QUICK GUIDE

ON INTERPRETING

THE UNEMPLOYMENT RATE

Contents

Acknowledgements

1. Introduction

The unemployment rate is a long-standing key labour market indicator, widely used around the world to communicate on the performance of the labour market and the economy's ability to generate enough jobs for jobseekers. The unemployment rate is a valuable measure of the mismatches between the labour supply and demand, casting light on the unutilized labour supply. Given the unemployment rate's significant analytical value and its importance for assessing the labour market, it is one of the most extensively produced and used labour market indicators.

In fact, at the time of writing, data on the unemployment rate are available for over 210 countries and territories on ILOSTAT[1], and almost 180 countries have post-2010 data available, showing the extensive country coverage of this indicator.

The unemployment rate is broadly used by numerous labour market agents, including politicians, policymakers, business owners, social partners, researchers, academics, students, journalists, and people in general interested in knowing about the labour market situation. It can support labour market research and analysis, as well as the formulation and evaluation of labour market policies. It is also used to communicate to the public on the labour market situation and trends. Indeed, the unemployment rate is frequently quoted by the media in many countries.

The unemployment rate can also underpin labour market decisions of economic agents such as policymakers, businesses and individuals. Both jobseekers and recruiters may adjust their criteria or expectations according to the variations of the unemployment rate, as these signal economic and labour market performance.

It is also a useful measure to track economic cycles, as trends in unemployment are often closely linked to economic performance and its variations. Unemployment patterns can reveal periods of recession and subsequent signs of recovery.

The relevance and usefulness of the unemployment rate is such that it is part of various international sets of indicators such as the Decent Work Indicators[2] and the Sustainable Development Goals (SDGs) Global Indicator Framework[3], designed to monitor progress towards the achievement of the SDGs.

However, as valuable and insightful as the unemployment rate is as a labour market indicator, it is by itself an insufficient one. It focuses on the share of persons in the labour force who are unemployed, failing to convey any information whatsoever on the quality of employment of those who do have a job, on the situation of persons outside the labour force, and the conditions of the unemployed. It does not provide a fully comprehensive measure of labour underutilization, as it overlooks other forms of labour underutilization, such as time-related underemployment and the potential labour force.

---

[1] The ILO's central statistical database, available at www.ilo.org/ilostat.

[2] For more information on the Decent Work Indicators refer to the ILO manual *Decent Work Indicators - Guidelines for producers and users of statistical and legal framework indicators* (ILO, second version, 2013) available at https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_223121.pdf

[3] For more information about the labour market indicators included in the SDG Global Indicator Framework refer to *Decent Work and the Sustainable Development Goals: A Guidebook on SDG Labour Market Indicators* (ILO, 2018), available at https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_647109.pdf

Thus, when referring to the unemployment rate, it is crucial to avoid presenting it as an all-encompassing indicator of labour market performance, and to interpret it clearly and transparently, focussing on what unemployment statistics actually convey. Caution is needed when analysing the unemployment rate to prevent assumptions that could lead to misconceptions about the labour market.

For instance, given that unemployment is generally seen as a negative outcome, low unemployment rates are typically viewed as a positive signal regarding the labour market, and decreasing unemployment rates are taken as an encouraging trend. Nevertheless, low unemployment rates may mask very different socioeconomic situations, sometimes even disguising substantial poverty, and decreasing unemployment rates may not result from the unemployed finding jobs but rather quitting the job search. Similarly, high unemployment rates, often negatively perceived, may refer to contexts where the infrastructure for job searching is robust and the unemployed receive sufficient social security benefits to allow them to look for a suitable job without urgency. Hence, when interpreting levels and trends of the unemployment rate, it is necessary to look beyond this single measure to provide meaningful explanations for the patterns observed, and to frame them within the characteristics of the labour market in question.

In this regard, it is essential to guide data users on the analysis and interpretation of the unemployment rate, presenting the main conclusions drawn from the data and the key elements to consider, as well as alerting them of underlying methodological issues.[4]

This Quick Guide provides insights on interpreting the unemployment rate, showing how the characteristics of the data source used impact the results, and inviting the data user to be particularly vigilant about the definitions applied, the geographical and age coverage and any potential breaks in series. It also reviews the labour market aspects that the unemployment rate fails to convey, including quality of employment, labour market attachment of persons outside the labour force, the conditions of the unemployed, and their participation in forms of work other than employment. The Guide includes information on analysing trends in unemployment rates, and on how the use of different breakdowns can greatly enhance the analytical value of unemployment statistics.

