

Labor Supply and Demand in Virginia: A Dynamic Approach to Understanding the Labor Force Second Quarter 2018

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***Note:** Unless otherwise noticed, all figures and tables are produced from data provided by the Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics program. Data on the Alternative Measures of Labor Underutilization can be obtained at the following website: <https://www.bls.gov/lau/stalt.htm>. Previous versions of this report can be found under the title “Alternative Measures of Labor Underutilization.”

Current Supply and Demand in Virginia

The most recent four-quarter average for the alternative measures of labor underutilization ends with the second quarter of 2018. As evidenced in **Table 1**, every measure once again decreased from the previous average. This marks four consecutive quarters with no increases recorded for any of the six measures of labor underutilization. This is the longest streak of no increasing rates since before the Great Recession (rates either remained steady or decreased from Second Quarter 2006 through Second Quarter 2007). While U-1 and U-2 had the smallest decreases of 0.2 percentage point, the decline in other measures was slightly more substantial with U-6 dropping by an impressive 0.4 percentage point. Moreover, this is the first time that U-1 has been below 1.0 percent since the first quarter of 2008. Looking at over-the-year changes, all measures are again markedly down with U-6 again having the greatest transformation with a 0.8 percentage point decline from the same point last year.

One takeaway worth noting is that U-6 continues to be the rate with the highest decline. At the surface level, this is intuitive as it has the broadest definition of labor underutilization, and thus the greater probability of movement. Looking deeper, the fact that U-6 now has the highest rate of decline also means that the population of interest (those involuntarily working part-time) has declined. While this is a positive indicator of the labor market, it does not mean that fewer individuals are working part-time, nor does it give us any insight into whether or not individuals are working multiple jobs in order to make ends meet. In fact, individuals taking multiple jobs in light of stagnant wages is a phenomena that is believed by many economists to be on the rise throughout the county. However, a silver lining we see in the data is that a healthy supply of jobs is available. This is a point of promise for those wishing to leave a job to look for one that is better paying, or hoping to compensate with additional work as they can be more confident of job opportunity; a confidence that was severely lacking at the beginning of the decade.

Comparing Virginia’s underutilization to that of the nation, **Table 1** illustrates that the commonwealth continues to outperform the national average across every measure as it has since data collection began in 2003. Only 20 other states are currently below the national average in every measure. Furthermore, Virginia has the lowest underutilization rates of all neighboring states in every measure. Tennessee is the only other state below the nation in all measures, while the District of Columbia and West Virginia are above the national average across all six measures.

Finally, we turn to **Table 2** and the measures of job-seeker discouragement and underemployment. As stated above, U-6 suggests that Virginia currently has adequate labor demand for the current underemployed and discouraged populations. This may be in part due to the change (or lack thereof) in these populations. In the most recent quarter, job-seeker discouragement remained steady at 0.2 percent, while being slightly down over-the-year. Similarly, our measure of underemployment has inched down 0.1 percentage point from last quarter to 3.1 percent, and is down a full 0.3 percentage point over-the-year. The national average behaved similarly, with Virginia slightly outperforming on the measure of discouragement, and remaining at parity with the county for underemployment.

In totality, Virginia's measures of labor underutilization continue to improve. This suggests that the labor market is currently at a healthy equilibrium between the supply of and demand for labor. That being said, the possibility remains that this may not hold if stagnant wages begin to increase dissatisfaction in the workforce. Such an occurrence could result in an increase in the number of individuals seeking multiple jobs in order to compensate. In the immediate years following the last recession, this number shrank as many were able to return to previously held positions or find new ones. At the same time, business and consumer confidence began to grow which resulted in a higher demand for labor, of which there was adequate supply following a recession. Now that the economy has recovered and the commonwealth and country are at full employment, individuals are likely to turn their attention from finding an adequate job, to finding a better job. It is in this change that the potential lies for labor underutilization to begin ticking back up, particularly with regards to underemployment and job-seeker discouragement. To end on a positive note, we are currently still enjoying high levels of confidence throughout the economy, which is allowing our labor supply and demand to remain in equilibrium.

