.

The COVID-19 pandemic and the ensuing lockdowns had immediate impacts on the economy, and economists have turned to higher-frequency data released weekly or even daily. These high-frequency data releases have historically been limited to financial market metrics such as interest rates on bonds, commodity prices, and stock prices. These data provide useful information on financial conditions, but lack detail on the real economy (i.e., the state of households and businesses). Economists have begun to explore new data series, such as TSA passenger traffic, online

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restaurant bookings, and weekly employment directly from payroll companies. These data, however, often lack the long histories necessary to provide a clear economic signal. For example, a commonly cited real-time metric, the Weekly Economic Index, has been tracked only since 2009.

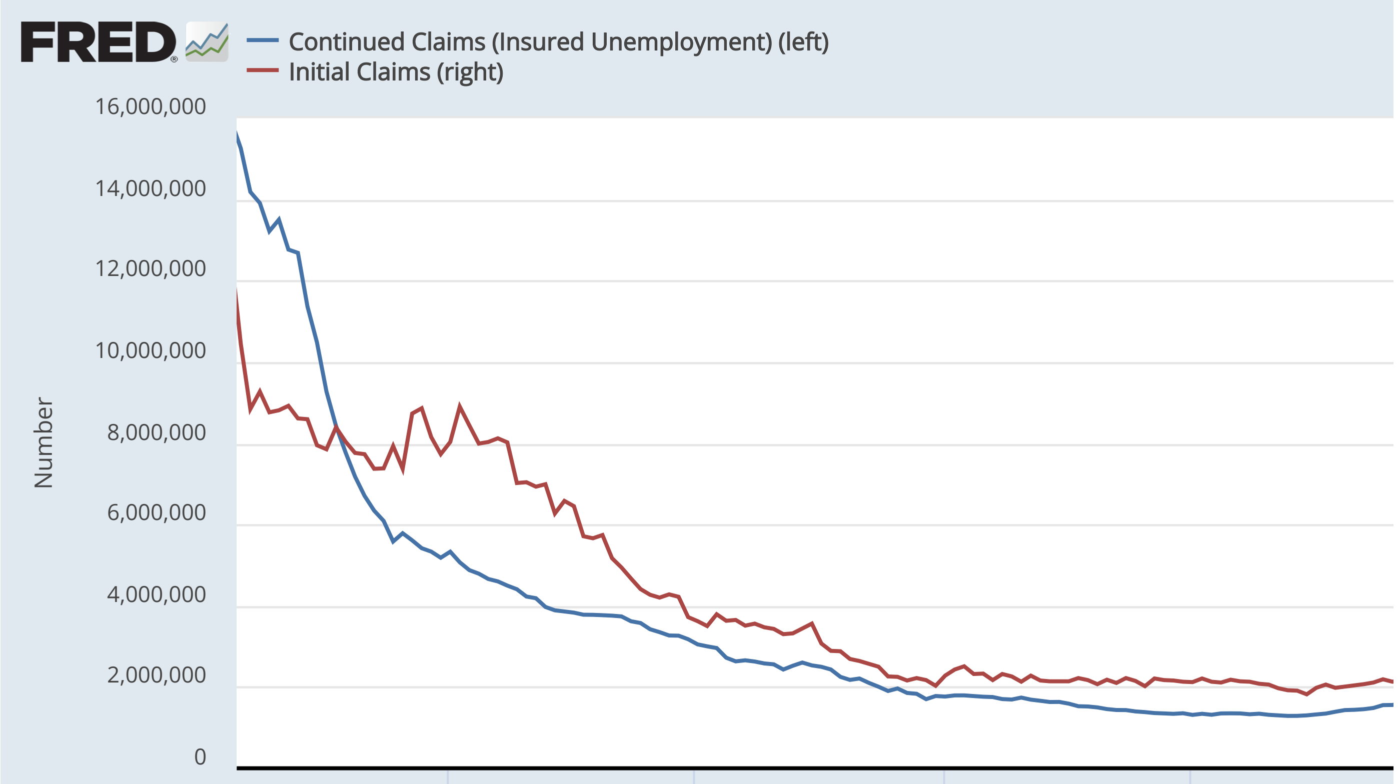
One notable exception is the Department of Labor's weekly unemployment insurance (UI) claims data: They began reporting these data at a weekly frequency in 1945, and the series in FRED goes back to 1967. This long-standing timely reporting and straightforward interpretation make the UI report one of the most important indicators for monitoring economic activity.

Two key series from the UI report are *initial claims* and *continued claims*. Initial claims is the count of individuals filing for unemployment insurance benefits each week. While some claims may later be rejected, initial claims is still a good measure of the flow of individuals into unemployment. Continued claims is the stock of individuals who have received unemployment insurance benefits the prior week and have again filed for continued benefits.

While people can be unemployed and not receive UI benefits (such as recent graduates searching for their first job), UI data have historically provided an accurate picture of where the national unemployment rate is headed. The FRED graph above plots weekly continued claims for unemployment (blue line) and the unemployment rate (red line) starting in January 1967.

Notice in the graph that both continued claims and the unemployment rate rise at the start of recessions (gray shaded regions) and continue to rise throughout the duration of the recession. They only begin to fall after a recession has ended. During the most recent recession, continued claims reached their highest level during the week of May 9, 2020.

Data from the FRED graph below show signs of the economy gradually recovering from the effects of the pandemic. Both initial and continued claims for unemployment insurance benefits steadily declined to their pre-pandemic levels: about 200,000 initial claims for UI benefits and 1.8 million continued claims. As the labor market became increasingly tight during the summer and fall of 2022, workers found it much easier to quickly find new jobs. As a result, continued claims dropped to as low as 1.3 million. High-profile layoffs and slower job growth during late 2022 and early 2023 led to upticks in initial claims. This trend, along with a steady rise in continued claims, prompted concern that the US economy may dip into a recession. However, while initial claims for UI benefits may be slightly elevated from recent history, continued claims appear to have reached a peak in April 2023, again suggesting unemployed workers are having an easier time finding jobs. Keeping a close eye on the UI claims has been and continues to be one of the most effective ways gauge the state of the labor market in real-time.



How these graphs were created: For the first graph, search FRED for “Continued Claims (Insured Unemployment).” Keep the units as “Number” and the frequency as “Weekly, Ending Saturday.” Click “Add Line” and add the series “Unemployment Rate.” Keep the units as “Percent” and the frequency as “Monthly.” Finally, click “Format” and change the line axis position of “Line 2” to “Right.”
For the second graph, search FRED for “Continued Claims (Insured Unemployment).” Keep the units as “Number” and the frequency as “Weekly, Ending Saturday.” Click “Add Line” and add the series “Initial Claims.” Keep the units as “Number” and the frequency as “Weekly, Ending Saturday.” Click “Format” and change the line axis position of “Line 2” to “Right” and change the date range to show the previous three years of data.

Suggested by Charles Gascon and Sean McQuade.