

Illinois' real unemployment rate

Estimating an alternative unemployment rate in light of the Great Recession and Illinois' slow recovery



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Executive summary

The unemployment rate is a state's most closely monitored indicator of economic health. The Illinois unemployment rate rose sharply through the Great Recession, and continues to fluctuate and trend downward as a result of both economic growth and a shrinking workforce.

Illinois' working-age adult population, from which the workforce is drawn, has grown by nearly 300,000 since the start of the recession. Despite this growth in the working-age population, the Illinois workforce has shrunk by 226,000 over the same period. This leaves a gap of more than 500,000 working-age Illinoisans who either dropped out of the workforce or never entered it.

Thus, more than 500,000 Illinoisans are missing from the calculation of the state's unemployment rate. To draw a more accurate indicator from employment data, it is necessary to address not only those who are currently unemployed, but also the missing 500,000 Illinoisans, along with those who are employed part time for economic reasons.

Indeed, Illinois state law sets precedent in accounting for people who have dropped out of the workforce when

calculating unemployment. This precedent directs the analysis in this report. Alternative measures of unemployment show a more accurate picture of the true health of Illinois' economic state. The alternative unemployment rate for Illinois, which includes long term unemployed workers and partially employed workers, is as high as 18.1 percent.

Workers dropping out of the workforce drives down the state's unemployment rate. However, worker dropout is not a sign of a healthy state economy. On the contrary, a strong labor market would show a workforce growing in lockstep with the adult population, with marginally employed Illinoisans being lured to work by quality job opportunities. As it is, Illinois is on pace to recover from the Great Recession in September 2021,¹ a full seven years from now. Such a slow recovery should give policymakers pause, especially in consideration of the fact that Illinois is regularly listed as one of the least competitive states in the U.S. for economic policy by both CEOs² and small business owners.³

Introduction

The unemployment rate measures the percentage of the labor force that is searching for but unable to find work. The labor force, in turn, is the fraction of the adult population that is either working or looking for work. The adult population is technically referred to as the "civilian non-institutional population," which includes adults age 16 and older who are neither imprisoned nor in the military.⁴

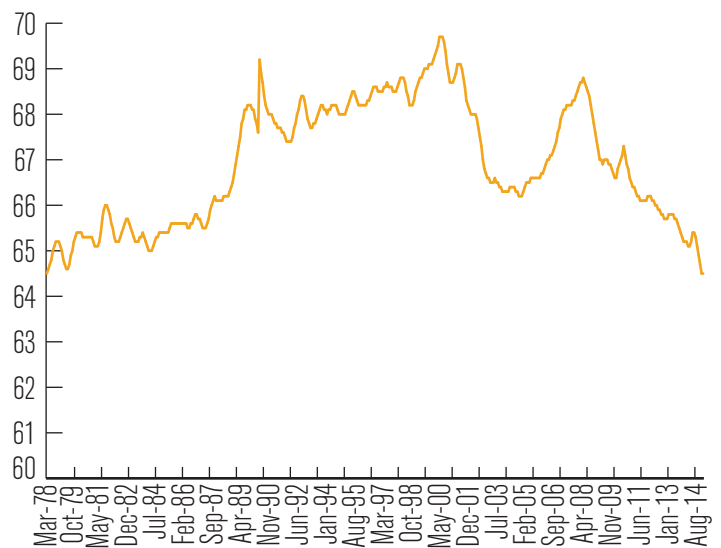
In the last six months alone, the unemployment rate in Illinois has declined from 8.4 percent to 6.6 percent, a seemingly impressive improvement. However, the falling unemployment rate does not tell the whole story of what has been happening in Illinois. In the same six months, Illinois' workforce shrank by 76,259 people, a shocking rate of decline. More than 60 percent of the reduction in the number of unemployed was due to workers dropping out of the workforce.

