

FEDERAL RESERVE BANK OF RICHMOND

# MONTHLY REVIEW

*The Cyclical Behavior  
of Consumer Credit  
Behind the Unemployment Rate*



Volume 59  
Number 10

OCTOBER 1973

*The MONTHLY REVIEW is produced by the Research Department of the Federal Reserve Bank of Richmond. Subscriptions are available to the public without charge. Address inquiries to Bank and Public Relations, Federal Reserve Bank of Richmond, P. O. Box 27622, Richmond, Virginia 23261. Articles may be reproduced if source is given. Please provide the Bank's Research Department with a copy of any publication in which an article is used.*

# THE CYCLICAL BEHAVIOR OF CONSUMER CREDIT

The term consumer credit refers to short- and intermediate-term credit, generally of no more than seven years maturity (the exception is mobile home credit), extended to households by financial and retail establishments for the initial purchase of consumer goods and services and for the refinancing of existing debt originally obtained for that purpose. Most consumer borrowing, approximately 80 percent, is in the form of installment credit that is scheduled to be repaid in two or more installments. The remainder is in the form of single payment loans such as charge account credit and service account credit, which are payable in full upon billing.

For the individual consumer, such credit, particularly installment credit, represents a convenient, systematic means of financing large consumer purchases out of future income. Since the resulting repayment obligations can be considered in part a form of forced saving from disposable income, desired purchases can be made with substantially less attrition in accumulated household assets than would be possible without access to credit. Equally important is the likelihood that without access to credit, many durable goods purchases might be out of the reach of households unable to accumulate sufficient savings without the self-discipline imposed by debt repayment obligations. Of course, the availability of credit may also encourage some individuals to make purchases that would be financially unsound in terms of their ability to meet installment payment obligations. The results of such indiscretions, while certainly of a serious nature for the individual involved, must be viewed as one of the costs of credit availability and are probably minor in comparison with the overall benefits to society of a well-developed consumer credit market. The growth of consumer credit over the past 25 years has facilitated the development of large-scale goods markets that allow relatively low-cost production of consumer durables, contributing in turn to an improved standard of living and greater economic welfare for the society as a whole.

**Determinants of Consumer Credit Behavior** Over the long run, the growth in consumer credit tends to

reflect such things as secular income growth, changes in the size and composition of the population, and the development of efficient financial institutions dealing in consumer credit. Rising income levels permit greater debt repayment obligations to be incurred without causing undue financial hardships. Population growth tends to increase the demand for consumer goods, including durables that are frequently purchased on credit. If the proportion of the population in the family formation ages of 25-35 is rising, as it currently is in the United States, the demand for consumer goods and consumer credit is further strengthened. Finally, the development of efficient financial institutions is a necessary condition for long-term credit growth. Only when such institutions can continue to supply the consumer with reasonably low-cost credit while providing a suitable rate of return to ultimate lenders is such growth possible on a sustained basis.

Long-run credit growth does not occur at a steady rate, however. Cyclical fluctuations are characteristic of most facets of economic activity, reflecting such diverse influences as fiscal and monetary policy actions, labor disputes, international economic developments, and business and consumer expectations. Consumer credit is no exception, and very definite cycles can be observed in the behavior of consumer credit. To illustrate, total consumer installment credit has grown at an annual rate of 9 percent over the eight-year period from 1965 to 1973. In contrast, during the past two years, installment credit has grown at annual rates of 12.1 percent (June 1971 to June 1972), and 17.1 percent (June 1972 to June 1973), reflecting a substantial cyclical acceleration in the rate of consumer credit growth.

The tendency for these credit cycles to coincide closely with cyclical business fluctuations has in the past raised questions concerning the impact of consumer credit behavior on overall economic stability; specifically, does consumer credit growth tend to *accentuate* expansionary pressures in latter phases of the business cycle, or does consumer credit growth

instead primarily *reflect* the overall demand pressures? The answer to this important question requires knowledge of causal relationships between credit and the determinants of general business activity. Although there is much uncertainty still surrounding these relationships, cyclical acceleration in consumer credit growth has occasionally stimulated proposals for the imposition of controls on consumer credit terms, such as maximum maturities and minimum down payments. Proposals of this type are presumably based on some concept of consumer credit growth as a cyclically destabilizing economic phenomenon. Accordingly, the remainder of this article is devoted primarily to a review of consumer credit behavior since 1965, keeping in mind the bearing that some of the observations might have on the feasibility of consumer credit controls.

Several measures of consumer credit behavior are examined, as is the relationship between consumer installment credit (CIC) growth and the general business cycle. Attention is also focused on the cyclical relationships among the important components of CIC growth during the period under discussion. The discussion focuses entirely on installment credit, since it is the major form of consumer credit and also because it is the primary source of cyclical fluctuations in consumer credit growth.

**Cyclical Behavior of Consumer Credit** There are four basic types of information available on CIC:

total volume of CIC outstanding, new extensions, repayments, and net change in CIC (extensions less repayments). The stock of CIC is essentially the total of all past extensions minus the total of all past repayments. New extensions are the gross amount of new credit made available each period and reflect the direct response of CIC to changing supply and demand conditions in the credit market. Extensions do not, however, reflect the impact of consumer credit on consumer spending, since repayments entail a reduction in current disposable income that constitutes an offset to the amount of consumer spending generated by gross new extensions. The net change in CIC, obtained by subtracting repayments from new extensions, incorporates this offset and is a more suitable measure than gross extensions of the general impact of CIC on consumer spending. The remaining CIC measure, repayments, is closely related to the amount of CIC outstanding and reflects mainly past growth in consumer credit.

Chart 1 indicates clearly the strong upward long-run trend that dominates the total stock of CIC outstanding. In order to minimize this trend influence and to isolate the cyclical patterns of interest, it is helpful to express the other three CIC measures—extensions, repayments, and net change—as percentages of the previous quarter's stock of CIC. This adjustment in addition converts the net change measure into the percentage growth rate of CIC; the cyclical behavior of such growth rates are commonly referred to as growth cycles. All three adjusted measures are shown in Chart 2.

As mentioned earlier, repayments are influenced primarily by the stock of CIC, which is strongly trend-dominated. Except for a minor increase in the proportion of CIC repaid each quarter, which is equivalent to a slight reduction in the average maturity of outstanding CIC, Chart 2(a) indicates that there has been little systematic movement in the proportion since 1965. On the other hand, if the cycle is defined for sake of reference as running from peak to peak, there have been two definite credit cycles in extensions and net CIC change since 1965, as shown in Charts 2(b) and 2(c). Because these two cycles, moreover, display almost identical timing patterns, the following discussion will focus only on the net change in CIC (which represents the CIC growth rate).