This Quick Guide is aimed at journalists, analysts, researchers, students, policymakers and anyone who is called on to analyse or quote data on the unemployment rate and wants to know how to interpret it wisely.

2. How the characteristics of the data source impact the unemployment rate

The scope and meaning of labour statistics in general are determined by their source and methodology, and this is certainly true for the unemployment rate. In order to interpret the data accurately, it is crucial to understand what the data convey and how they were collected and constructed, which implies having information on the relevant metadata. The design and characteristics of the data source (typically a labour force survey or similar household survey for the unemployment rate), especially in terms of definitions and concepts used, geographical and

---

[4] As recommended in the Fundamental Principles of Official Statistics adopted by the United Nations Statistical Commission in 1994.

age coverage, and reference periods have great implications for the resulting data, making it crucial to take them into account when analysing the statistics. It is also essential to seek information on any methodological changes and breaks in series to assess their impact for trend analysis, and to keep in mind methodological differences across countries when conducting cross-country studies.

2.1. Impact of definitions and operational criteria used

The unemployment rate is calculated as the percentage of persons in the labour force who are unemployed. Given that the labour force includes all persons employed or unemployed, this requires having strict definitions of both employment and unemployment. The following are the international standard definitions of the main concepts underlying the unemployment rate, as stated in the *Resolution concerning statistics of work, employment and labour underutilization* adopted by the 19th International Conference of Labour Statisticians in 2013.[5]

- **Employment:** Persons in employment are defined as all those of working age who, during a short reference period, were engaged in any activity to produce goods or provide services for pay or profit.

- **Unemployment**: Persons in unemployment are defined as all those of working age who were not in employment, carried out activities to seek employment during a specified recent period and were currently available to take up employment given a job opportunity.

- **Labour force**: The current supply of labour for the production of goods and services in exchange for pay or profit, computed as the sum of persons in employment and in unemployment.

Based on this, the unemployment rate is computed as follows:

$$\textbf{Unemployment rate} = \frac{Unemployment}{Labour\ force} \text{ x } 100 = \frac{Unemployment}{Employment\ +\ Unemployment} \text{ x } 100$$

Any deviation from the international standard definitions of employment or unemployment will have an impact on the resulting statistics on the unemployment rate, and should thus be taken into account when analysing the data.

Regarding the definition of unemployment in particular, it is of utmost importance that the three criteria are used to determine who qualifies as unemployed, that is, not being in employment, being available and actively seeking employment. The relaxation of any of these criteria results in a considerable distortion of the statistics, significantly hindering the indicator's analytical value, international comparability, and trend analysis. In fact, international standards used to allow for the optional exclusion of the job search criterion, but the abovementioned 2013 resolution emphasized the importance of using the three criteria simultaneously, thus no longer recognizing the option not to use all three of them.[6]

---

[5] The full text of the resolution is available at https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_230304.pdf

[6] It is noteworthy that the resolution does recognize the importance of having information on persons who are not in employment and available but not seeking employment, and on persons who are not in employment and seeking employment although they are not available, as a separate and complementary measure to

Even when the international standard definitions are strictly applied, there may still be differences in the operational criteria used to translate these definitions into practical terms. For the purposes of international comparability, these are the operational criteria recommended in the *Resolution concerning statistics of work, employment and labour underutilization* for the main aspects of these definitions:

- **Employment:** Comprises employed persons "at work" and employed persons "not at work" due to temporary absence from a job, or to working-time arrangements (such as shift work, flexitime and compensatory leave for overtime). For those "at work" during the reference period, this refers to work in a job for **at least one hour**.