The timing of this workforce decline coincided roughly with the end of extended unemployment benefits, which Congress cut in December 2013,⁵ In fact, the biggest month of workforce dropout in state history occurred in June 2014,⁶ exactly six months after Congress limited unemployment benefits.

As a result, Illinois' labor force participation rate plummeted to a new 36-year low of 64.5 percent in August, and remained at that low in September.

Illinois labor participation rate in collapse

Illinois labor force participation rate, 1978-2014



Source: Bureau of Labor Statistics

Over the recession timeline, Illinois' workforce has contracted more severely than that of any other state in the Midwest. The percentage of Illinois' adult population engaged in the labor market fell to 64.5 percent from 68.8 percent, for a 4.3 percentage point decline since January 2008.

Illinois labor force participation rate falls hardest in Midwest

Change in labor force participation rate by Midwest state, January 2008 – September 2014

| State | Change in labor force participation rate, January 2008 - September 2014 |
|--------------|---|
| Kansas | -2.1 |
| Iowa | -2.2 |
| Minnesota | -2.4 |
| Missouri | -2.6 |
| Nebraska | -2.8 |
| Wisconsin | -2.8 |
| North Dakota | -3.2 |
| South Dakota | -3.4 |
| U.S. average | -3.5 |
| Indiana | -3.5 |
| Ohio | -3.9 |
| Michigan | -4.1 |
| Illinois | -4.3 |

Source: Bureau of Labor Statistics

The number of people working in Illinois, and in the U.S. in general, peaked in January 2008 as the recession began. As of September 2014, Illinois still has 286,126 fewer people working as compared to the January 2008 prerecession peak.⁷ The U.S. as a whole has more people working today than when the recession began.⁸

Changing demographics

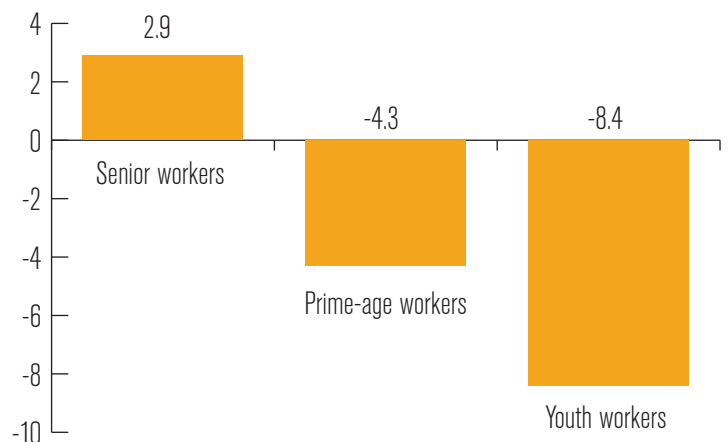
The common explanation for the falling labor force participation rate is that Baby Boomers are retiring and driving down the participation rate. Research from the White House's Council of Economic Advisors suggests that approximately half of the decline in the national labor participation rate can be attributed to retiring Baby Boomers.⁹

However, this is not a conclusive explanation for Illinois. Over the course of the recession, the employment rate for senior workers (age 55 and older) actually increased, while it fell for prime-age workers (25-54) and dropped dramatically for youth workers (16-24).

In 2006, before the recession, the senior employment rate was 36.9 percent. As of 2013, the employment rate was 39.8 percent, indicating that seniors have become more likely to work as the recession and recovery have played out.¹⁰

Seniors see employment gains over recession timeline

Change in employment rate by age group, annual averages 2006-2013



Source: Illinois Department of Employment Security

Alternative measures of unemployment¹¹

The Bureau of Labor Statistics provides metrics for alternative unemployment rates. The standard headline unemployment rate is termed the U-3 rate. This is calculated by dividing the total number of work-seeking unemployed by the labor force. As of September 2014, Illinois' U-3 unemployment rate was 6.6 percent.