Appendix

Table 1: Alternative Measures of Labor Underutilization

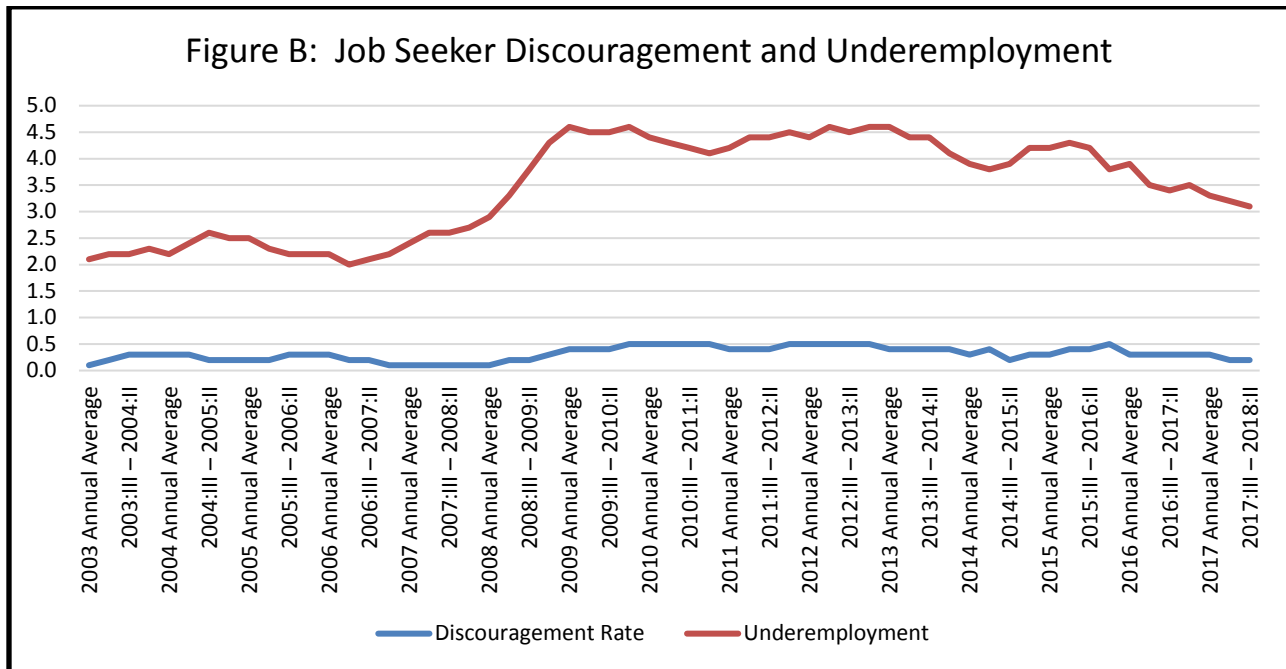
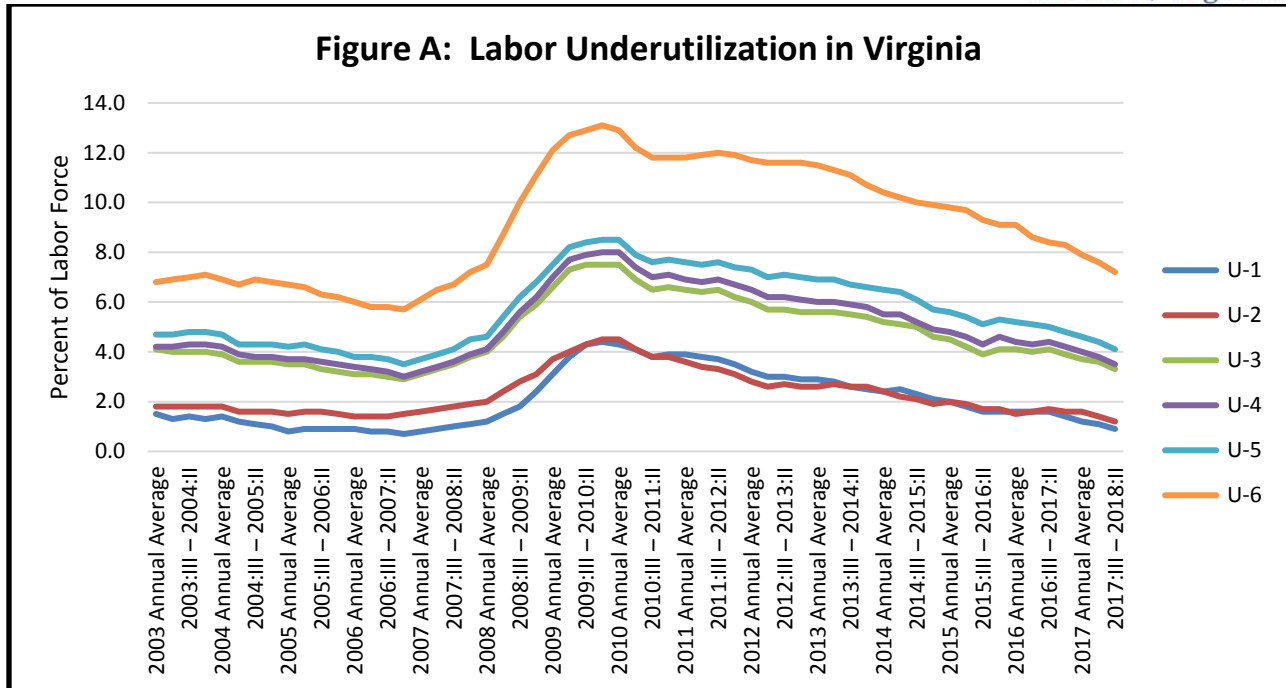
Measurement	Virginia's current 4 quarter average (2017:III – 2018:II)	Virginia's previous 4 quarter average (2017:II – 2018:I)	National Data (2017:III – 2018:II)	Virginia's 4 quarter average from previous year (2016:III – 2017:II)
U-1	0.9	1.1	1.5	1.6
U-2	1.2	1.4	2.0	1.7
U-3*	3.3	3.6	4.1	4.1
U-4	3.5	3.8	4.4	4.4
U-5	4.1	4.4	5.0	5.0
U-6	7.2	7.6	8.1	8.4

