JOINT ECONOMIC COMMITTEE
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What Do Initial Jobless Claims Tell Us?

New claims for unemployment insurance benefits have fallen sharply in recent months. New claims have declined from a weekly average of almost 450,000 last May to less than 350,000 in recent weeks. This decline confirms that the job market has been strengthening.

What are Jobless Claims?

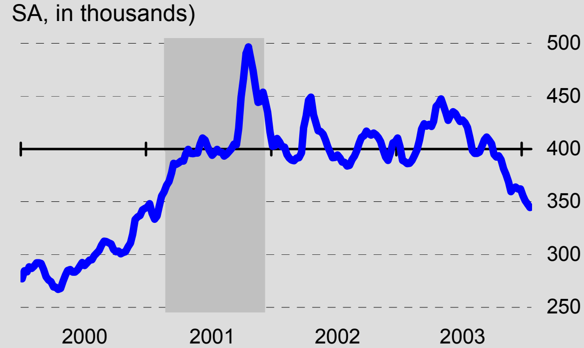
Jobless claims represent applications by unemployed workers for temporary financial benefits from state unemployment insurance agencies. Unemployment insurance, which covers over 90 percent of civilian employment, is a combined state and federal program administered separately by each state within federal guidelines. State and federal unemployment taxes paid by employers fund benefits for unemployed workers who meet eligibility requirements and file claims.

Every Thursday the Employment and Training Administration of the Department of Labor reports the number of workers who have posted initial and continuing claims in prior weeks. An initial jobless claim represents a new application for benefits, while a continuing claim represents an unemployed worker who has been receiving benefits and remains eligible for further benefits.

What Do Initial Jobless Claims Tell Us?

- Job markets are strengthening. Initial claims have fallen repeatedly and substantially over the last eight months to levels not seen since before the recession.
- The terrorist attacks of 9/11 had a significant impact on employment. Initial jobless claims spiked up to almost 500,000 in the aftermath of the attacks.
- Labor markets began to weaken in 2000; initial claims began to increase early in the year, growing from below 300,000 to around 350,000 per week.

Jobless Claims Trending Downward
(Weekly initial jobless claims, 4-week moving average, SA, in thousands)



Source: Department of Labor Gray bar denotes recession

How Should Initial Claims Data Be Interpreted?

Economists use initial claims to measure the pace of layoffs and the strength of the labor market. A low level of initial claims indicates a slow pace of layoffs and vice-versa. Weekly claims data can vary quite a bit, so analysts often look at a four-week moving average of initial claims—a “tracking poll” that shows underlying trends in the numbers. Consistent declines in the four-week moving average of initial claims, as we have witnessed over the past eight months, indicate a strengthening labor market.

As a rule of thumb, economists often use initial claims of 400,000 per week as a threshold: initial claims above 400,000 signal declines in employment and below 400,000 signal stabilizing or increasing employment. The farther initial claims fall below 400,000 per week, the more likely it is that there are substantial job gains in the economy. Initial claims have recently averaged less than 350,000, indicating that labor markets are improving and suggesting that job growth should accelerate.