The U-4 unemployment rate adds in discouraged workers with the U-3 unemployed. Discouraged workers are described as "persons not in the labor force who want and are available for a job and who have looked for work sometime in the past 12 months (or since the end of their last job if they held one within the past 12 months), but who are not currently looking because they believe there are no jobs available or there are none for which they would qualify."¹²

The U-5 unemployment rate includes all marginally attached workers, of which discouraged workers are a subset. Marginally attached workers are those who have not sought work in the last 4 weeks. They are "persons not in the labor force who want and are available for work, and who have looked for a job sometime in the prior 12 months (or since the end of their last job if they held one within the past 12 months), but were not counted as unemployed because they had not searched for work in the four weeks preceding the survey."¹³

The U-6 unemployment rate adds in all marginally attached workers along with those working part time for economic reasons, and takes this amount as a percentage of the labor force plus all marginally attached workers.¹⁴

Over the five years of the recession through 2013, Illinois' U-6 unemployment rate has averaged 16.7 percent, and not shown signs of substantial recovery.

Alternative measurements of unemployment in Illinois

U-3, U-4, U-5 and U-6 unemployment in Illinois, annual averages 2009-2013

| Year | U-3 | U-4 | U-5 | U-6 |
|------|------|------|------|------|
| 2009 | 10 | 10.4 | 11.2 | 17 |
| 2010 | 10.2 | 10.8 | 11.4 | 17.5 |
| 2011 | 9.7 | 10.2 | 10.9 | 17 |
| 2012 | 8.7 | 9.3 | 10 | 16 |
| 2013 | 9.1 | 9.6 | 10.4 | 16 |

Source: Bureau of Labor Statistics

The component of marginally attached workers (U-5, which includes U-4) adds, on average, 1.24 percentage points to an alternative unemployment rate. However, because this metric only counts labor-force dropouts as long-term unemployed during their first 12 months of being unemployed, it fails to capture the depth of the damage wrought on Illinois' labor markets by the Great Recession and Illinois' weak recovery.

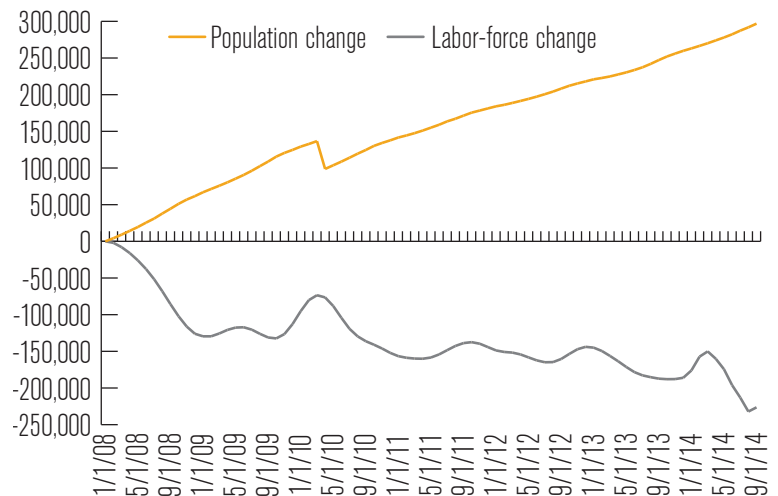
The components measuring those working part time for economic reasons add, on average, 5.92 percentage points to Illinois' alternative unemployment rate.

Labor-force dropouts vs. population growth

Illinois' workforce has shrunk by 226,363 people since employment losses from the Great Recession began in January 2008. Meanwhile, the state's working-age population has grown by 296,847. In combination, Illinois' growing population and shrinking workforce leave a gap of more than 500,000 Illinoisans to consider when calculating the state's alternative unemployment rate.

Illinois' workforce shrinks while the working-age population grows

Change in labor force and working-age population, January 2008 - September 2014



Source: Bureau of Labor Statistics

A more robust consideration of discouraged and marginally attached workers should consider labor-force dropouts who are unemployed and have not sought work for more than 12 months.

