

## Regional Update

# West Virginia's Unemployment Rate Rose in May; Are Even Higher Rates Ahead?

By Bob Schnorbus, Regional Economics Manager ([bob.schnorbus@rich.frb.org](mailto:bob.schnorbus@rich.frb.org))

While it was only a one-month detour from what has been a positive trend so far this year, May's labor market report was a disappointment for West Virginia. Prior to May's report, the state's unemployment rate (on a seasonally adjusted basis) dropped from 8.1 percent in September of last year to 6.7 percent by April of this year—an impressive decline, considering that it was much greater than the national improvement. Yet in May, the unemployment rate reversed course and edged up by two-tenths of a percentage point, which was twice the size of the increase at the national level. Finding clues among the details of the labor market report as to whether May was just a one-month aberration or the start of a new trend for the state's labor market is difficult for such a short period of time. However, there may be reasons to be concerned that the state's unemployment rate will rise further.

Starting with the unemployment rate (a measure derived from the household employment survey) the pattern of decline over the last three years of the state's economic recovery was not without interruption. Indeed, with the spring slowdowns in the national economic recovery that occurred in 2010 and 2011, the state experienced a modest uptick in its unemployment rate. The first reversal in 2010 started after only a modest improvement in the unemployment rate from 8.5 percent to 8.4 percent. However, the increase in 2011 began after the unemployment rate had dropped by over half a percentage point over a five-month period. The rate then stayed above 8.0 percent for four months, waiting for the economic recovery to pick up again. The current uptick in unemployment occurred after eight months of steady gains, which was the longest period of improvement since the recovery began and had been raising hopes that a sustainable recovery was finally taking hold.

Another clue to what direction the unemployment rate may be taking might be found in examining changes in the size of the labor force. For example, the labor force increased by 2,400 in May, which was only slightly higher than the increase of nearly 2,000 in the number of unemployed workers, suggesting that on balance most of the new labor force entrants were unable to find jobs. And, while the labor force has been increasing for some time, the fact that the labor force participation rate in May (at 54 percent of the working-age population) was still below pre-recession levels, suggests that even more workers may soon be returning to the labor force and looking for jobs.

If job opportunities don't emerge in sufficient numbers to absorb these new labor force entrants, the problem of a rising unemployment rate will continue. Unfortunately, employment also declined in May, according to the establishment survey. Most of the employment losses were in the private sector, which accounts for roughly 80 percent of West Virginia's jobs. So, the modest increase in government employment did little to offset those private sector job losses. And the decline was spread across virtually all of the state's major industries. As a final concern then—if private sector jobs continue to slump, the state's economy could be in for a repeat of 2011.