* Measurement utilized as the "official" unemployment rate, defined as the total number of unemployed reported as a percentage of the civilian labor force

Note: Quarters reflect calendar year and not Virginia's fiscal year. National Data is seasonally adjusted.

Table 2: Underemployment and Job Seeker Discouragement

Measurement	Virginia's current 4 quarter average (2017:III – 2018:II)	Virginia's previous 4 quarter average (2017:II – 2018:I)	National Data (2017:III – 2018:II)	Virginia's 4 quarter average from previous year (2016:III – 2017:II)
Underemployment	3.1	3.2	3.1	3.4
Job Seeker Discouragement	0.2	0.2	0.3	0.3



Glossary of Terms

Civilian Labor Force: All persons classified as employed or unemployed. Civilian meaning not living in institutions such as correctional facilities, long-term care hospitals, and nursing homes, and not on active duty in the Armed Forces

Discouraged Workers: 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

Employed: Persons 16 years and older in the civilian non-institutional population who, during the reference week, (a) did any work at all (at least 1 hour) as paid employees; worked in their own business, profession, or on their own farm, or worked 15 hours or more as unpaid workers in an enterprise operated by a member of the family; and (b) all those who were not working but who had jobs or businesses from which they were temporarily absent because of vacation, illness, bad weather, childcare problems, maternity/paternity leave, labor-management dispute, job training, or other family or personal reasons, whether or not they were paid for the time off or were seeking other jobs. Each employed person is counted only once, even if they hold more than one job.

Involuntary Part-Time Workers: Persons who are available and want to work full-time, but accept part-time work for economic reasons

Job Losers: Unemployed persons who involuntarily lost their last job or who had completed a temporary job. This includes persons who were on temporary layoff expecting to return to work, as well as persons not on temporary layoff. Those not on temporary layoff include permanent job losers and persons whose temporary jobs had ended.

Job-seeker Discouragement: A measurement of would-be job-seeker discouragement, calculated as the difference between alternative measures U-4 and U-3. While the actual figure is somewhat artificial and difficult to interpret on its own, the overall trend gives an idea of perceptions about the labor market.

Marginally Attached Workers: 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 4 weeks preceding the survey. Discouraged workers are a subset of the marginally attached.

Marginally Attached Workers Plus Civilian Labor Force: Measure of the "Full" labor force, often used when calculating alternative measures of underutilization in order to include discouraged workers

Underemployment: A measurement of the underemployment rate, calculated as the difference between alternative measures U-6 and U-5. This essentially looks at the widest possible definition of unemployment and the labor force, and separates out those that, while employed, feel that they are not in a position which suits their needs and abilities.

Unemployed: Persons aged 16 years and older who had no employment during the reference week, were available for work, except for temporary illness, and had made specific efforts to find employment sometime during the 4-week period ending the reference week. Persons who were waiting to be recalled to a job from which they had been laid off need not have been looking for work to be classified as unemployed.

U-1: Persons unemployed 15 weeks or longer, as a percent of the civilian labor force

U-2: Job losers and persons who completed temporary jobs, as a percent of the civilian labor force

U-3: Total unemployed, as a percent of the civilian labor force (this is the definition used for the official unemployment rate)

U-4: Total unemployed, plus discouraged workers, as a percent of the civilian labor force, plus discouraged workers

U-5: Total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force, plus all marginally attached workers

U-6: Total unemployed, plus all marginally attached workers, plus total employed part-time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers

U-1 Diff.: Difference between alternative measure U-1 and official unemployment measure U-3

U-2 Diff.: Difference between alternative measure U-2 and official unemployment measure U-3

U-4 Diff.: Difference between alternative measure U-4 and official unemployment measure U-3

U-5 Diff.: Difference between alternative measure U-5 and official unemployment measure U-3

U-6 Diff.: Difference between alternative measure U-6 and official unemployment measure U-3