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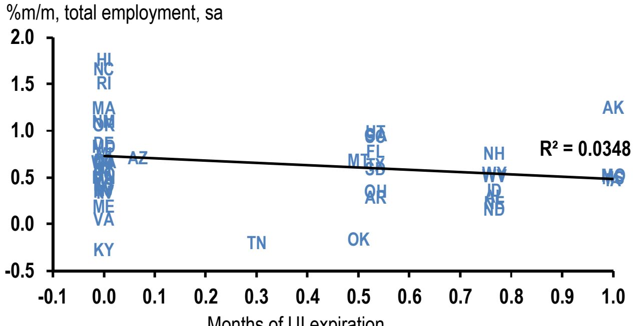
Economic Research Note

US: No effects of UI expiration in July labor market data

- **State ends to UI programs allow us to gauge impact on economy**
- **Labor market data and other indicators show no clear effect so far**
- **Negative demand shock from net loss of income after benefit end may offset individual labor supply effects**
- **Aggregate effects may become more evident over time**

Nearly half of US states have now ended expanded unemployment insurance benefits ahead of the federal end to the programs set for early September. We are closely monitoring activity in the states with early expirations to see how ending these programs impacts the economy, particularly given concerns about labor shortages and the possibility that expanded unemployment insurance has kept unemployed workers on the sidelines. Our earlier research failed to find large effects of ending the programs in jobless claims filings and alt-data indicators such as OpenTable dining and Google searches for "jobs" as a measure of job search effort. In this note we document that July employment growth does not seem to have been impacted by the changes to the unemployment insurance programs. There is essentially zero correlation between state-level employment growth in July and the time between the end of expanded UI benefits and the survey reference week (Figures 1 and 2). We similarly find no differences in earnings growth or labor force participation among those states that had ended benefits early (Figures 3 and 4). We will continue to closely monitor the state-level data as it may simply take some time for an effect to materialize in the aggregate data.

Figure 1: Employment growth and months of expired UI
%m/m, total employment, sa

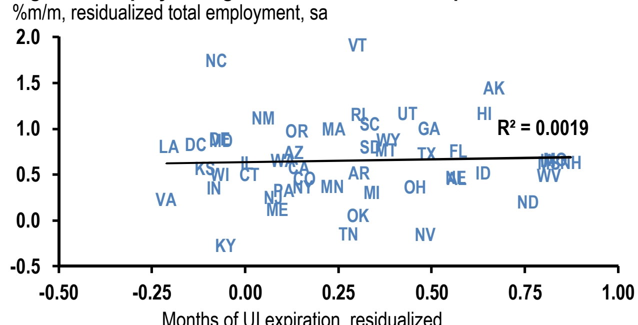


Source: BLS, J.P. Morgan

These recently released BLS state-level labor market data provide an important lens through which to examine the effects of the end of the UI programs since the other indicators we have analyzed to date provide an incomplete picture of labor market activity. For example, the lack of an effect on initial and continuing claims growth in regular state programs may simply obscure the employment effects of workers losing benefits through PUA and PEUC. Claims in these pandemic-related programs decline mechanically upon expiration of benefits and give no indication of employment outcomes after loss of benefits.

This matters since recent evidence from the academic literature suggests that job-finding rates did increase among some low-income, credit-constrained households after the loss of benefits. By contrast, the majority of such workers do not quickly find employment, which entails for them a net decline in income upon the expiration of expanded benefits. The negative demand shock arising from this loss of income could itself lead to job losses, potentially offsetting any gain in aggregate labor supply. Thus, the positive employment gains estimated from worker-level data may tend to overstate the aggregate employment effects.

Figure 2: Employment growth and months of expired UI, residualized
%m/m, residualized total employment, sa



Source: BLS, J.P. Morgan

One approach to jointly estimating the combined direct and indirect effects of ending UI benefits early is to directly analyze state-level employment data. To do so, we estimate the following state-level regression of July employment growth on the amount of time that had elapsed between the expiration of expanded UI benefits and July 12, the date determining the survey reference week[1]:

$$\Delta \ln(Emp_s) = \beta \times Months\ since\ ending\ UI + controls + \varepsilon_s$$

We include as controls in this regression a six-month moving average of lagged employment growth (to control for state-specific trends) and the percentage decline in employment in

[1] For example, all states that ended benefits on June 12 (Alaska, Iowa, Mississippi, and Missouri) have a value of 1 for "months since ending UI."

