QLmonthly January 2026 [1]

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   Our reading: Flows aren't sending strong forward signals.
        Epop more informative than the Urate, labor market is flat.

2. This Month's Special Topic
   Recent challenges to working with Current Population Survey data.
   - Missing data affects the seasonal adjustment of adjacent data.
   - Decline in survey response following October adds uncertainty.

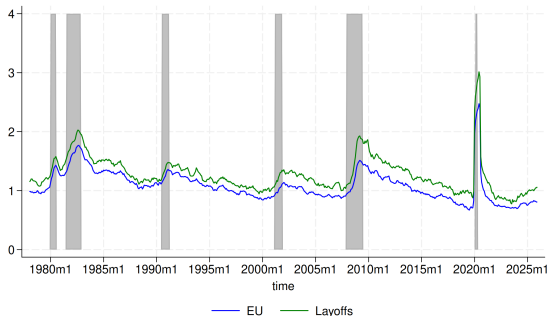# Layoffs and Entry into Unemployment Decouple, Again.

Figure: Prime age monthly Employment to Unemployment (E-to-U) flows and layoffs to non-employment from CPS household survey.

- ▶ Layoffs sustain 2025's H2 rise but flows from Employment to Unemployment (EU) have not followed.
- ▶ EU stabilized/declined as more laid off workers exit the labor force
- ▶ Recent unemployment readings understate momentum in layoffs.
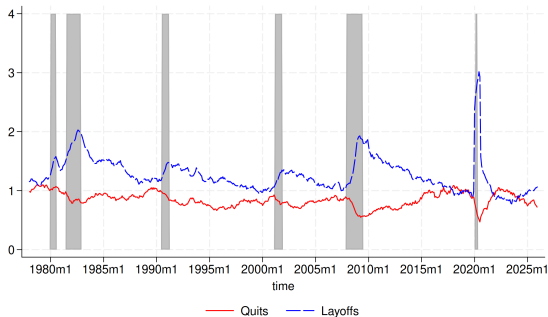
Quits Maintain Decline

Figure: Quits and Layoffs to non-employment

- ▶ Quit rates decline after a marked increase in H1 2025.
- ▶ Quit rates tend to fall as the labor market cools.

Job Finding:
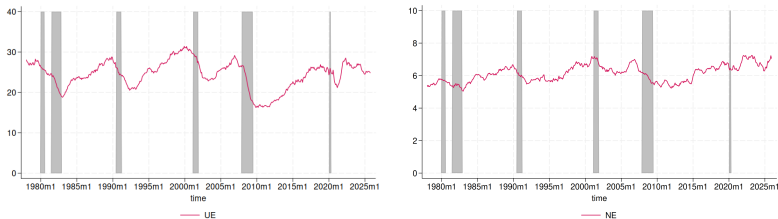# Flat for Unemployed, Up for Non-participants

Figure: Job finding rates from unemployment (left) and non-participation (right) for Prime Age Workers

- ▶ Job finding rates remain lower than last year for the unemployed.
- ▶ ... but finding rates for non-participants continue to improve.
- ▶ For context, employers currently hire 2.5 workers from non-participation for every 1 worker from unemployment.

What do we make of this?

Recap: Household survey (CPS) indicates:

- ▶ Quits and layoffs indicate a steady cooled labor market in Q4 2025.
    - ▶ Quits lower and layoffs higher than 2024 is textbook cooling.
- ▶ Job finding probably consistent with sideways movement.
    - ▶ Rise in finding from non-participation could be furloughed workers.
- ▶ Unemployment less sensitive to changes in firing and hiring.
    - ▶ For almost two years, movements across the participation margin have clouded the signal from the unemployment rate.
    - ▶ Employment/Population ratio basically flat since May 2025.

Our reading: Flows aren't sending strong forward signals.
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Discussion of the Month

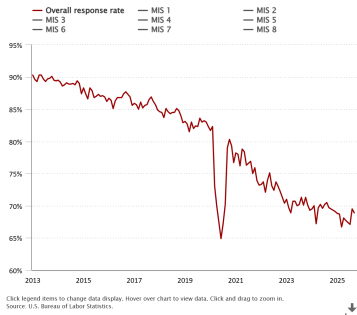Recent challenges when working with Current Population Survey data.

▶ Missing data affects the seasonal adjustment of adjacent data.

▶ Decline in survey response following October adds uncertainty.

How we handle October's missing data

- How we do seasonal adjustment:
    - We are using the X-13ARIMA-SEATS software, developed and maintained by the U.S. Census Bureau to adjust our quit and layoff series for seasonal fluctuations
- What is the problem?
    - Although only data for October is missing, we cannot calculate flow rates for both October and November as we need data for two consecutive months (Flow Data for Oct. and Nov. missing)
    - Seasonal adjustment relies on timeseries without any gaps
- How we do seasonal adjustment with gaps:
    - We interpolate the data for the missing two months
    - We use a maximum-likelihood ("best fit") function which
        - does not just look at the two neighboring points, but
        - estimates the most likely values for the missing observations based on the entire timeseries
        - and takes as inputs the seasonality, cyclicality, level, and trend

CPS responses declined in November and December

CPS response rates, overall response rate and response rates by month in sample (MIS)

- ▶ Response rates fell most for new respondents.
    - ▶ We calculate flows from respondents already in the panel.
    - ▶ Our data are less affected.
- ▶ Statistical significance tables are provided by BLS here.
    - ▶ The unemployment rate requires about a 25 basis point change to be statistically (90%) different from prior readings.
    - ▶ There has been no such change in 9 months. Unemployment is flat.