

QLmonthly June 2025 ¹

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¹Based on Ellieroth & Michaud, "Quits, Layoffs, and Labor Supply" Institute Working Paper 94 (2024)

Contents

1. Recent Developments in Layoffs, Quits, and Job Finding
2. This Month's Special Topic:
 - ▶ Frequent Movements between Unemployment and Non-Participation.
(Is the participation line distinct?)

Layoffs maintain slow climb

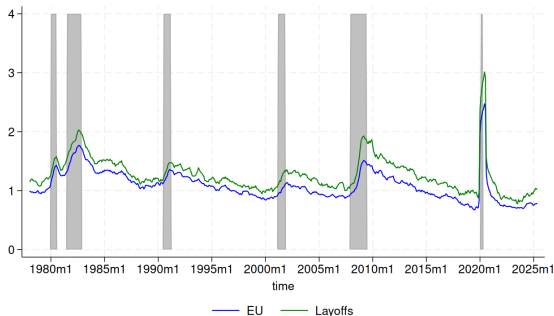


Figure: Prime age monthly Employment to Unemployment (E-to-U) flows and layoffs to non-employment from CPS household survey.

- Layoffs to non-employment saw an increase in the previous 2 months.
- Striking divergence from Employment to Unemployment (EU) flows. EU saw a slight increase but at best are lagging layoffs.

Quits decline as layoffs rise.

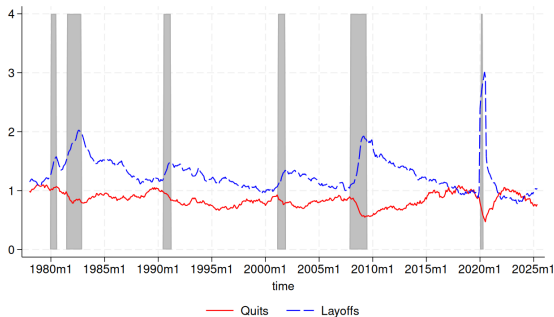


Figure: Quits and Layoffs to non-employment

- ▶ Quit rates continue to decline as layoffs have been rising.
- ▶ This is the standard pattern of a cooling labor market.

Job finding rates increase for prime-age

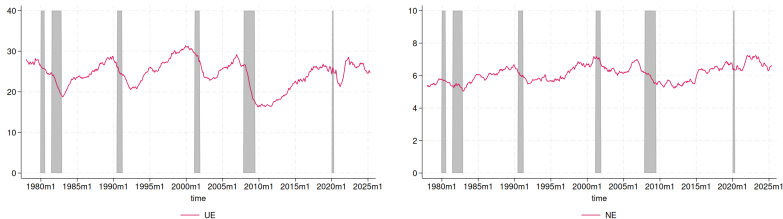


Figure: Job finding rates from unemployment (left) and non-participation (right) for Prime Age Workers

- ▶ Job finding rates show signs of increase after months of decline.
- ▶ The levels of job finding rates are within pre-pandemic range.

What do we make of this?

Recap: Household survey (CPS) indicates:

- ▶ Quits continue to decline while layoffs continue to increase.
- ▶ Job finding rates from unemployment and non-participation are stable for the prime-age workers, but are falling for all working-age (16+) unemployed.

Our view:

- ▶ The continued decline in quits together with a rise in layoffs signal continued labor market cooling.
- ▶ Sustained divergence between layoffs and EU flows is unprecedented.
 - ▶ Usually, a sustained rise in layoffs brings an increase in unemployment but this time is different.

Discussion of the Month

Frequent movements between unemployment and not in the labor force

How distinct is the line between unemployment and non-participation?

- ▶ One of the strengths of our data series is that it allows us to observe which labor market state, unemployment or non-participation, workers choose after layoff.
- ▶ **Question:** Are labor force exits meaningful? How do we know workers who leave the labor force don't just come back the next month?
- ▶ **Answer:** The CPS data actually allows researchers to observe individual for up to four consecutive months.
- ▶ Using this information, we can additionally see how long a worker remains in unemployment or non-participation, i.e. whether a worker makes frequent moves between the two.

DeNUNifying the Data

- ▶ “DeNUNification” is a method to check for misclassification bias in the data, i.e. whether individuals correctly report unemployment vs. non-participation.²
- ▶ DeNUNifying the data means that all individuals who report one of the following transition patterns in three consecutive months are removed from the calculation of flow and transition rates:
 - ▶ Non-participation to Unemployment to Non-Participation (NUN)
 - ▶ Unemployment to Non-Participation to Unemployment (UNU)

²This method is developed by M. Elsby, B. Hobijn, and A. Sahin in their paper “On the Importance of the Participation Margin for Labor Market Fluctuations” (Journal of Monetary Economics, 2015)

DeNUNification Results

- The table below shows that deNUNification does not impact our data as the averages and business cycle statistics are the same.

Statistic	Main Data	DeNUNified Data
Averages		
Quits	0.84	0.84
Layoffs	1.27	1.27
Total Separations	2.11	2.11
Layoffs share N	0.40	0.40
Correlation with Unemployment Rate		
Quits	-0.3929	-0.3917
Layoffs	0.6117	0.6119
Layoff share N	-0.6222	-0.6239
Quit share N	-0.1253	-0.1302

Table: Comparison with deNUNified data

Conclusion

- ▶ Removing workers who flip-flop between unemployment and non-participation has near zero impact on the business cycle statistics calculated from the QLmonthly data.