*Consumer Credit and the Business Cycle* As was previously mentioned, there have been two obvious CIC growth cycles since 1965. The first lasted approximately from 1965 through 1968. During this initial cycle, the peak in CIC growth occurred in

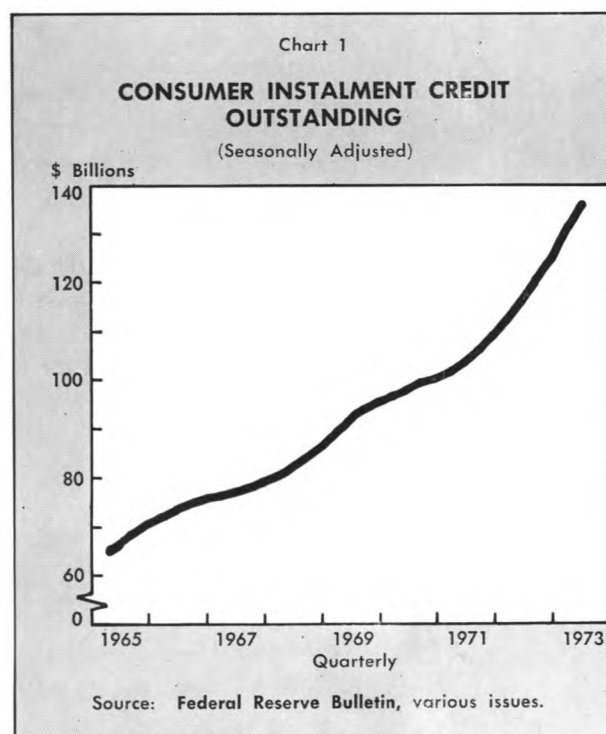


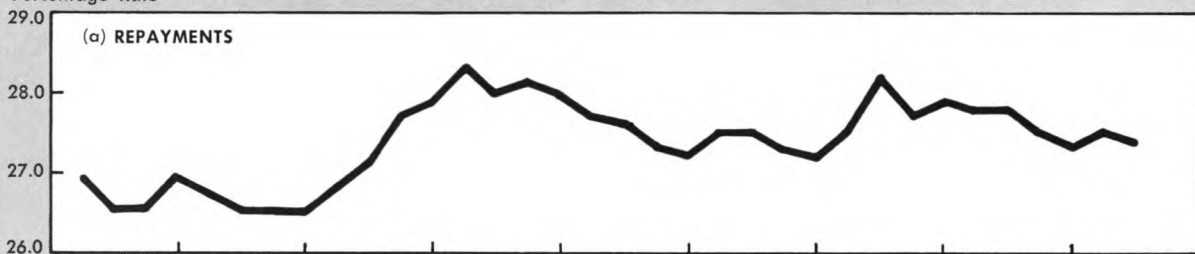


Chart 2

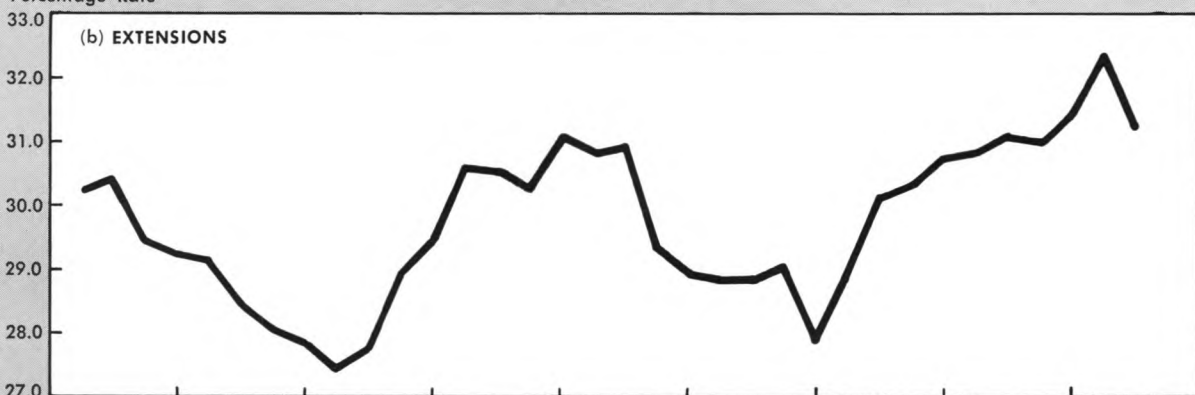
**CIC MEASURES AS PERCENTAGE OF TOTAL CIC OUTSTANDING**

(Seasonally Adjusted)

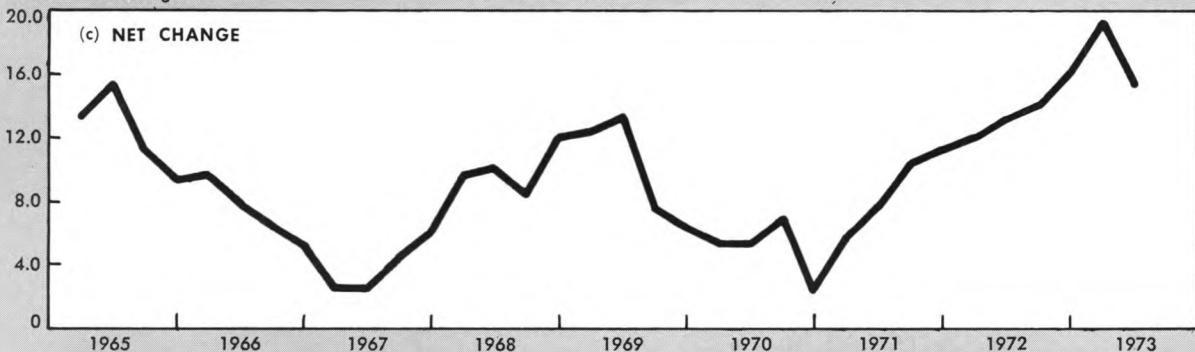
Percentage Rate



Percentage Rate



Annual Percentage Rate



Note: Net change taken as a percentage of CIC outstanding represents the growth rate of CIC.

Source: Federal Reserve Bulletin, various issues.

the second quarter of 1965, after which CIC grew at a steadily declining rate until the second quarter of 1967. The subsequent acceleration in CIC growth continued until the beginning of the second credit cycle in 1969.

There was no official business recession during the first credit cycle. Nevertheless, the behavior of GNP over this period indicates that a definite slowing in the overall pace of economic activity began late in

1965 and continued until the beginning of 1967. The slowdown reflects to some extent actions of the Federal Reserve System, which by 1966 was tightening monetary policy in response to the inflationary pressures being generated during the vigorous economic expansion of the mid-1960's. CIC growth decelerated steadily until early 1967, when business activity picked up, monetary policy eased, and CIC growth began to accelerate.

The economic slowdown of 1966, however, had little apparent impact on mounting inflationary forces, which were further stimulated by the resurgence of business activity in 1967. By 1969, the Federal Reserve System was again acting to restrict the availability of credit in order to further moderate the pace of economic expansion that had begun to slow in 1968. Late in 1969, business activity peaked. In the third quarter of 1969, CIC growth turned down, commencing the second cycle, and continued to decelerate until mid-1970. Both the economic pace and CIC growth also began to accelerate. The acceleration phase of the second CIC growth cycle proceeded steadily until the second quarter of this year. Whether the recent slowdown is a temporary phenomenon or is related to the second quarter slowdown in economic activity remains to be seen.

A close timing relationship can thus be observed between the business cycle and the cycles in trend-adjusted CIC net change and extensions. Both CIC measures led the two cyclical peaks in business activity (not counting the possibility that the 1973 slowdown marks the beginning of another credit cycle), and their troughs roughly coincided with those in the business cycle. The tendency for these measures to lead the business cycle peaks can be explained on technical grounds: subtracting a lagging indicator (repayments) from a coincident indicator (extensions), or dividing a coincident indicator by a lagging indicator, yields a leading indicator. To the extent that repayments are closely related to CIC outstanding, rapid CIC growth eventually imparts a moderating influence on subsequent CIC growth independently of any corresponding slowdown in new extensions. At some point, the cumulative effects of rapid CIC growth on CIC outstanding begins to have an upward impact on repayments, which in turn have a dampening effect on the net spending impact of new extensions. Thus a net CIC change slowdown can occur prior to the impact of a slowdown in overall business activity and CIC extensions. It is also possible that the lead relationship reflects the tendency for credit markets to respond more rapidly to underlying cyclical economic factors than the markets for goods and services.

