WHAT ISN’T THE UNEMPLOYMENT RATE TELLING US?

Currently across the United States economy, unemployment rates are low – sometimes an indicator of a healthy economy where people who want jobs are employed and employers are equally all staffed up. But a quick glance at the headlines tells a different story, as many major employers are struggling to find workers to fill positions. With low unemployment rates and monthly jobs reports in the hundreds of thousands, what isn’t this indicator telling us?

The unemployment rate measures the proportion of people actively seeking work (the labor force) but unable to find a position. What this rate doesn’t tell us is how the numbers on either side of the equation are moving – is the unemployment rate declining because the number of unemployed persons are declining, or because the labor force is increasing? Each of these scenarios points to different things going on in the economy, one of the many reasons economists look at more than just the unemployment rate to get an understanding of the health of an economy’s workforce.

Since the onset of the pandemic, the overall labor force – the total number of people who are employed or actively seeking employment – has shrunk. Since January 2020, the seasonally adjusted labor force in the US has declined by 1.3%, with more dramatic declines of nearly 5% in Hampton Roads and 4.3% in Virginia (December 2021 BLS data). The pandemic lead many to leave the workforce either for early retirement, for childcare reasons, fear of getting sick, to start their own business, and many other reasons, but it has become clear that the labor force in Hampton Roads and Virginia is recovering much more slowly than the US overall. But with unemployment rates technically lower in Hampton Roads than the rest of the US, the situation at a cursory glance may be overlooked.

An interesting statistic to review is the percentage of the labor force (seasonally adjusted) that is employed. In the below chart, the dark solid lines represent this ratio in Hampton Roads, Virginia, and the United States, indexed to 100 in January 2020 for direct comparison to pre-pandemic labor force levels. While all three geographies saw a drastic initial decline in the percentage of labor force that is employed, the recovery has been steady, with about 96% of the current labor force reporting as being employed in the US, Virginia, and Hampton Roads. However, once we compared current employment levels with pre-pandemic labor force levels, the data showed that while in the US roughly 95.2% of the labor force would be employed, in Virginia 92.7% and Hampton Roads 91.4% would be employed. This simulation was performed using the average of the seasonally adjusted labor force from January, February, and March of 2020, held constant through December 2021.

Figure: Percent of labor force employed at current levels versus pre-pandemic labor force in Hampton Roads, Virginia, and United States. Data source: Bureau of Labor Statistics, HRPDC.

So, while it appears that the employment situations across all regions are recovering at the same rate, this exercise shows that Virginia and Hampton Roads have lost a greater proportion of the labor force than the rest of the country. Due to the importance of this indicator, labor force statistics now have a permanent spot in the updated economic monthly report.

You may notice the Hampton Roads Economic Monthly report has gotten a makeover! We have added some new indicators, phased some out, and adjusted the format. If you have any comments, questions, or suggestions to the new format, please reach out to Katherine Rainone at krainone@hrpdcva.gov.
GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP increased 6.9% in Q4 2021, reflecting a strong holiday season despite supply chain issues. Q4 growth was driven strongly by a 5% increase in inventory investment. This is a promising sign, indicating confidence among businesses that they will be able to sell their stock as they rebuild their inventory. This is the second-largest quarterly contribution to GDP from private inventory since 1987.

Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted and averaged over 3 months, November shows another month of increased retail sales. Unadjusted, Nov 2021 shows an 11.5% increase over Nov 2020, and a nearly 20% increase over Nov 2019. Retail sales are continuing to rise long-term as consumers are still spending more on goods and as inflation drives up prices.

Estimated Hotel Revenue: Hotel sales indicate the performance of the region’s tourism sector. When seasonally adjusted, Q3 2021 hotel revenue once again saw improvement from the historic lows realized in Q2 2020 due to pandemic-related closures, at roughly the same rate of growth from the previous quarter. Hotel revenue in Q3 2021 represented nearly 90% increase over the previous year, and 12.5% over Q3 2019 - significantly higher than pre-pandemic.
Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. According to data from the Bureau of Labor Statistics, Hampton Roads employment (seasonally adjusted) increased by 0.53% from November to December 2021, the fourth month in a row of increases. Unadjusted employment levels also increased from the previous month for the third consecutive month. In Hampton Roads, year-over-year growth is recorded at 1.23%, a sign that winter of 2021 fared much better than 2020, despite COVID surges both years. Compared to the rest of Virginia and the US however, Hampton Roads is lagging in annual employment growth. Total payroll employment in the region remains roughly 4% below pre-COVID highs.

Labor Force: An economy’s labor force is defined as those who are either employed or actively seeking work, and the breakdown of the labor force is often used in conjunction with the unemployment rate to offer some perspective into the true state of the economy. As outlined in the main article, the region’s labor force has been slowly declining since the onset of the pandemic and currently sits nearly 5% below January 2020 levels.
**UNEMPLOYMENT RATE, SEASONALLY ADJUSTED (M)**  
**SOURCE: BUREAU OF LABOR STATISTICS, HRPDC**

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**Unemployment Rate:** The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads’ unemployment rate decreased again to 3.78% in December 2021, reflected by a slight decrease in the labor force, increase in employment, and a decrease in the number of unemployed persons (all seasonally adjusted).

**INITIAL UNEMPLOYMENT CLAIMS, SEASONALLY ADJUSTED (M)**  
**SOURCE: VIRGINIA DEPT OF LABOR, HRPDC**

<table>
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<th>Sep ‘21</th>
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**Initial Unemployment Claims:** The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, thus revealing the strength of the job market with little lag time. In October 2021, initial unemployment claims decreased significantly from the previous month. Due to technical issues, monthly data is not available for November and December at this time.

**EMPLOYMENT GROWTH BY INDUSTRY (DEC, YEAR-OVER-YEAR)**  
**SOURCE: BUREAU OF LABOR STATISTICS, HRPDC**

**Employment Growth by Industry:** As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. In December, the majority of Hampton Roads industries experienced a decrease in year-over-year employment compared to December 2020, when the economy was beginning to experience a winter surge of COVID. Most significant gains were Scientific & Technical, which added nearly 2,000 jobs compared to December 2020, followed by Construction and Wholesale Trade. Retail, Administrative & Support and Leisure & Hospitality realized the highest losses compared to 2020.
Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. When seasonally adjusted, there were 369 new construction permits issued for single family homes in December 2021. The data continues to show small variances month to month over the past year, but the trend is clearly hitting a plateau. As the market continues to respond, the flattening trend may continue until the industry can increase capacity in response to increased demand.

Home Sales: Settled home sales measure the level of transactions on the real estate market over time, and a healthy real estate market should have a consistent level of activity. Seasonally adjusted, existing home and total settled sales in November increased from October, remaining elevated with over 3,400 homes sold, but certainly the trend is showing a plateau. Unadjusted, total home sales have been declining for the past five months as the slow season is upon us, but are still elevated compared to 2019.

Home Price Index: The home price index measures the value of homes by evaluating changing price levels through repeated sales of properties. Hampton Roads’ home prices increased, yet again, by 14% over the previous year in Q3 2021, slightly higher rate than the state and about 2 points lower than the nation—still a record high. Regional housing values are now 12.2% higher than the peak of the 2007 housing boom.