

Unemployment Is Really 10%

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Today, when the June [unemployment numbers](#) came out, the market probably had mixed feelings. The report said 467,000 jobs were lost, and unemployment had risen to 9.5%. The market expected around 325,000 jobs to be lost and unemployment to rise to 9.6%. The bad news: more jobs were lost than anticipated. The kind of good news: unemployment only increased by 0.1% instead of 0.2%, as anticipated. But that kind of good news does not look so good when discouraged workers are considered.

I dug into the Bureau of Labor Statistics [report](#) this morning. If you ever took economics, you might remember that unemployment has a sort of strange definition: it doesn't include discouraged workers. For example, imagine some finance guy who got laid off back in mid-2008. He's been looking for work for a year. There's nothing, so he's given up. He decided to take some of his savings and rent a beach house for the summer. He intends to look for work again in the fall, when he hopes the economy will be a little better. He's not considered part of the labor force, so he's not considered unemployed -- even though he really is.

Deep in the BLS unemployment report, you can find discouraged worker statistics in Table A-12. According to that table, the seasonally adjusted percentage of unemployed workers, including discouraged workers, is 10% for June. That's up from 9.8% in May. As you can see, those numbers are significantly worse -- a half percentage higher than reported unemployment in June. That increase of 0.2% also matches the market's expectation for the increase in unemployment. So much for that kind of good news.

BLS wrote [another report specifically addressing discouraged workers](#) (opens up .pdf) a few months back. In it, they included this ugly chart:

[Discouraged Workers.JPG](#)

(The "marginally attached" data can get tricky, so I won't refer to the top line here.)

As you can see, the worse the recession, the more workers get discouraged. The longer our current recession drags on, the further off the reported unemployment rate will be versus the true number that includes discouraged workers. That also means, once the economy really starts getting better, the unemployment number will unexpectedly jump, because all those discouraged workers will be encouraged to give it another go.

http://business.theatlantic.com/2009/07/unemployment_is_really_10.php