All in all, CIC behavior over the past eight years offers little insight into the cause-effect relationships that might exist between the pace of business activity and the growth of consumer credit. The tendency for CIC growth to lead the cyclical peak and to coincide with the cyclical trough seems to suggest that if consumer credit does inject a destabilizing influence into business activity, that influence is not evident in

the timing relationships between business and credit cycles. Even if these lead relationships can be attributed to the technical relationships between leading, lagging, and coincident indicators, it still appears that whatever cyclical economic forces ultimately affect business and consumer credit, the two cycles move too closely together for either one or the other to be labeled more the "cause" and the other more the "response."

*Cyclical Behavior of CIC Components* In this section, total CIC is broken down into its major use and source components, and the individual growth cycles for these components are examined. The major uses of CIC are: automobile loans; other consumer goods loans, generally used to finance non-automotive consumer goods; personal loans, frequently obtained for purposes such as debt consolidation, tax payments, medical, educational, and travel expenses; and home repair and modernization loans. The major suppliers, or sources, of CIC are commercial banks, finance companies, other financial lenders (mainly credit unions, which provide about 85 percent of all lending in this category), and retail outlets (including automobile dealers).

The cyclical behavior of the major CIC use components is illustrated in Chart 3. With the exception of the home repair and modernization category (which represents only about 5 percent of all CIC outstanding), the use components display growth rate cycles that conform very closely to the timing of the overall credit cycle and by implication to that of the business cycle as well. At least for the time period in question, it does not appear that any particular type of loan, and by inference any particular form of consumer spending, might react more quickly or more slowly than any other to changes in overall CIC growth.

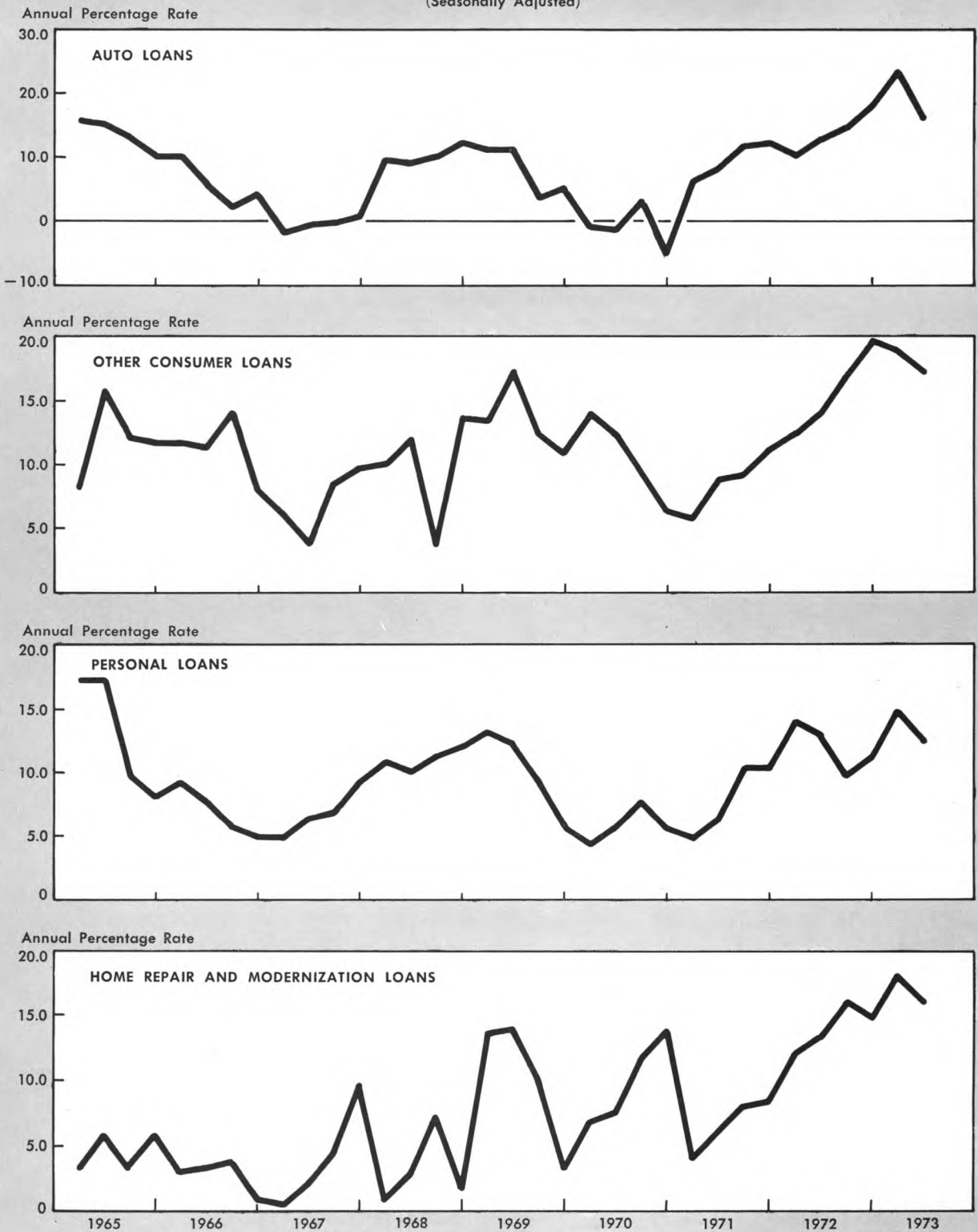
Although there was a substantial decline in credit growth at retail outlets in 1968 that somewhat obscures its first cycle, the same similarity in timing is evident among the major CIC source components, whose cyclical patterns are shown in Chart 4. Based on the experience of the past two credit cycles, it does not appear that changes in CIC growth originate in any particular class of lenders and proceed in turn to other types of financial institutions over the cycle.

The close conformity of the cyclical timing among the various CIC components suggests that the various economic forces affecting the uses and sources of consumer credit are closely interrelated over time. Because they move so closely together over time,

Chart 3

# GROWTH RATES OF CIC USE COMPONENTS

(Seasonally Adjusted)

