

# Research Notes



Alternative Measures  
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## Including Discouraged Workers Adds 0.4 Point to the “Official” Unemployment Rate

| Alternative Measures of Labor Underutilization<br>(2017 Annual Average) |  |       |
|---|--|-------|
| Measure   | Underutilization Concept   | Level |
| Official Rate   | jobless persons available to take a job who have actively sought work in the past four weeks | 4.9%  |
| U-1   | jobless 15 weeks or longer   | 1.8%  |
| U-2   | job losers and persons losing a temporary job  | 2.7%  |
| U-3   | similar to official rate   | 5.0%  |
| U-4   | U-3 plus discouraged workers   | 5.4%  |
| U-5   | U-4 plus others marginally attached to the labor force                                       | 6.3%  |
| U-6   | U-5 plus those employed part-time for economic reasons                                       | 10.8% |
| Official Rate: 2017 annual average                                      |  |       |

- Six alternative measures of labor underutilization have long been available on a monthly basis from the Current Population Survey (CPS) for the United States as a whole. The official concept of unemployment (as measured in the CPS by U-3 in the U-1 to U-6 range of alternatives) includes all jobless persons who are available to take a job and have actively sought work in the past four weeks. This concept has been thoroughly reviewed and validated since the inception of the CPS in 1940. The other measures are provided to data users and analysts who want more narrowly (U-1 and U-2) or broadly (U-4 through U-6) defined measures. The use of four-quarter averages for states increases the reliability of the CPS estimates, which are based on relatively small sample sizes at the sub-national level, and eliminates seasonality. Due to the inclusion of lagged quarters, the state alternative measures may not fully reflect the current status of the labor market.
- U-3, which averaged five percent in Nevada over 2017, is the total of unemployed workers as a percentage of the civilian labor force. This is most similar to the official rate, which measured 4.9%<sup>1</sup> in this period.
- U-4 adds discouraged workers to U-3, bringing the underutilization level to 5.4%. Discouraged workers are those people who would like to work, but have stopped looking for work because they believe there are no jobs to be filled.
- Marginally attached workers, the addition to U-5, have not searched for work for reasons other than belief that there are no jobs to fill (school attendance, transportation problems, poor health, family responsibilities, etc.), totaling 6.3%.
- Finally, U-6 adds part-time workers (working less than 35 hours per week) who would rather be working full-time, but cannot due to economic reasons including having their hours cut or being unable to find full-time work. This leads to a U-6 underutilization rate of 10.8%.
- There has been significant improvement in all Alternative Measures in Nevada over the recovery period. For instance, at the height of the recession, counting discouraged workers among the unemployed added 1.1 points to the official unemployment rate. The U-6 measure has been cut more than half from its recessionary peak of 23.7% over the year ending 2011:1Q. Despite this improvement, Nevada’s measure is still the third-highest in the U.S.

<sup>1</sup> Note that, in the table and in the comparisons below, the unemployment rate (U-3) that is shown is derived directly from the Current Population Survey, because this is the only source of data for the various components of the other five measures. As a result, the U-3 measure can differ from the official State unemployment rate. The official rate is developed from statistical models that greatly improve the reliability of the labor force and unemployment estimates.