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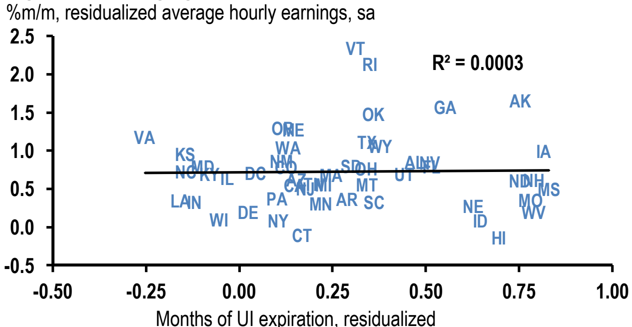
April 2020 (to control for severity of the pandemic downturn). Our estimate of β is close to zero and statistically insignificant, implying that state-level employment growth in July was uncorrelated with how much of the previous month expanded UI benefits had been expired. Figure 2 plots the variation between employment growth and months since UI benefits had expired after statistically removing the contribution of the two control variables.

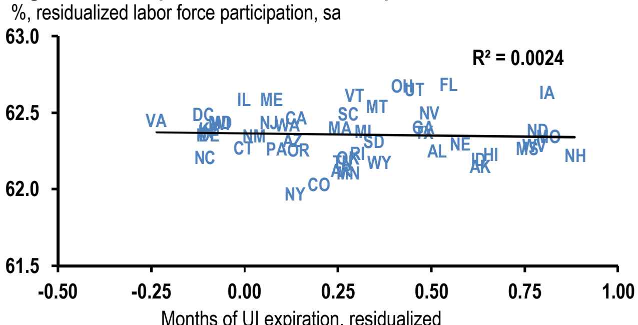
We similarly see no relationship between average hourly earnings and months since a state ended UI benefits (Figure 3). Labor force participation is likewise uncorrelated (Figure 4). Finally, we re-estimate the state-level employment growth regression for selected industries. There is no clear association between sectoral employment growth through July and UI benefits expiration (Figure 5).[2]

Figure 3: Earnings growth and months of expired UI, residualized
%m/m, residualized average hourly earnings, sa



Source: BLS, J.P. Morgan

Figure 4: Participation and months of expired UI, residualized
%, residualized labor force participation, sa



Source: BLS, J.P. Morgan

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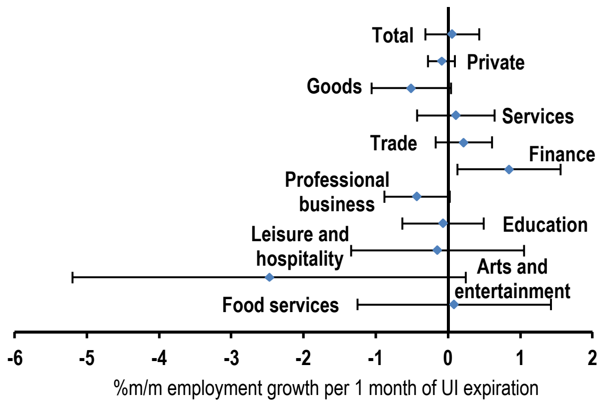
[2] The regressions underlying Figures 3 through 5 change the left-hand side variable to be the monthly percent change in average hourly earnings, the level of the labor force participation rate, and sector-specific employment growth. For the earnings regression we additionally control for the lagged six-month moving average in earnings growth. For the participation regression we control for the one-month lag of the level of the participation rate. The sector-specific regressions include a lag of the six-month moving average of sector-specific employment growth.

Figure 5: Estimated effect of UI expiration on employment growth
Selected industries (point estimates and 95% confidence intervals)



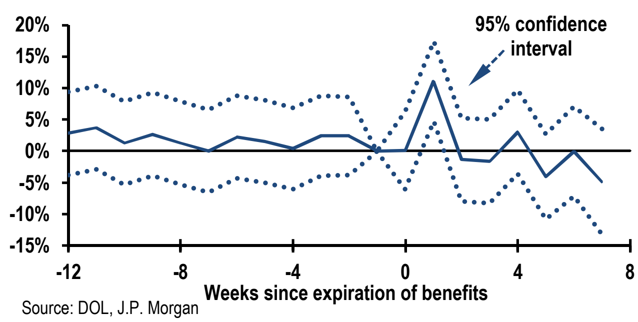
Source: BLS, J.P. Morgan

As a final observation, we study the effects of ending UI benefits on continuing claims growth using the same methodology from our [previous note documenting little to no evidence of an effect through early July](). Specifically, we plot the normalized coefficients from the following regression from a panel of states (s) and weeks (t):

$$\Delta ln(Claims)_{s,t} = \sum_{k=\underline{C}}^{\bar{C}} \beta_k \times \{k\ periods\ since\ "treatment"\} + \alpha_s + \gamma_t + \varepsilon_{s,t}$$

Even seven weeks following the expiration of benefits, there is no systematic effect on the pace at which continuing claims in regular state programs have declined (Figure 2). There is a spike in continuing claims growth following expiration of benefits—presumably from processing complications associated with ending pandemic-era benefits early—which is then followed by six weeks of growth rates statistically indistinguishable from zero. We find a similar lack of an effect in terms of initial claims growth.

Figure 6: Effect of UI cancellation on continuing claims growth
Estimated effect of expiration of expanded benefits on initial claims growth



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Correction: Corrected Figure 3 subhead

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