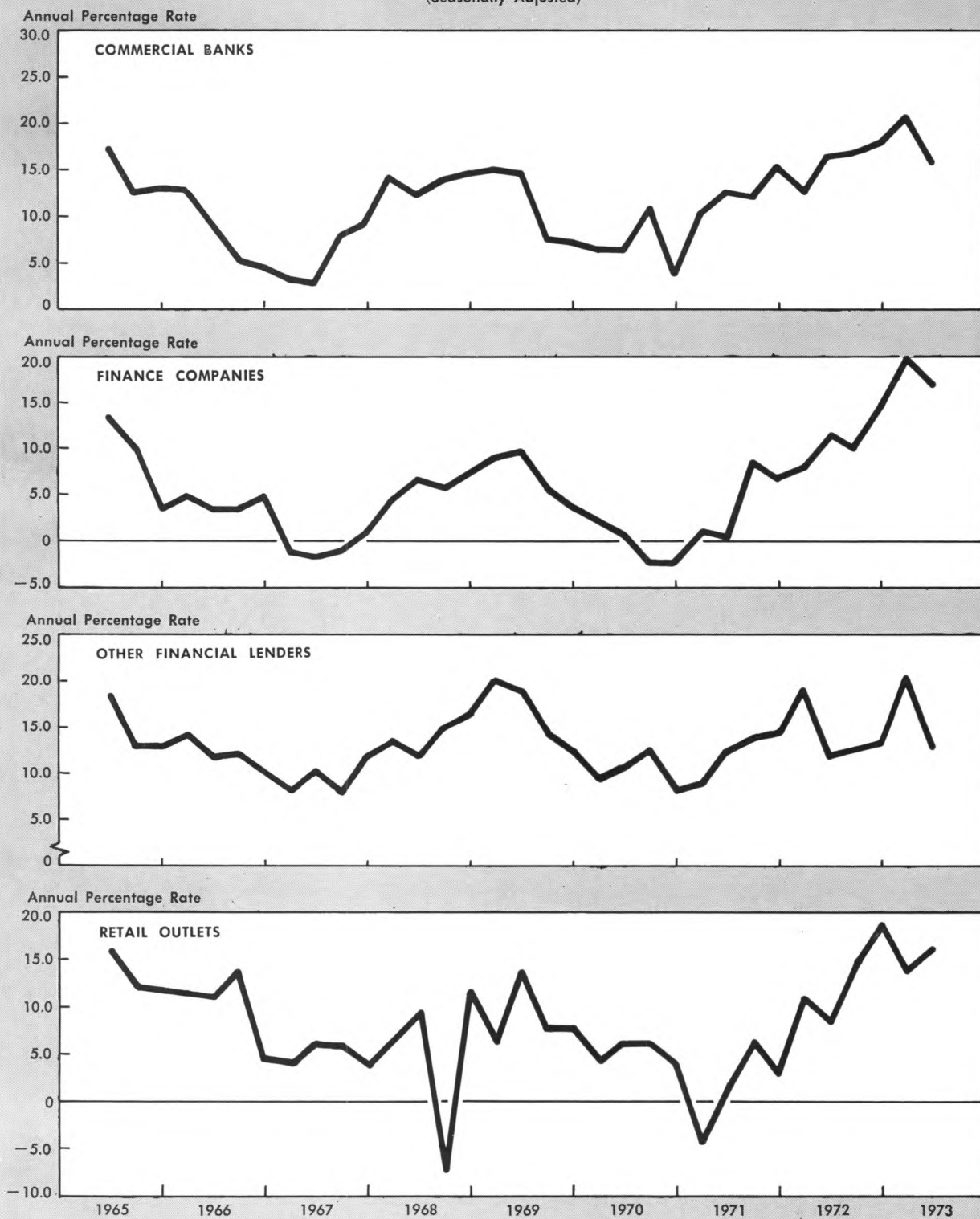


Source: Federal Reserve Bulletin, various issues.

Chart 4

# GROWTH RATES OF CIC SOURCE COMPONENTS

(Seasonally Adjusted)



Source: Federal Reserve Bulletin, various issues.



moreover, it is not possible to differentiate between components that lead and components that lag the business cycle. If such dispersed cycles could be observed, it would perhaps be possible to infer more about the causal relationships between credit and business cycles. The preceding observations instead serve to point out again the close interrelationships among the economic factors affecting credit behavior and those affecting overall business activity.

*Automobile Installment Credit* Automobile credit is the largest of the major CIC use categories, and automobiles account for more consumer credit by far than any other single consumer item. Auto credit is also the only major CIC use devoted to a single type of consumer good. Thus it is the only use component whose cyclical behavior can be compared to the behavior of a corresponding series that might reflect the nature of the relationship between credit and spending. Chart 5 illustrates the behavior of auto sales over the 1965-1973 period. Auto sales began to decline moderately in early 1966 at approximately the same time that overall business activity was slowing and well after the slowdown in auto credit growth that began in early 1965. Although auto credit subsequently grew at a slowly rising rate throughout 1967, sales continued to decline until the beginning of 1968. Following a brief upsurge in sales, both sales and auto credit growth turned down and continued to decline until the third quarter of 1970. Overall economic activity appeared to be recovering in the third quarter of 1970, but the incipient recovery was interrupted by the auto strike of 1970, as was a brief turnaround in auto sales and credit growth. Since the post-strike economic recovery in 1971, a definite upward trend in auto sales has been accompanied by an acceleration in auto credit growth that proceeded steadily until the second quarter of this year.

No clear lead-lag relationship emerged between the auto sales and auto credit cycles. During the first cycle, auto credit tended to lead auto sales, and a similar situation may have developed in the second quarter of this year. In the second cycle, credit lagged sales at the peak and they coincided at the 1970 auto strike trough. Although there has been an observed tendency in the past for auto sales to lead the general level of business activity, this relationship has not been observed in more recent experience.

**Conclusion** Since 1965, there have been two well-defined cycles in the growth of CIC, and the CIC slowdown in the second quarter of 1973 may signal the beginning of the down phase of another CIC



growth cycle. This article has pointed out that these CIC cycles corresponded very closely to cyclical fluctuations in the overall level of business activity. At least for the period from 1965 to 1973, however, it is difficult to infer the presence of any cause-effect relationship running primarily from consumer credit to general economic activity, or vice versa. Neither does the cyclical behavior of the various CIC components, including the important auto credit category, give any indication of what the primary causal relationship might be.

Thus, the evidence of the past eight and one-half years, though far from exhaustive or conclusive, suggests that the factors affecting the growth of CIC and those affecting overall economic activity are closely interrelated over time. Admittedly, the timing relationships observed do not constitute a sufficient basis for denying the potentially destabilizing nature of cyclical CIC growth. On the other hand, there are significant economic and social costs involved in the imposition of selective controls on consumer installment credit. In weighing these costs against the anticipated benefits of consumer credit controls, it would be prudent to keep in mind the uncertainty surrounding the causal relationships between credit and general business cycles.

Glenn Picou

# BEHIND THE UNEMPLOYMENT RATE

Despite the accelerating pace of the economy during the past year, unemployment continues to be a significant problem. There were 4.1 million unemployed persons in 1970, up 1.2 million from the previous year. Unemployment fluctuated around 5 million during 1971 and declined slightly in 1972. The annual average unemployment rate increased from 3.5 percent in 1969 to 4.9 percent in 1970; the rate hovered close to 6 percent in 1971 and then dropped in 1972 to 5.6 percent of the civilian labor force. Because unemployment statistics are important in providing a general indication of the state of the nation's economy, many questions have been raised during the current period of high unemployment about how the Federal Government measures unemployment. Unemployment figures provide a rich source of information, but they should be used carefully to avoid misinterpretation. This article will review the concept of unemployment and the procedures for collecting unemployment statistics so that proper evaluation can be given to employment conditions.

## MEASUREMENT AND CONCEPTS

Statistics on employment and unemployment are derived from a monthly sample survey known as the Current Population Survey (CPS). The name reflects the use of this survey as a source for a wide variety of demographic and economic characteristics of the population. The CPS, which dates back to 1940, is conducted by the Bureau of the Census for the Bureau of Labor Statistics of the Department of Labor. It is a scientifically selected stratified sample that covers 461 sample areas consisting of 923 counties and independent cities. Some area in every state and the District of Columbia is covered. This stratification allows the survey to include urban and rural areas of both high and low economic levels, industrial and farming areas, and major geographic divisions of the country in the same proportion as they exist in the entire nation. Each month 55,000 households are selected for the sample; 47,000 of these households, containing around 105,000 persons age 16 and over, are eligible for interview. Although the sample size might appear to be small, considering the im-

portance attached to employment and unemployment statistics, the CPS, it should be noted, is the largest monthly household survey in the world and meets strict tests of statistical reliability.

