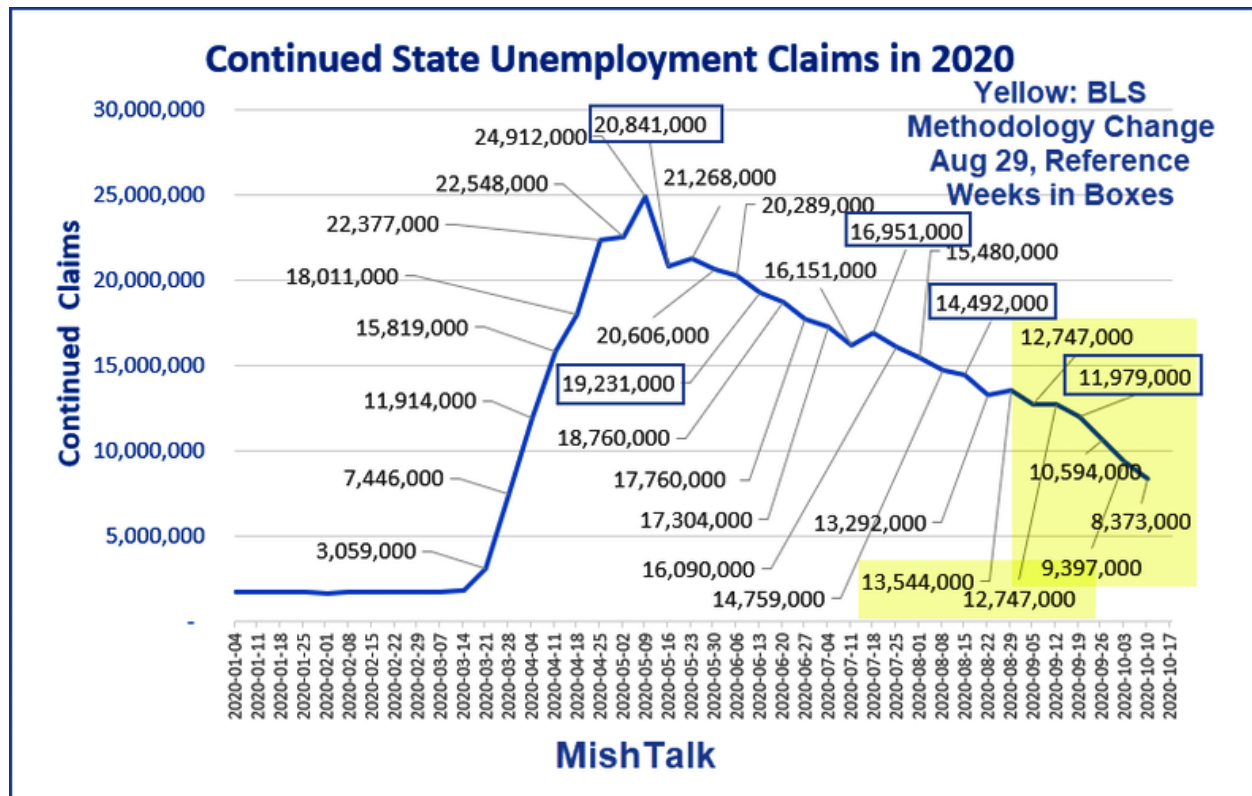


While the recent drop in unemployment claims was celebrated by the markets and media, it shouldn't have been. The drop in unemployment claims occurred for the wrong reason.



Continued Claims

Continued state unemployment claims lag initial claims by a week, and are more important than initial claims. It is continued claims that determine the official unemployment rate.

The rate is set by survey on the week that contains the 13th of the month, the weeks in boxes.

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Suspect Improvement

Last week I reported "Seasonally-adjusted continued claims fell from 11,183,000 last week to 10,018,000 this week."

This week we see continued claims fell from 9,373,000 to 8,373,000.

We had massive revisions primarily in California which was investigating fraud.

