**Opinion**

**BUSINESS PULSE SURVEY**

What do you think the outlook is for the local economy in 2014?

- **About the same as 2013**: 27%
- **Better than 2013**: 41.8%
- **Worse than 2013**: 30.2%

**BETTER THAN 2013**

Not sure 1.1% 41.8% 30.2%

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**In what way did cutting benefits work?**

Last month saw the release of some encouraging data on unemployment in North Carolina. In November, the state’s unemployment rate fell 0.6 points from October, to a seasonally adjusted 7.4 percent. The decline was twice as big as the drop in the national unemployment rate in 2012 that led some to speculate that President Obama had cooked the books leading up to the election. But just like then, no one falsified these data.

The state’s unemployment rate fell off a cliff after July. In the first seven months of this year, the rate fell half a point. Then it dropped 1.5 points in only four months. After hovering about a point and a half above the national rate for years, suddenly North Carolina is within shouting distance of the national unemployment rate of 7 percent.

As you may recall, July was when North Carolina enacted sharp cuts in the size and duration of unemployment benefits. Theoretically, such cuts can have two effects, both of which reduce the unemployment rate. The “employment effect” leads people to take jobs they wouldn’t take while receiving benefits. The “participation effect” leads people to become discouraged and leave the labor force altogether. If you’re not in the labor force, then by definition you’re not unemployed.

Which, if either, of these effects has happened since July?

North Carolina’s labor force is indeed contracting sharply. Through November, the number of unemployed people fell by 103,000, but the labor force shrank by 109,000. In percentage terms, the decline of North Carolina’s labor force is more than 16 times larger than what’s happened nationally in 2013. If those 109,000 people were still in the labor force and counted as unemployed, we’d be looking at a 9.5 percent unemployment rate! However, the labor force started shrinking last February, months before the state cut unemployment benefits.

The cuts didn’t reverse that trend, but they also didn’t initiate it. So what caused the unemployment rate to fall so sharply? It appears to have been a moderate late-year surge in employment, combined with the ongoing decline in labor force participation. Since July, we’ve lost an average of 10,000 people per month from the labor force. However, about 9,000 have become employed each month, on average, with that number growing as high as 20,000 in November.

The above numbers come from the so-called household survey, one of two surveys used to generate the monthly jobs report. The other survey is the establishment survey, which collects data on businesses payrolls. Its sample is larger, and it is subject to revision as data come in from state employment bureaus. Because of its greater statistical precision, it’s seen as a more reliable gauge of the number of jobs.

While the household survey showed a large increase in November, the establishment survey showed a drop of 6,900 jobs. Even so, in broad outlines the establishment survey is consistent with the view that benefits cuts spurred employment. Prior to July, North Carolina added roughly 3,000 jobs per month. Since July, that’s doubled to 7,500 per month. The moderate jobs surge at the end of the year suggests that cutting benefits had a small employment effect. But the ongoing shrinking of the labor force is troubling and makes it hard to reject a coinciding participation effect.

As usual, we’ll have to wait for more data and revisions before we can have a clearer idea of what’s at work here.

**VIEWPOINT**

Andrew Bledsoe

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The Business Journal

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As usual, we’ll have to wait for more data and revisions before we can have a clearer idea of what’s at work here.

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