Interviews of the sample households are conducted during the calendar week containing the nineteenth day of each month, and the data collected relate to the status of individuals in the week including the twelfth day of the month. Some observers believe that the survey should cover a broader time span because use of a single survey week could cause erratic results if there were unusual occurrences, such as labor strikes and bad weather, during that particular calendar week. Personal visits by the interviewers are required in the first, second, and fifth months that a household is in the sample. In the other months, the interview may be conducted by telephone if the respondent has no objection to this procedure. Four to six percent of the occupied units eligible for interview are not interviewed in a given month because individuals were not at home or were unavailable for other reasons. Under the present rotation system sample households are interviewed for four consecutive months, then leave the sample for eight months, and finally return for the same period of four months the following year. Approximately 6,000 new households are added each month. This system provides a year-to-year overlap in the sample and improves the continuity of the statistics over time.

The CPS classifies the civilian noninstitutional population age 16 and over into three broad categories on the basis of their status during the survey week. Persons under 16 years of age and the institutional population, which consists of inmates of penal and mental institutions, tuberculosis sanitariums, and homes for aged, infirm, and needy, are excluded from the survey. Persons in the civilian noninstitutional population are classified either as employed, unemployed, or not in the labor force. As defined by the Department of Labor, the civilian labor force comprises the total of all civilians classified as employed or unemployed; the total labor force also includes members of the Armed Forces stationed in the United States or abroad.

**Employed Persons** Employed persons are those who engaged in any work for pay or profit during the survey week, as well as persons who worked without pay for at least 15 hours in a family-operated enterprise. Also included as employed persons are all individuals temporarily away from their regular jobs for various reasons such as vacation, illness, or labor-management disputes. The CPS is, moreover, used to collect from employed persons such information as: (1) hours worked during the survey week; (2) whether they usually work 35 hours or more at their job; (3) a description of their current job; (4) the reason the interviewee is not working during the survey week if he was temporarily away from work, and whether he was paid for this time off; and (5) if the interviewee is working part time, the reason for doing so.

**Unemployed Persons** To be counted as unemployed, persons must not have a job at the present time and must be currently available for work. Persons not working must also have engaged in some type of jobseeking activity within the past four weeks to be classified as unemployed. Specific jobseeking activities consist of registering at employment offices, meeting prospective employers, checking with friends, placing or answering advertisements, writing letters of application, or being on a union or professional register. Some persons may be out of work but not actively looking for work because they have been laid off or are waiting to start a newly acquired job. The definition of unemployed persons now includes those workers waiting to start a new job within 30 days and those waiting to be called back to a job from which they have been laid off. Supplemental information on persons classified as unemployed includes: (1) what the individual did during the last four weeks to obtain work and the length of time spent looking for work; (2) whether the individual is seeking full- or part-time work; (3) when the person last worked at a full-time job lasting two consecutive weeks or more; and (4) a description of the person's last full-time civilian job.

**Not in the Labor Force** The classification "not in the labor force" includes all civilians who are neither employed nor unemployed. Also classified as not in the labor force are those persons engaged in housework in their own home, those in school, those too old to work, retired persons, and the voluntarily idle. Seasonal workers who were not reported as unemployed during the survey week and persons who did less than 15 hours of unpaid family work are in this category too. Some persons are

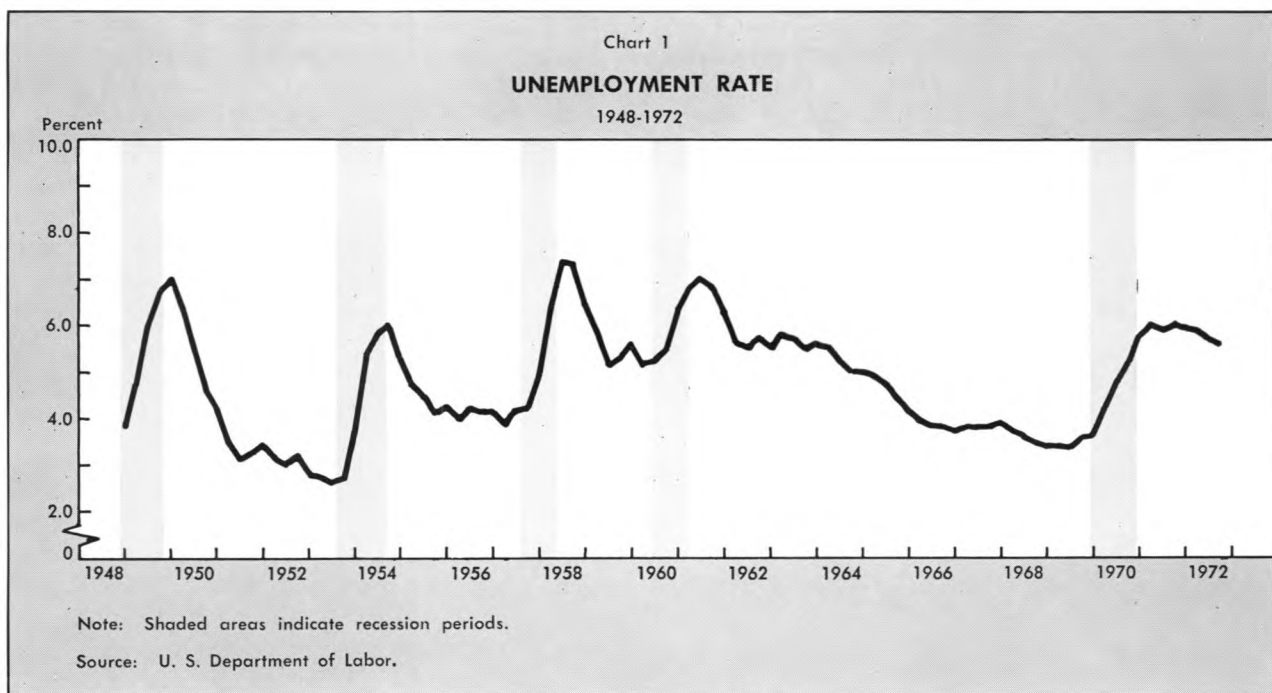
kept out of the labor force because they suffer a physical or mental disability that makes them unable to participate in normal labor force activities. Those persons outside the labor force are asked such additional questions as: (1) what their principal activity was during the survey week; (2) when they last worked and the reasons for leaving that job; (3) whether they want to work at the present time and, if so, the reason they are not seeking work currently; and (4) their intentions to seek work in the next 12 months.

**Other Survey Concepts** Each person is classified according to the activities reported during the survey week. The total numbers are "weighted up" or adjusted to equal the population age 16 and over. The weights for all households interviewed are adjusted to account for the households not interviewed that month. Then the weighting takes into consideration the age, sex, color, and urban-rural distribution of the population so that these characteristics are reflected in the proper proportions in the final estimates.