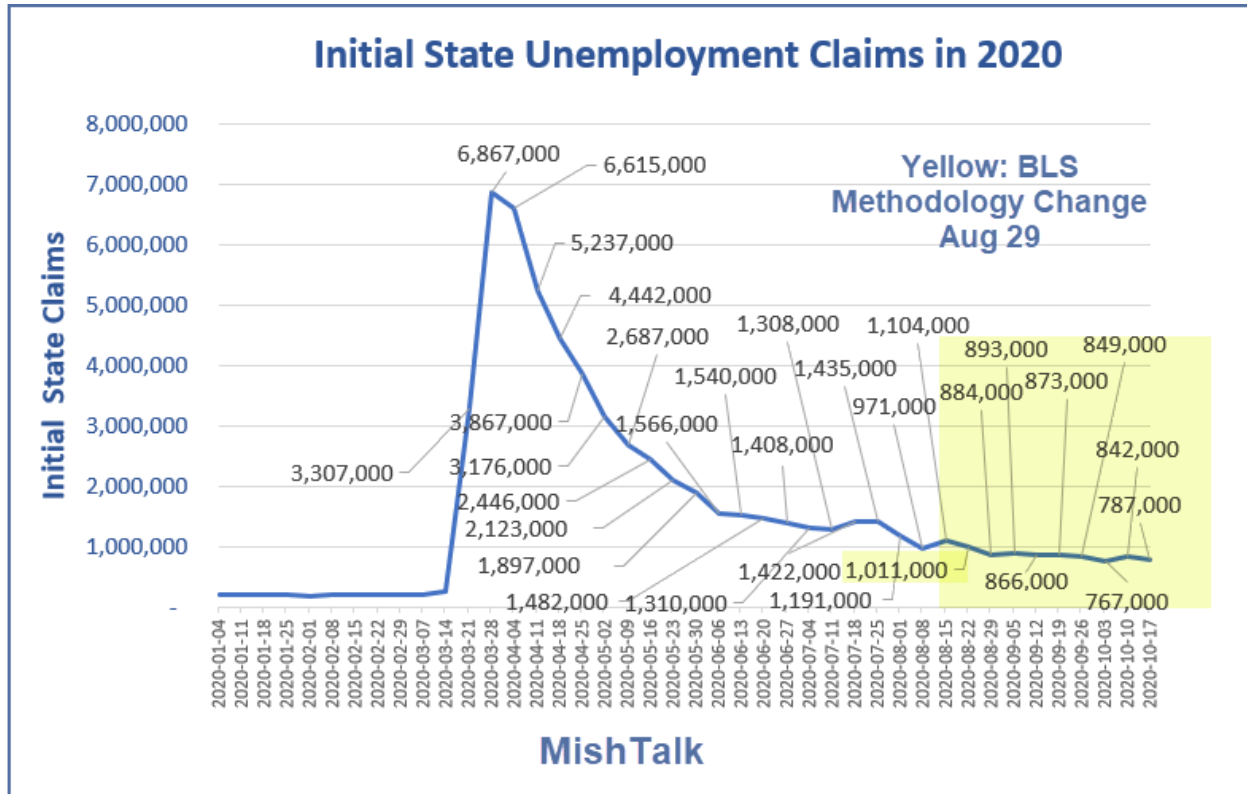
Continued Claims Distortions

1. *BLS Methodology Change on August 29.*
2. *California is so messed up it froze reporting. California is now reporting*
3. *People in some states have expired all of their state benefits and thus fell off the rolls.*

In a subsequent post, I will take a deeper look at expiring benefits.

Expired benefits are not a good reason for claims to be dropping. Expect more of it.

Initial Claims



Initial claims continue a very slow downward trend. They were also impacted by California which is now back reporting.

Given the recent surge in Covid cases and state restrictions, we are likely to see a reversal in initial claims.

