

US Macroeconomics

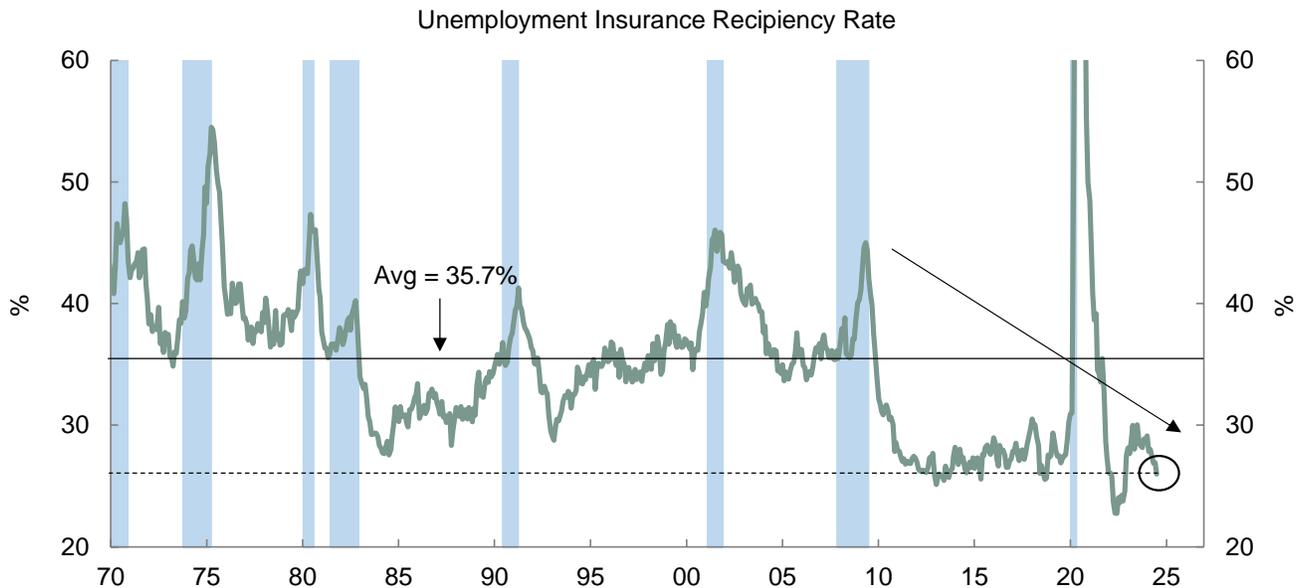
August 22, 2024

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Why Aren't More People Collecting Unemployment Insurance?

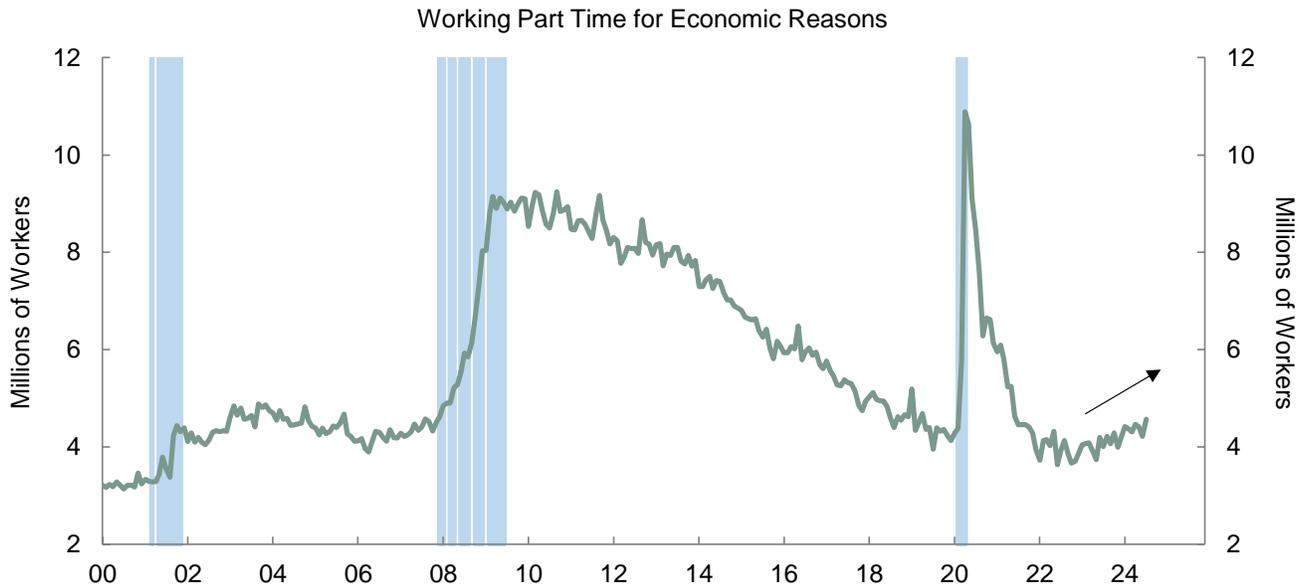
Although *trending* higher, the *level* of claims still sits near historic lows. The labor market is strong but is downshifting. Behind today's ultra-low 232,000 jobless claims figure however, is a series of factors that may be chilling the use of unemployment insurance that we detail here. As a result, **the labor market may be weaker than what is indicated by jobless claims data.**

To receive unemployment benefits, applicants need to be eligible across a few parameters. First, states individually determine eligibility, and this can sometimes lead to widely varying eligibility rates and reciprocity. **UI reciprocity has collapsed since 2009 and is around record lows.** This is shown below, which charts the percentage of those receiving benefits divided by the number of unemployed persons (known as the "UI reciprocity rate"). This data series is one indication to us that **states may be tightening requirements leading to fewer claimants.**



Source: Department of Labor, BLS, Haver, SMBC Nikko

Second, and on a closely related note, **benefits received under these programs may be too low** when compared to the benefits of working part-time or freelancing. Put another way, 'why bother filing if UI benefits are so low?' Some astute empirical [analysis](#) supports this thesis. If this were the case, one should expect to see the number of people "working part time for economic reasons" rising, and indeed this is occurring.



Source: BLS, Haver, SMBC Nikko

Third, **new entrants into the labor market are not allowed to collect benefits.** This is key because job openings have been quickly declining, a dynamic which likely affects younger workers disproportionately. These new labor market entrants may not be finding jobs or collecting benefits and are thus not counted in the jobless claims data. Yet, these folks would, be considered ‘unemployed’ by any nontechnical definition.

Lastly, **some states have provisions either limiting or outright disqualifying applicants from collecting benefits if they have received severance.** This mainly applies to “white-collar” occupations and may be a secondary factor contributing to the artificially low claims figures, especially if we consider the tech sector’s lay-off [activity](#) in recent years.

Another argument some analysts have made is that **benefits have been used-up** because over 23 million people were collecting unemployment insurance during the pandemic (week ending May 8, 2020), and thus cannot collect again. Although this is possible, we are less convinced of this argument because states generally allow workers to re-file for benefits after working for a period of time.

Amidst a variety of factors listed, the suspected changes to eligibility and/or to the size of benefits, in our view, offer the most compelling reasons for why jobless claims may not be rising as much as the unemployment rate or other labor market indicators might suggest. Nevertheless, the labor market does continue to slow as demonstrated by the uptrend in jobless claims and the unemployment rate. We expect this to continue as leading indicators such as temporary help service employment, manufacturing overtime hours, the number of job openings, the quits rate, the ISM employment series, and housing sector data all suggest a further downshifting in the labor market is ahead.

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