Many individuals may have engaged in more than one activity during the survey week. Therefore, a system of priorities is used so that persons are classified in only one group. For example, if a person has a job and at the same time is looking for another position, he is counted as employed. At the end of the interview, persons interviewed may not know how they will be classified. The interviewer never uses the word "unemployed" during the interview, and the person interviewed is never asked if he has applied for or is receiving unemployment compensation payments. Although there is no direct connection between the official unemployment figures and the number of persons receiving unemployment compensation, the Department of Labor does prepare unemployment insurance data. The definition of unemployment used in the household survey is not comparable to the eligibility requirements for unemployment compensation. For example, persons with a job but not at work and persons working part time might qualify for unemployment compensation but are classified as employed rather than unemployed in the CPS.

The employment and unemployment concepts of the Current Population Survey have remained substantially unchanged since its inception, although there have been some improvements in the sample selection and the processing and estimation of the data. In 1967, for example, there were some conceptual revisions, which changed the wording of cer-





tain questions on the survey. A shift was made from an unspecified jobseeking period to a four-week period. The requirement that a person must cite a specific jobseeking activity to be counted as unemployed was also introduced. The interviewee is also now asked if he is immediately available for work rather than if he will be available at some future period. This availability test would exclude from the unemployed category such people as school-age persons who may be seeking summer jobs but are not available at the time. In 1967, the age limit for official statistics on employment, unemployment, and other labor force concepts was also raised from 14 to 16 years of age. Historical data were revised to provide consistency with current information.

**Discouraged Workers** The inclusion of the above concepts in the definition of unemployment excludes from the unemployment count those persons known as "discouraged workers." Such workers are people who would have been looking for work had they not believed they were unemployable. Even though these so-called discouraged workers are not counted as unemployed, this group has been identified in the Current Population Survey since 1967. Generally, the number of discouraged workers increases during periods of high unemployment and decreases at other times. This pattern was followed in the 1970-71 period of rising unemployment. The total number of discouraged workers increased 21 percent from 1970 to 1971 and remained essentially unchanged in 1972.

If discouraged workers were classified as unemployed for the years 1970-72, the overall unemployment rate would be about one percentage point higher.

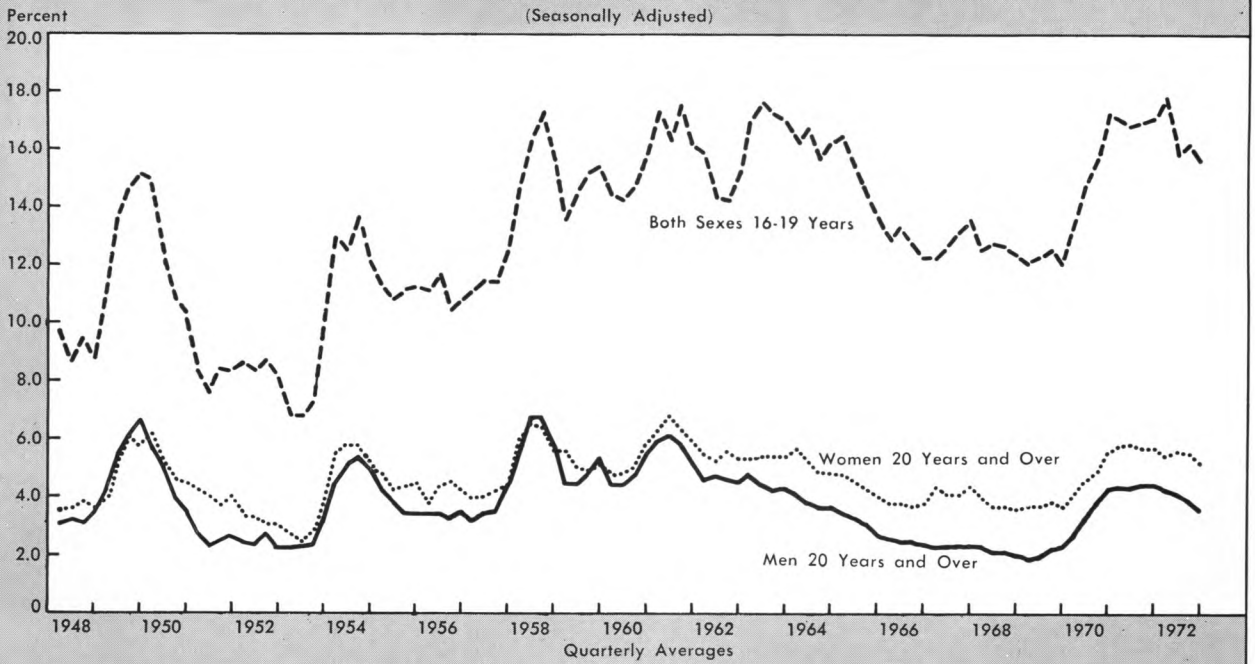
### THE ANATOMY OF UNEMPLOYMENT

The unemployment rate is defined as the percentage of total unemployed in the civilian labor force. As shown on Chart 1, unemployment rates clearly reflect business cycles. Since the unemployment rate represents an overall average of unemployed, it conceals significant differences among identifiable groups. For example, it measures not only the number of persons who have lost jobs but also those who have quit their jobs to seek other jobs, new workers looking for their first job, and experienced workers re-entering the labor force. In addition to abstracting the reasons for unemployment (and thus the hardship associated with it), the overall average also fails to reveal important differences among the various sectors of the population. Charts 2 and 3, for example, reveal a wide divergence in the unemployment rates among different groups. They show higher unemployment rates for teenagers than for adult men and women and higher rates for Negroes and other races than for whites. In addition, the unemployment rate for women is usually higher than for men.

Changes in the overall unemployment rate are also associated with important differences in the number of people who are unemployed, the duration of their unemployment, and the reasons for their unemploy-

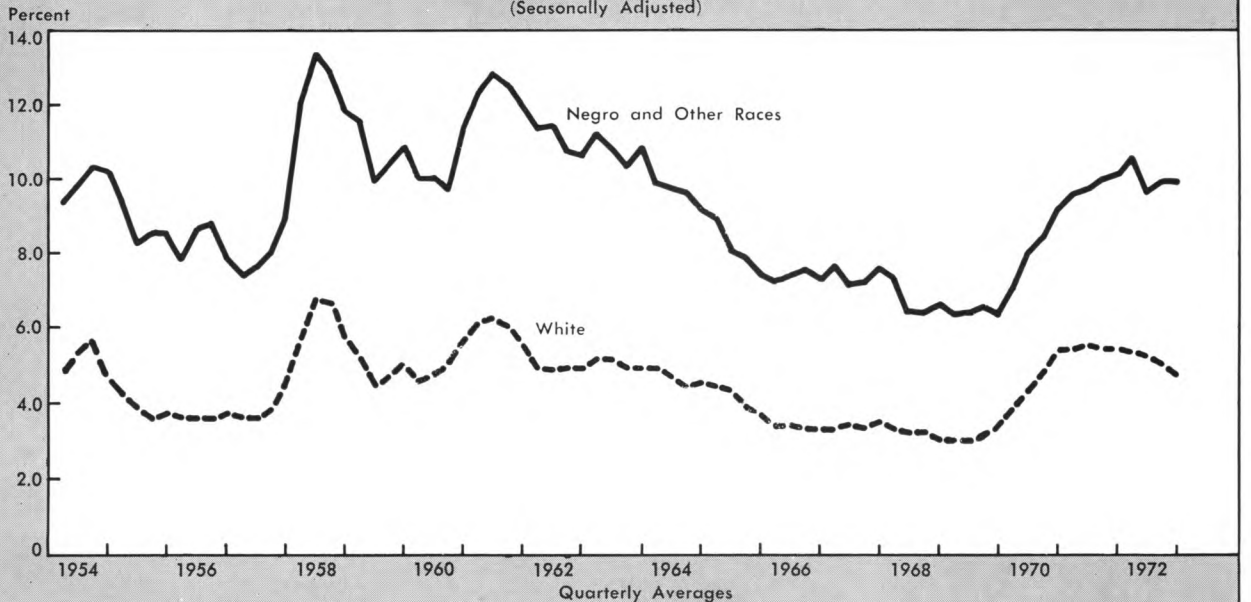


Chart 2  
**UNEMPLOYMENT RATES**  
 By Sex and Age, 1948-1972  
 (Seasonally Adjusted)