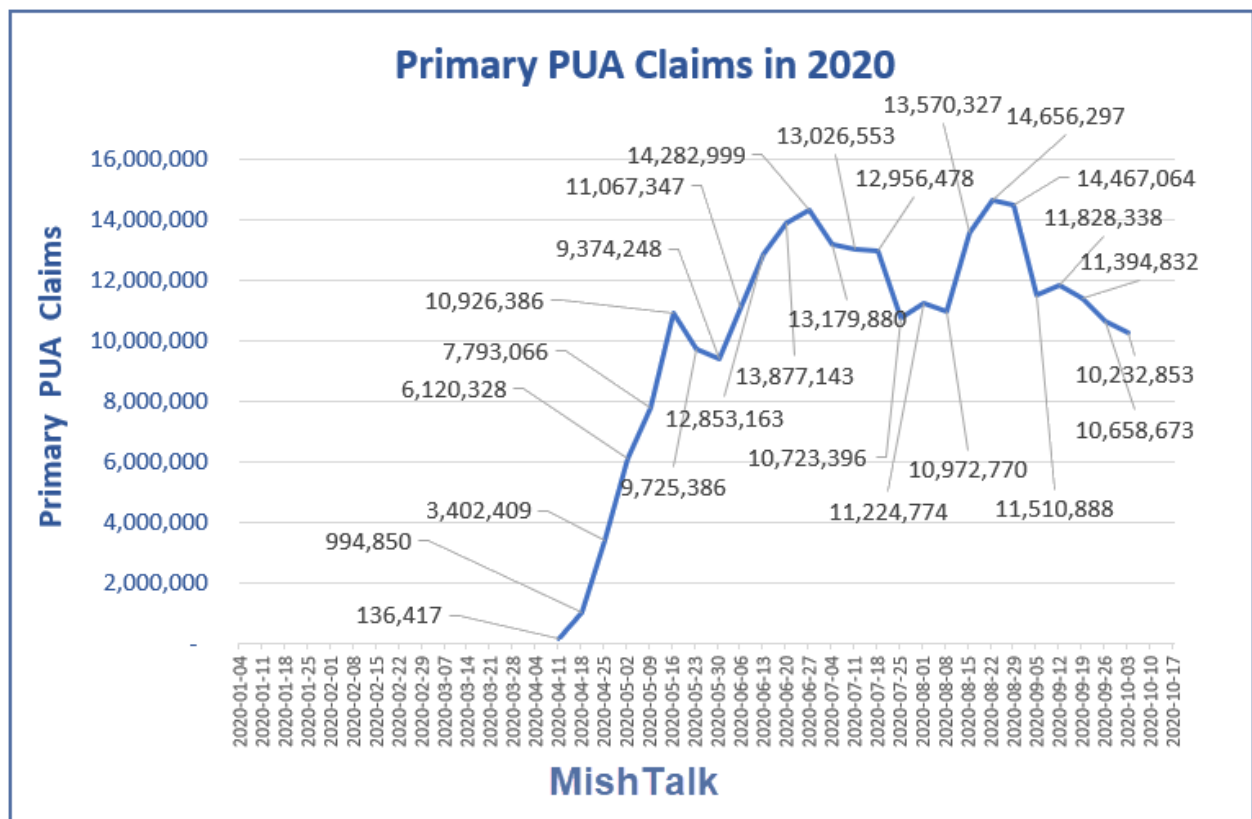
Initial claims and continued claims are seasonally adjusted.

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Primary PUA Claims In 2020



Primary Pandemic Unemployment Assistance

Unlike state claims, PUA applies to people working part-time, gig workers, and self-employed workers who do not qualify regular state unemployment programs.

The PUA claims are not seasonally adjusted. They were heavily revised due to California.

Over 10 million people receive PUA. This is where most of the fraud is hidden.

I suspect most of it is not fraud, but no one knows the real numbers due to the loopy-goosy nature of the program.

