

Unemployment Claims - Spin Machine Set on "High"

Thursday, August 13, 2009, 11:19 am, by cmartenson

Initial jobless claims rose last week, a bit higher than expected, but that's not what was featured at the top of the article below.

Instead, the claim was made that because the number of people on the unemployment rolls dropped, that this was a signal that the labor market may be stabilizing.

This is an inappropriate and misleading claim to make.

U.S. Initial Jobless Claims Rose to 558,000 Last Week

*Aug. 13 (Bloomberg) -- The number of Americans filing first-time claims for jobless benefits unexpectedly rose last week, while **the number of people on unemployment rolls dropped to the lowest since April, signaling the labor market may be stabilizing as the recession eases.***

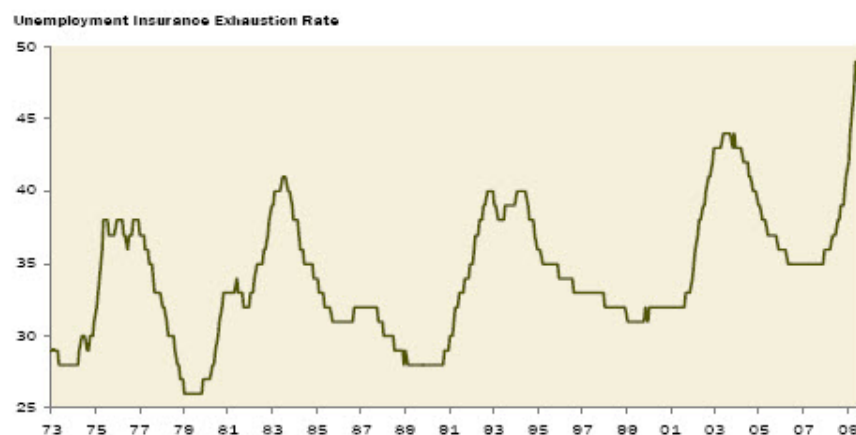
*Applications rose to 558,000 in the week ended Aug. 8 from a revised 554,000 the week before, the Labor Department said today in Washington, while staying under 600,000 for a sixth time. **The number of people collecting unemployment benefits fell by 141,000 in the week ended Aug. 1 to 6.2 million.***

The really interesting part about this is that a huge amount of electronic ink has been dedicated lately to the understanding that dwindling unemployment rolls is being driven to an enormous extent by the fact that benefits are running out for people.

This next chart ([source](#)) shows the unemployment insurance "exhaustion rate" stretching back more than three decades. When it is going up it means that more people are dropping off the rolls because their insurance ran out.

CHART 1: RECORD NUMBER OF UNEMPLOYED SEEING THEIR BENEFITS END

United States



Source: Bureau of Labor Statistics, Gluskin Sheff

We are seeing a record number of people losing their insurance, a multi-decade high in fact, and this is the primary reason that the unemployment insurance rolls have been dropping, not because these people have found jobs. On August 1st the NYTimes reported that by year end 1.5 million people will exhaust all their benefits and drop off the rolls.

Prolonged Aid to Unemployed Is Running Out

Over the coming months, as many as 1.5 million jobless Americans will exhaust their unemployment insurance benefits,

ending what for some has been a last bulwark against foreclosures and destitution.

Because of emergency extensions already enacted by Congress, laid-off workers in nearly half the states can collect benefits for up to 79 weeks, the longest period since the unemployment insurance program was created in the 1930s. But unemployment in this recession has proved to be especially tenacious, and a wave of job-seekers is using up even this prolonged aid.

Tens of thousands of workers have already used up their benefits, and the numbers are expected to soar in the months to come, reaching half a million by the end of September and 1.5 million by the end of the year, according to new projections by the National Employment Law Project, a private research group.

To put this in perspective, this is the same as if every single working person in Oregon were on the dole and ran out of benefits([source](#)). In a single year.

The confusing part is that there are now two sources of unemployment insurance for people; stateand federal (through the Emergency Unemployment Compensation benefits program).

Unemployment Insurance Extended Benefits

Extended Benefits are available to workers who have exhausted regular unemployment insurance benefits during periods of high unemployment. The basic Extended Benefits program provides up to 13 additional weeks of benefits when a State is experiencing high unemployment. Some States have also enacted a voluntary program to pay up to 7 additional weeks (20 weeks maximum) of Extended Benefits during periods of extremely high unemployment.

Checking into this second source, federal benefits, we note that this number actually increased and now stands at 2.78 million individuals:

PERSONS CLAIMING UI BENEFITS IN FEDERAL PROGRAMS (UNADJUSTED)

WEEK ENDING	July 25	July 18	Change	Prior Year
Federal Employees	19,568	19,783	-215	13,710
Newly Discharged Veterans	30,340	30,107	+233	20,993
Railroad Retirement Board	11,000	11,000	0	2,000
Extended Benefits	448,830	491,684	-42,854	1,831
EUC 20083	2,785,372	2,754,391	+30,981	747,707

Increased...

Further you might note that 448,000 people were receiving extended benefits during the week of July 25, a drop of -42,000 from the week prior. Neither of these two numbers, the EUC nor the extended, are a part of the headline drop of -141,000 in the unemployment rolls.

A complete and excellent explanation of this process can be found at[Mish's site](#).

Another is at [Barry Ritholtz' site](#).

Bottom line: there's a very different explanation for the drop in the unemployment rolls than a "recession that's easing" and it is not quite so nearly as positive. The explanation is that benefits are simply running out and people are dropping off the rolls.

I would anticipate, however, that congress will pass an extension of the extension before allowing a full 1.5 million people to slip entirely out of the social safety net.

And why not? There have been no limits to the printing efforts so far and seemingly no ill effects besides a return of risk-asset trading on Wall Street (which many consider a plus, not a minus).

But right now people are slipping off the unemployment rolls and for many that will be an extremely unpleasant experience. Remember, jobs are not yet being created. The excitement, such as it is, stems from the fact that we are losing them at a slower pace.

<http://www.chrismartenson.com/blog/unemployment-claims-spin-machine-set-high/24950>