Illinois statute already accounts for such long-term unemployed who have stopped looking for work to be included in unemployment rate calculations. According to the Illinois Enterprise Zone Act (20 ILCS 655/), economically depressed areas must be determined by calculating unemployment to include the long-term unemployed who have exhausted unemployment benefits. According to the enterprise zone law:

“Any criteria established by the Department or by law which utilize the rate of unemployment for a particular area shall provide that all persons who are not presently employed and have exhausted all unemployment benefits shall be considered unemployed, whether or not such persons are actively seeking employment.”

Therefore, the proper number of persons to be considered unemployed is some portion of the dropouts and the new entrants into the working-age population who never went to work. This can be dealt with by addressing each component separately.

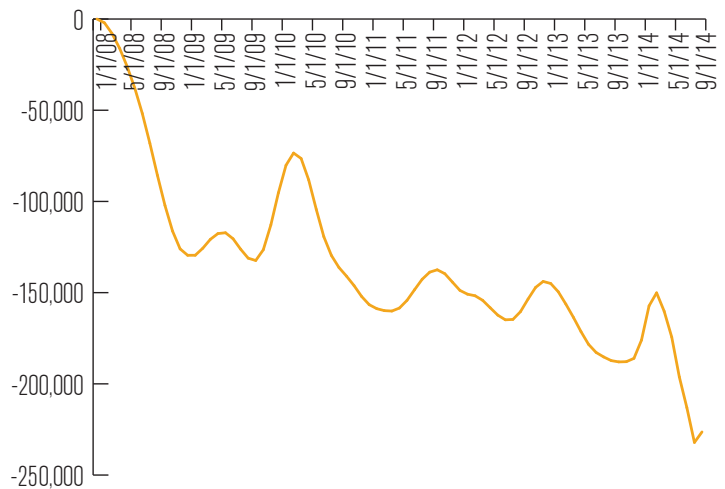
■ Workforce dropouts

The 226,363 Illinoisans who are represented by the state’s shrinking workforce are effectively long-term unemployed Illinoisans. This is the count of the net loss of Illinoisans who sought work before the recession, but who no longer do.

Like all states, Illinois has a growing population as a result of more births than deaths. However, this natural population growth is tamped down by population losses due to net out-migration. Despite Illinois suffering annual losses of people and income to other states,¹⁵ the state’s working-age population continues to grow. Thus, the workforce dropouts can be appropriately understood as long-term unemployed, especially in consideration of the fact that employment has been trending up for senior-age workers.

Illinois workforce shrinks by 226,000

Change in workforce, January 2008 – September 2014



Source: Bureau of Labor Statistics

■ Working-age population growth

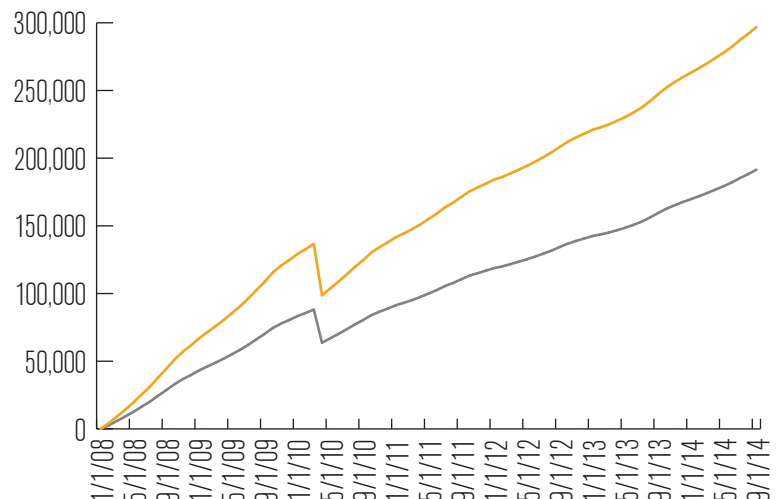
Illinois’ working-age population has grown by 296,847 in the recession time period. However, not all of these people should be considered workforce dropouts, because not all Illinoisans go to work.

