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## **The Employment Situation is Worse Than You Think, But Improving**

### **How discouraged workers leaving the labor force has masked the nation's true unemployment rate and what it means for 2012.**

Austin, TX (January 10, 2012)– New analysis by [Avalanche Consulting](#), a national economic planning firm, reveals that the “true” rate of unemployment is 12.1% - 3.6 percentage points higher than reported last Friday - and that an additional 5.4 million unemployed discouraged workers are missing from federal labor force estimates. This is the first recession in decades to experience the phenomenon of large swaths of people choosing to leave the labor force.

These estimates are derived by using the long-term ratio of employment to working-age population to calculate the “right” level of employment and the level of “true unemployment”. The team at Avalanche Consulting pulled 20 years of labor force and population data from our proprietary [Headlight](#) data system, which uses data from numerous federal agencies.

**Major Findings:**

- The labor force and unemployment rate estimates published by the US Department of Labor depend on the number of people who say they want a job and are looking for one. Because discouraged workers who stopped looking for jobs aren't included in the labor force (and are hard to measure), the reported unemployment rate may not tell the true unemployment story for the US.
- The labor force participation rate is one measure that is typically used to show the natural rate of employment in the US. The labor force participation rate (available workers as a % of the population aged 16 or higher) peaked in 1997 at 67.2%, but has experienced a slow decline over the past decade.
- To determine the right level of employment (and unemployment) for the US economy, we use a better measure: the ratio of jobs per population of working age (25-64 years). Using this ratio (which has held more constant than any other over the last 20 years), the actual gap in jobs in the US economy yields 18.7 million unemployed persons with a

true unemployment rate of 12.1%. This is 5.4 million persons and 3.6 percentage points higher than reported.

- Our unemployment rate estimate is not like the [alternative measures of unemployment reported by the Department of Labor](#), which includes people who work part-time but want full-time work, discouraged workers, and people who are “marginally attached” to the labor force. Unfortunately, these measures don’t vary much from their long-term averages (multiples above the reported rate) whether we are in a recession or not.
- Because we compare employment to population, we believe that our current unemployment data provides a clearer estimate of the number of discouraged workers, and therefore actual unemployment in the US today.

All supporting charts and data can be found in the [downloadable Economic Brief](#) on the Avalanche Consulting website.

**What is the outlook for 2012?** “Understanding the past and present situation is critical so that we can make better decisions going forward”, said Chris Engle, Vice President of Avalanche Consulting. “Sizing up the economy affects decisions across every part of the US: government policy decisions, career planning decisions, investment decisions, and overall consumer sentiment. The outlook for 2012 is getting brighter: most indicators are trending in the right direction. However, we must recognize that the economy has been scarred and that millions of people are no longer part of the productive labor force.”

“Every level of government – federal, state, and local – must be geared toward accelerating the recovery given lower levels of labor force participation and a large disenfranchised worker base,” said Mr. Engle. “Policies could include creating the business climate and incentives for the private sector to create jobs, encouraging adult workers to retrain in high-demand skills, and ensuring students are ready for the workforce when they graduate. The rewards will be large with the right policies: our job growth rate could be twice our long-term rate once the economy gets in full swing if we set the proper foundation for the private sector to create jobs.”

**Avalanche Consulting** is one of the nation's leading economic development consultancies specializing in economic and workforce development, strategic planning, target industry analysis, workforce demand assessments, and marketing plans. Learn more at: <http://www.AvalancheConsulting.com>

**Headlight** is the Avalanche Consulting’s flagship product, a web-based dashboard that provides businesses, workers, students, and citizens with in-depth, continuously updated information on their local economy. Learn more at <http://www.HeadlightLLC.com>