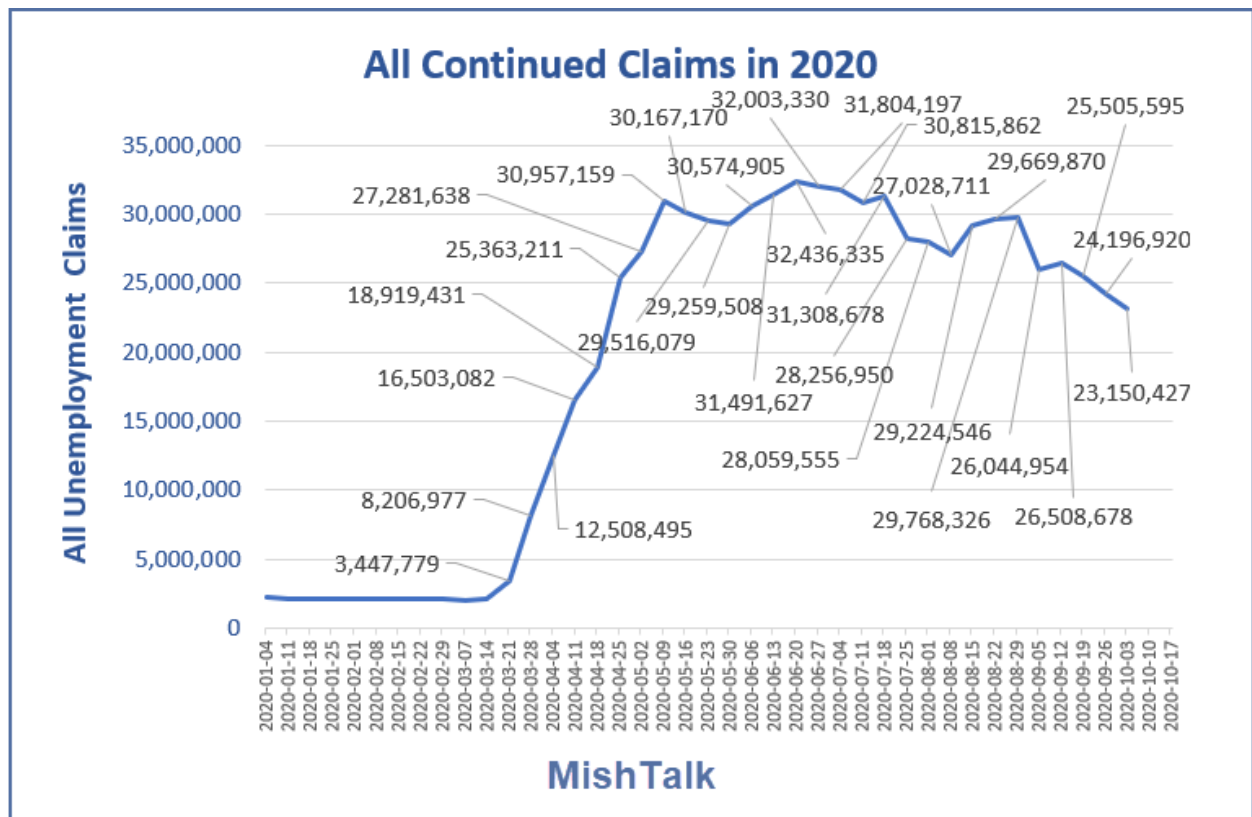
In terms of determining unemployment, I believe that at least 2 million of those 10 million are genuinely unemployed.



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All Continued Claims In 2020



Like PUA Claims, All Continued Claims are not seasonally adjusted.

They lag continued claims by a week and initial claims by 2 weeks.

Over 23 million people receive some assistance. That number, minus fraud and mistakes should match the U6 (alternate unemployment rate) but it doesn't.

Pandemic Emergency Unemployment Compensation

PEUC is part of all continued claims but it is worth special mention.

PEUC automatically kicks in for a period of time after state benefits expire.

Expect further increases in PEUC claims as regular state benefits expire.

Most states offer 26 weeks of unemployment insurance, but some states way less.

These numbers lag initial claims by two weeks and continued claims by a week and are thus a bit stale.

Explaining the Drop in Continued Claims

PEUC claims jumped from 2,786,333 on September 26 to 3,296,156 on October 3.

That's a rise of 509,823. Since it lags, the current number is higher.

A drop in continued claims accompanied by a rise in PEUC claims is not an improvement at all.

PEUC claims now total over 3 million. Add that number to continued claims for a better estimate of what's really going on.