

October 4, 2013

Effects of the Lapse in Appropriations on the Labor Market and Labor Market Data

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A partial shutdown of the federal government began on October 1, 2013. Unless the budget impasse is resolved quickly, the shutdown will affect the labor market—mostly through lower employment and higher unemployment—as well as the collection and publication of labor market data.

- We will be updating our assessment of the effects as new information becomes available.

The direct effects of federal furloughs

- About 800,000 federal civilian workers have been furloughed.
- If the shutdown continues through next week (October 6 to October 12), which is the reference week for the household survey (CPS), the federal furloughs could raise the unemployment rate in October by about ½ percentage point.
 - Federal employees who are furloughed for the entire reference week will be recorded as unemployed, on temporary layoff.
 - If the furloughs last only through part of the week, then federal employees, who usually work full-time but have their workweek drop below 35 hours because of the shutdown, will be classified as employed part-time for economic reasons.
 - The published numbers will be subject to statistical noise as it is not clear how many of the affected federal employees will be included in the CPS sample.
- If the shutdown extends through October 19, federal payroll employment, as measured by the establishment survey (CES), is likely to be reduced.
 - The federal government has bi-weekly pay periods; the CES reference pay period for October will run from October 6 to October 19.
 - A federal employee who is paid for any part of the reference pay period is counted as employed in the CES; a federal employee who is not paid for any part of the period is not counted as employed.
 - At this point, it is not clear what will happen if furloughed employees get paid retroactively. It is possible that in this case they could be eventually counted as employed on paid leave.
 - The CES does not measure the workweek of government employees.
- According to the Department of Labor, furloughed federal employees are eligible for Unemployment Compensation for Federal Employees as long as all other state eligibility requirements are met.
 - Some press reports indicate that several furloughed federal employees have already begun filling for unemployment benefits. Notice that initial claims from federal

employees are tabulated separately (and with an additional week of lag) in the weekly claims report and not included in the headline initial claims number.

Spillover effects

- If the impasse is resolved soon, we expect little effect on private sector employment and this will mostly reflect layoffs of federal contractors; if the affected private employees are unpaid for part of the reference period, this will affect the CES workweek.
 - The October reference period for the CES is the pay period including October 12. Pay periods differ between establishments—e.g., weekly, bi-weekly, monthly. Persons receiving pay for any part of the reference pay period will be counted as employed.
- In the event of a protracted shutdown, we expect that federal contractors will be increasingly likely to lay off their employees, leading to a more substantial effect on private employment.
- Moreover, a protracted shutdown could have more noticeable spillover effects on private employment through the following channels:
 - A longer-term shutdown would probably reduce federal purchases in the current quarter.
 - The longer the shutdown, the larger will be the effect of federal furloughs on real DPI (provided that furloughed employees are not paid retroactively), and through this channel, on real PCE.
 - Also, we expect confidence effects to become more pronounced in the event of a prolonged shutdown, which should further dampen aggregate demand.

Data collection, publication, and quality

- The September employment report, due on Friday, October 4, has been postponed; since the data have been mostly already processed, it is likely to be published a few days after the federal government reopens.
 - During the 1995/1996 shutdowns, the second shutdown lasted from December 16, 1995 to January 5, 1996. In addition, the federal government was closed for weather-related reasons on January 8, 9, 10, and 12, 1996. The BLS published the December 1995 employment report on Friday, January 19, 1996, two weeks later than initially planned. At that time, the BLS noted that they had tried to expedite the release (and therefore, for example, they had postponed the usual revisions of the establishment data from the previous month).
- The September CPS data were collected prior to the shutdown, so data quality will not be affected when they are eventually published.
- The CPS collection for October is scheduled to start on Sunday, October 13. A delay in the data collection might affect data reliability, for example through recall bias or through differences in the characteristics of early and late respondents that have been documented by the BLS.

- During the 1995/1996 shutdowns the BLS considered several options for changes in data collection procedures, including not collecting data for a particular month and changing the reference week. The duration of the 1995/1996 shutdowns eventually allowed for relatively minor changes in data collection procedures that were limited to the timing of the collection period.
- The quality of the CES data is unlikely to be affected as these data are based on payrolls.
- The weekly initial UI claims report will be published as scheduled.
- Several labor market indicators provided by private institutions will also be published during the shutdown (e.g., ADP National Employment Report, Conference Board Help Wanted and Consumer Confidence, Michigan Consumer Sentiment, NFIB Small Business Economic Trends, ISM Report on Business, Gallup Economic Indicators).

Important unresolved questions

- When can we expect the September employment report to be published? How will this affect the forecast round, which starts on October 7?
- Will the shutdown affect the collection of the October CPS data?
- What will be the effect on published employment data for October? For the CES data, this depends to a large extent on the reference pay period length and its timing in the affected establishments.
- Will furloughed federal employees be eventually paid for their days off?