

**Q. How long does it take for events such as layoffs to be reflected in labor statistics?***by LMI Department staff*

There are a number of variables that effect when (or if) the economic events we hear about are reflected in labor statistics. Many of these events, such as announced layoffs, are often highly publicized. The initial announcement typically comes from the company planning a layoff through its own corporate press release, with this information quickly relayed to the public through the media. Often, after hearing such news, one logically expects to see the unemployment rate or nonagricultural employment level respond accordingly, reflecting this latest news. However, there are several reasons why the anticipated change may not occur right away. These include such factors as the timing of the layoff event, whether the company plans to phase in the layoff over a period of time, whether or not some type of severance package is being offered to employees, and finally, does the company actually follow through by laying off the announced number of workers.

**It's all in the timing**

The week of the month that a layoff occurs is a critical factor with regard to when the effect may be seen in some labor statistics. Two common indicators that are widely used to gauge economic health are the unemployment rate and nonagricultural wage and salary employment estimates. Each of these indicators are derived in part through surveys. Labor force estimates, including the unemployment rate, rely on information gathered through the monthly Current Population Survey (CPS), which is conducted under the authority of the Bureau of Labor Statistics. Specifically, this survey provides a statistical snapshot of labor force activity during the week of the 12th of the month. Because the CPS gathers information pertaining to a specific week, if a layoff occurs during or after the reference week, that information will not be taken into account until the following month. The timing of a layoff is also important in the estimation of nonagricultural wage and salary employment figures. These estimates are typically used to track industrial job counts and employment growth. Nonagricultural employment estimates are produced using data obtained from a monthly sample survey of employers. This survey asks employers how many people they had on their payroll, full- or part-time, during any part of the pay period which included the 12th day of the month. Workers who were employed for any portion of that pay period are counted as employed in the survey. This survey is conducted by the Labor Market Information Department in cooperation with the Bureau of Labor Statistics,

and provides a statistical snapshot of industrial employment activity. This data differs from labor force figures in that it is based on where jobs are located, irregardless of where those workers live. Again, if a layoff occurs during or after this reference week, employment estimates for that month may not reflect the job losses.

Another statistic important to the creation of labor force estimates is the number of claims made by those who have become unemployed for unemployment benefits. Because the number of claims for unemployment benefits are used in estimating the number of unemployed in an area (and ultimately the unemployment rate), the issue of when someone can begin drawing unemployment benefits becomes significant. More information regarding unemployment claims will be provided later in relation to severance packages.

**Phase in, or all at once**

Another factor to consider is whether the company announcing a layoff plans to release employees all at once, or intends do it over a period of weeks or months. The effects of this decision by the company can impact labor statistics as in the above issue of survey timing, and can have an impact in relation to how soon a worker finds new employment (see **Wages in lieu of notice** below). If the layoff occurs all at once, there is a better chance that the impact on some labor statistics will be seen sooner rather than later. If the company chooses a staggered approach, with an initial layoff followed by a series of layoffs in subsequent weeks or months, the effects may not appear for some time, if at all.

**Wages in lieu of notice**

How a layoff is structured differs greatly from one company to another. Sometimes a company will choose to pay workers wages in lieu of giving them advance notice of a layoff. When this occurs, for example, a company may pay workers a sum equivalent to what they would have earned over a period of several weeks, instead of giving them several weeks prior notice of being laid off. The amount of pay varies and may be paid in a lump sum or over a period of those weeks covered. This type of layoff has a direct effect on labor statistics because it determines when some workers may be eligible to draw unemployment benefits. If a company pays wages equivalent to two months of work in lieu of giving advance notice of a

layoff, those workers will not be eligible for unemployment benefits until after that two month period - regardless of whether the money was paid to them on a monthly basis, or as a lump sum. This means that the effect of the layoff, the anticipated rise for example in the unemployment rate, may be "shifted forward" by two months. This type of layoff poses another problem in that if workers cannot file for unemployment benefits until after the period covered by the "wages in lieu of notice", such as in the example above, they may find new employment before they ever actually become eligible to draw unemployment benefits. Hence, there is no mechanism translating that layoff event into statistics showing a slowing, or less healthy economy.

#### **Type of occupations involved**

Finding new employment before being eligible to draw unemployment benefits depends greatly on the type of occupations held by those who are laid off, and by the general demand for that occupation in either the same or another industry. For those workers who are skilled in areas that translate easily from one industry to another, such as secretaries and database administrators, the period of unemployment may be relatively short. On the other hand, if a layoff involves many workers who perform tasks unique to one company or one industry, the period of unemployment may be longer if there is a general downturn in that industry.

#### **Permanent or temporary**

Another matter to consider is whether the layoff is permanent or temporary. When a layoff is temporary and workers are out for only a short period of time, labor statistics such as the unemployment rate may not fully reflect the size of the layoff. This often depends on whether those who are temporarily laid off are eligible to collect unemployment benefits. This type of layoff sometimes occurs when a manufacturing facility undergoes scheduled maintenance or retooling.

#### **The importance of "follow through"**

Companies today, perhaps more than ever, are compelled to respond to rapid changes in product demand and competition. When layoffs are used as a tool to regain competitiveness and profitability, a company must make its decision to lay workers off based upon the latest market data available. Sometimes however, after a layoff has been announced, a company may find itself in a shifting market tide and decide it needs additional workers. This can mean that a company does not lay off the full number of workers originally announced. It is not uncommon for a company, while in the midst of a widely publicized layoff, to decide to hire additional personnel. Workers may be brought in to strengthen a different area of the company's operation in order to respond to more recent market developments. This means that those who track layoff activity must attempt to keep pace with these additions and subtractions, and try to determine what the overall effect is.

#### **Conclusion**

While it may surely seem difficult in view of the many variables described above to know when to expect to see movements in labor statistics following a layoff announcement, you can make an educated guess. Bearing in mind such factors as when (what week) the layoff occurred, whether some type of severance package was offered to employees that extended their "employed" status, if the layoff was permanent or temporary, whether the company actually followed through with the full layoff, and what type of occupations were involved, will help you determine when changes in many labor statistics can be anticipated.

*If you have any questions regarding how labor statistics are affected by events such as layoffs, please contact the Labor Market Information Department toll free at 1-866-938-4444, or by email at [lmi@twc.state.tx.us](mailto:lmi@twc.state.tx.us).*

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