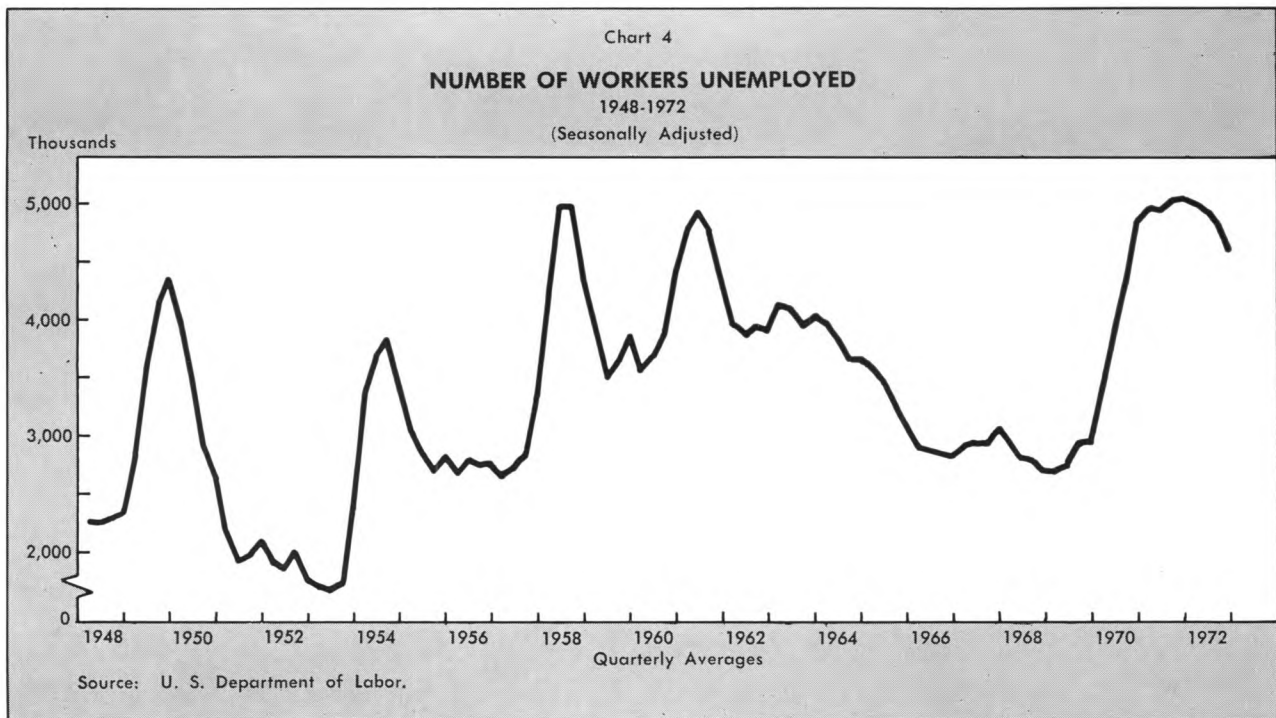


Source: U. S. Department of Labor.

Chart 3  
**UNEMPLOYMENT RATES**  
 By Color, 1954-1972  
 (Seasonally Adjusted)



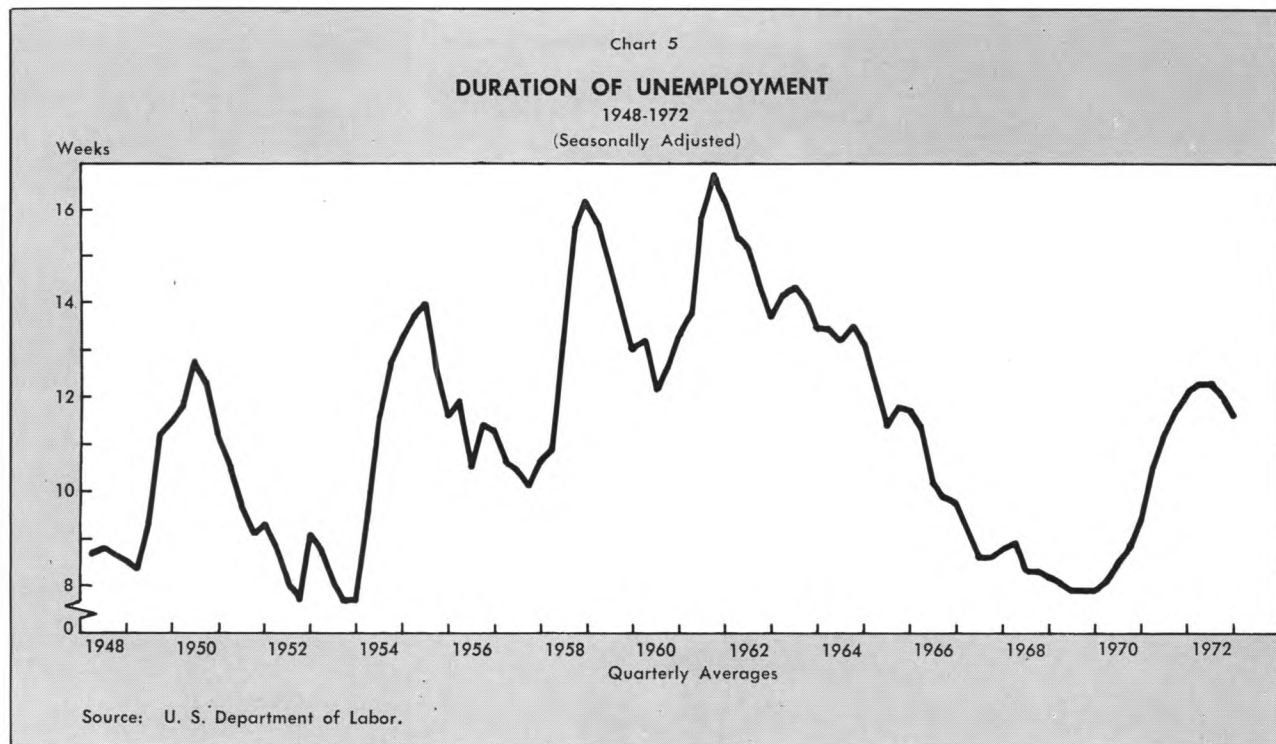
Source: U. S. Department of Labor.



ment. The following sections describe these facets of unemployment. Generally, however, periods of rising unemployment rates or percentages are characterized by a greater number of unemployed persons, a longer duration of unemployment, and a greater proportion of job losers among the unemployed.

**Number of Unemployed** When the unemployment rate rises, the rise is usually coupled with an increase in the average number of unemployed persons and the average duration of the unemployment period.