The ratio of the working-age population that would be expected to work in a healthy economy is the labor force participation rate. The participation rate, which currently stands at 64.5 percent, is at historical lows. This provides a conservative estimate of the fraction of the 296,847 Illinois who are effectively long-term unemployed.

This total count is 191,466 Illinoisans.

Illinois’ working-age population growth and expected labor participation

Change in working-age population and expected workforce growth, January 2008-September 2014



Source: Bureau of Labor Statistics

■ Calculating Illinois' alternative unemployment rate

The unemployment rate is calculated by dividing the number of unemployed by the workforce. In order to calculate an alternative unemployment rate, the long-term unemployed must be added to both the labor force and the count of the unemployed.

A constant of 5.92 percent was used as an average of the previous five years of "underemployed" data in order to include underemployed workers in the alternative unemployment rate.

Illinois' alternative unemployment rates

Current U-3, alternative U-5 and alternative U-6 unemployment rates for Illinois

| Unemployment measure | Labor force | Unemployed | Unemployment rate |
|---|-------------|------------|-------------------|
| Illinois current U-3 | 6,499,577 | 427,574 | 6.6 |
| *Illinois alternative U-5 unemployment | 6,917,406 | 845,403 | 12.2 |
| **Illinois alternative U-6 unemployment | 6,917,406 | 1,254,913 | 18.1 |

**With long-term unemployed from labor-force dropouts of 226,363 and implied dropouts of 191,466*

***With 5.9 percent underemployed represented as unemployed*

Source: Bureau of Labor Statistics, Illinois Policy Institute estimates

■ Conclusion

Illinois' current unemployment rate of 6.6 percent is second highest in the Midwest; only Michigan's 7.2 percent is worse. However, Illinois' 6.6 percent figure ignores the problems of Illinois' long-term unemployed, labor-force dropouts and underemployed workers.

This analysis provides an estimate of alternative unemployment rates by considering the long-term unemployed and underemployed as a part of its calculation. Alternative

assumptions could lead to slightly higher or lower alternative unemployment rates. However, five years since the end of the Great Recession, Illinois should be seeing a far better recovery than the one indicated by these alternative unemployment rates.

Endnotes

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- ⁴ "Frequently asked questions," Bureau of Labor Statistics, at http://www.bls.gov/dolfaq/bls_ques23.htm
- ⁵ Wernau, Julie, "Some will be hit hard as extended unemployment benefit vanishes," Chicago Tribune, Dec. 28, 2013 at http://articles.chicagotribune.com/2013-12-28/business/ct-biz-1228-unemployment-benefits-20131228_1_unemployment-benefit-unemployment-rate-benefits-program
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- ⁷ Lucci, Michael, "Illinois payrolls increase, manufacturing declines," Illinois Policy Institute, Oct. 21, 2014, at www.illinoispolicy.org/illinois-payrolls-increase-manufacturing-declines/
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- ⁹ Furman, Jason, "The labor force participation rate since 2007: causes and policy implications," White House Council of Economic Advisors, July 2014 at www.whitehouse.gov/sites/default/files/docs/labor_force_participation_report.pdf
- ¹⁰ Lucci, Michael, "Who's hurting in Illinois?," Illinois Policy Institute, Sept. 2014, at www.illinoispolicy.org/wp-content/files_mf/1411070599whos_hurting.pdf#
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- ¹² www.bls.gov/bls/glossary.htm#discouraged_workers
- ¹³ www.bls.gov/bls/glossary.htm#discouraged_workers
- ¹⁴ www.bls.gov/bls/glossary.htm#discouraged_workers
- ¹⁵ Moody, Scott, "Policy lessons from Illinois' exodus of people and money," Illinois Policy Institute, July 2014, at www.illinoispolicy.org/wp-content/files_mf/1404937178Moody_out_migration.pdf

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