When the jobless rate rose from 3.5 percent in



1969 to 4.9 percent in 1970, the average number of unemployed persons increased from 2.8 million to 4.1 million. On the other hand, a drop in the unemployment rate does not necessarily mean a decrease in total unemployment. Between 1961 and 1972 the average number of unemployed increased, but the unemployment rate dropped from 6.7 percent to 5.6 percent during that time because of growth in the labor force. (See Chart 4.)

A close parallel exists between the unemployment rate and the duration of the unemployment period. Chart 5 illustrates this general pattern. When the unemployment rate rose from 3.5 to 5.6 percent between 1969 and 1972, for example, the average length of unemployment stretched from 7.9 to 12.0 weeks.

**Unemployment by Length and Reason** The Bureau of Labor Statistics defines the duration of unemployment as the length of time (through the current survey week) during which persons classified as unemployed had been continuously looking for work. A period of two weeks or more during which a person was employed or ceased looking for work is considered to break the continuity of the present period of seeking work. The duration of unemployment is one measure of hardship that indicates the relative degree of seriousness of the unemployment problem. The Bureau of Labor Statistics groups the data on the length of unemployment into three categories: (1) less than 5 weeks; (2) 5-14 weeks; and (3) 15 weeks and over.

By analyzing the statistics, one can see how the duration of unemployment changes during high and low levels of unemployment. Table I gives a distribution of unemployed workers by length of and reason for unemployment. During periods of rising unemployment, such as in 1970 and 1971, the size of the group experiencing over 15 weeks of unemployment increased as a proportion of the total unemployed. Accordingly, the proportion experiencing less than 5 weeks of unemployment constituted a smaller share of the total unemployed. In 1971 the group with less than 5 weeks of unemployment dropped approximately 8 percentage points, whereas the category with unemployment of 15 weeks or more increased about 8 percentage points. The proportion of the unemployed in the 5-14 weeks category changed only slightly in the years 1968-1972. In low unemployment periods the group with less than 5 weeks of unemployment made up a much greater share of the unemployed than did the group with 15 weeks or more of unemployment.

Unemployed persons are divided into four major groups based on reason for unemployment: (1) "job

losers" are persons on layoff and persons whose employment ended involuntarily who immediately began looking for work; (2) "job leavers" are persons who quit or otherwise terminated their employment voluntarily and immediately began looking for work; (3) "reentrants" are persons who previously worked at a full-time job lasting two weeks or longer but who were out of the labor force prior to beginning to look for work; and (4) "new entrants" are persons who never worked at a full-time job lasting two weeks or longer.

From the data presented in Table I, it can be seen that when unemployment rises, the number of job losers as a proportion of the total unemployed increases dramatically, and the period of unemployment lengthens. Job losers generally are unemployed

Table I  
**UNEMPLOYMENT BY LENGTH AND REASON**

	1968-1972			
	Total Unemployed (thousands)	Less than 5 weeks	5-14 weeks	15 weeks and over
(Percent Distribution of Annual Averages)				
<b>Total Unemployed</b>				
1968	2,817	56.6	28.8	14.6
1969	2,831	57.5	29.2	13.2
1970	4,088	52.3	31.5	16.1
1971	4,993	44.7	31.6	23.7
1972	4,840	45.9	30.1	23.9
<b>Lost Last Job</b>				
1968	1,070	49.4	31.4	19.2
1969	1,017	50.6	31.8	17.6
1970	1,809	44.6	34.7	20.7
1971	2,313	36.3	32.7	31.0
1972	2,089	36.9	30.8	32.3
<b>Left Last Job</b>				
1968	431	59.6	26.0	14.4
1969	436	60.6	27.8	11.7
1970	549	57.3	28.5	14.3
1971	587	46.3	32.5	21.2
1972	635	50.6	29.9	19.5
<b>Reentered Labor Force</b>				
1968	909	61.9	27.4	10.7
1969	965	62.3	26.4	11.3
1970	1,227	59.4	28.6	12.0
1971	1,466	54.2	29.5	16.3
1972	1,444	53.9	28.9	17.1
<b>Never Worked Before</b>				
1968	407	60.7	27.8	11.6
1969	413	60.3	30.8	8.9
1970	503	57.1	30.4	12.5
1971	627	52.2	31.6	16.3
1972	672	52.5	30.8	16.7

Note: Percents may not total 100 due to rounding.

Source: U. S. Department of Labor.

longer than job leavers, new entrants, and reentrants. When total unemployment increased by approximately two million from 1969 to 1972, the number of job losers accounted for about one-half of the increase. The percentage of job losers who were unemployed 15 weeks and over increased from 17.6 percent to 32.3 percent during the same period.

Table II

**UNEMPLOYED PERSONS BY SEX AND AGE AND REASON FOR UNEMPLOYMENT**

	1967	1968	1969	1970	1971	1972
	(Percent Distribution of Annual Averages)					
<b>Total</b>						
Lost last job	40.9	38.0	35.9	44.3	46.3	43.1
Left last job	14.6	15.3	15.4	13.4	11.8	13.1
Reentrant	31.4	32.3	34.1	30.0	29.4	29.8
New entrant	13.1	14.4	14.6	12.3	12.6	13.9
<b>Males, 20 years and over</b>						
Lost last job	63.9	60.4	57.8	65.1	66.3	62.6
Left last job	15.5	16.8	17.0	12.8	11.4	12.7
Reentrant	18.3	20.7	22.4	19.4	19.6	21.6
New entrant	2.3	2.2	2.8	2.7	2.7	3.1
<b>Females, 20 years and over</b>						
Lost last job	36.8	34.7	33.0	40.4	42.2	39.4
Left last job	16.4	17.0	16.8	15.9	14.2	16.2
Reentrant	41.8	42.9	44.8	39.4	39.3	39.4
New entrant	5.0	5.6	5.5	4.3	4.3	4.9
<b>Both sexes, 16 to 19 years</b>						
Lost last job	17.5	15.5	14.8	18.1	18.5	18.9
Left last job	11.0	11.6	11.9	11.4	9.2	9.9
Reentrant	34.6	33.5	34.5	34.3	32.5	30.2
New entrant	36.9	39.4	38.8	36.2	39.8	41.0

Note: Percents may not total 100 due to rounding.

Source: U. S. Department of Labor.

**Unemployment by Sex, Age, and Reason** Table II shows the distribution of unemployed persons by age, sex, and reason for unemployment. This table indicates that persons who lost their last job constituted the largest proportion of the average number unemployed. Reentrants into the labor force made up the next largest proportion. Those who left their last job voluntarily and new entrants each made up less than 16 percent of the average number unemployed.

The composition of unemployment by reason varies among different age and sex groups. The main reason for unemployment in the adult male category was a loss of job followed by a reentrance into the labor force. In the adult female group, the two principal reasons for unemployment were a loss of job and reentrance into the labor force. The loss of jobs among the adult women group, however, was not as important as it was for adult men. Reentrants and new entrants accounted for the greatest proportion of unemployment in the 16-19 year group. For all the age and sex groups in Table II, the proportion of job losers among the unemployed increased during periods of rising unemployment (1969-1971).

## CONCLUSION

The unemployment rate and related statistics are a basic consideration in policymaking, but they must be given more than a mere superficial analysis to avoid misconceptions about their meaning. Although unemployment statistics have certain shortcomings, they continue to provide one of the best measures of the economic condition of the nation.

*Sharon M. Haley*