- **Unemployment**:
  - "to seek employment" refers to any activity when carried out, during a specified recent period comprising the **last four weeks or one month**, for the purpose of finding a job or setting up a business or agricultural undertaking, including part-time, informal, temporary, seasonal or casual employment, within the national territory or abroad. Examples of such activities are: arranging for financial resources, applying for permits, licences; looking for land, premises, machinery, supplies, farming inputs; seeking the assistance of friends, relatives or other types of intermediaries; registering with or contacting public or private employment services; applying to employers directly, checking at worksites, farms, factory gates, markets or other assembly places; placing or answering newspaper or online job advertisements; placing or updating résumés on professional or social networking sites online.
  - "currently available" serves as a test of readiness to start a job in the present, assessed with respect to a short reference period comprising that used to measure employment, which may be extended to include a short subsequent period **not exceeding two weeks** in total, depending on national circumstances.
  - "**future starters**", that is, persons not in employment and currently available who did not seek employment because they had already made arrangements to start a job within a short subsequent period, set according to the general length of waiting time for starting a new job in the national context but **generally not greater than three months**, should be included in unemployment.
  - participants in skills training or retraining schemes within employment promotion programmes, who on that basis, were not in employment, not currently available and did not seek employment because they had a job offer to start within a short subsequent period **generally not greater than three months**, should be included in unemployment.
  - persons not in employment who carried out activities to migrate abroad in order to work for pay or profit but who were still waiting for the opportunity to leave should be included in unemployment.

- **Working-age population:** Persons aged **15 and above** (see section 2.3 for more on age coverage).

---

unemployment. In this regard, the resolution introduces the concept of the potential labour force, made up of these two subgroups.

A seemingly small change in the operational criteria used to define the employed or the unemployed, such as a modification of the one-hour threshold to be classified as employed or the reference periods for job search and availability to be classified as unemployed, or the specific job search activities included, may have a considerable impact on employment and unemployment statistics, reflected in the unemployment rate. It is hence essential to be aware of the underlying criteria used to define these concepts and produce the relevant data.

When interpreting the unemployment rate, it is also crucial to keep in mind what it conveys: the share of persons in the labour force who are unemployed. A common mistake is to read the unemployment rate as if it referred to the whole population rather than to only the labour force. An unemployment rate of 5 per cent means that 5 per cent of the labour force is unemployed (not 5 per cent of the population). If the youth unemployment rate is 10 per cent, then 10 per cent of young persons in the labour force are unemployed, not 10 per cent of all youth.

In this sense, it may be useful to compare the unemployment rate (UR) to the unemployment-to-population ratio (UPR), which represents the share of the working-age population who are unemployed. These are the calculations of these two indicators compared:

$$\text{UR} = \frac{Unemployment}{Labour\ force} \times 100 = \frac{Unemployment}{Employment + Unemployment} \times 100$$

$$\text{UPR} = \frac{Unemployment}{Working\ age\ population} \times 100$$

$$= \frac{Unemployment}{Employment + Unemployment + Outside\ the\ labour\ force} \times 100$$

Looking at the calculation of the unemployment rate and the unemployment-to-population ratio, it is understood that the difference between the two will be explained by those outside the labour force. The extent to which these two measures differ is thus dependent on the prevalence of inactivity (that is, the size of the population outside the labour force).

The unemployment-to-population ratio may be an informative complementary measure to the unemployment rate in this regard. Also, as the working-age population can be divided into three mutually-exclusive groups according to labour force status (employment, unemployment and persons outside the labour force), the shares of each of these three groups in the working-age population correspond to the total working-age population (their sum is 100 per cent). More specifically, the sum of the employment-to-population ratio, the unemployment-to-population ratio and the inactivity rate amounts to 100 per cent. Additionally, the labour force participation rate corresponds to the sum of the employment-to-population ratio and the unemployment-to-population ratio. The following figure illustrates how these measures represent the composition of the working-age population by labour force status using 2018 data for the world and by region. It is noteworthy that, while the world unemployment-to-population ratio is around 3.3 per cent in 2018, the world unemployment rate is close to 5.4 per cent. That is, in 2018, around 3.3 per cent of the working-age population was unemployed, amounting to around 5.4 per cent of the labour force.

Composition of the working-age population by labour force status, 2018

Region	Labour force	Employment	Unemployment	Outside the labour force
World	61%	58%	3%	39%
Arab States	51%	47%	4%	49%
Europe and Central Asia	58%	54%	4%	42%
Asia and the Pacific	62%	59%	2%	38%
Americas	63%	59%	4%	37%
Africa	63%	59%	4%	37%
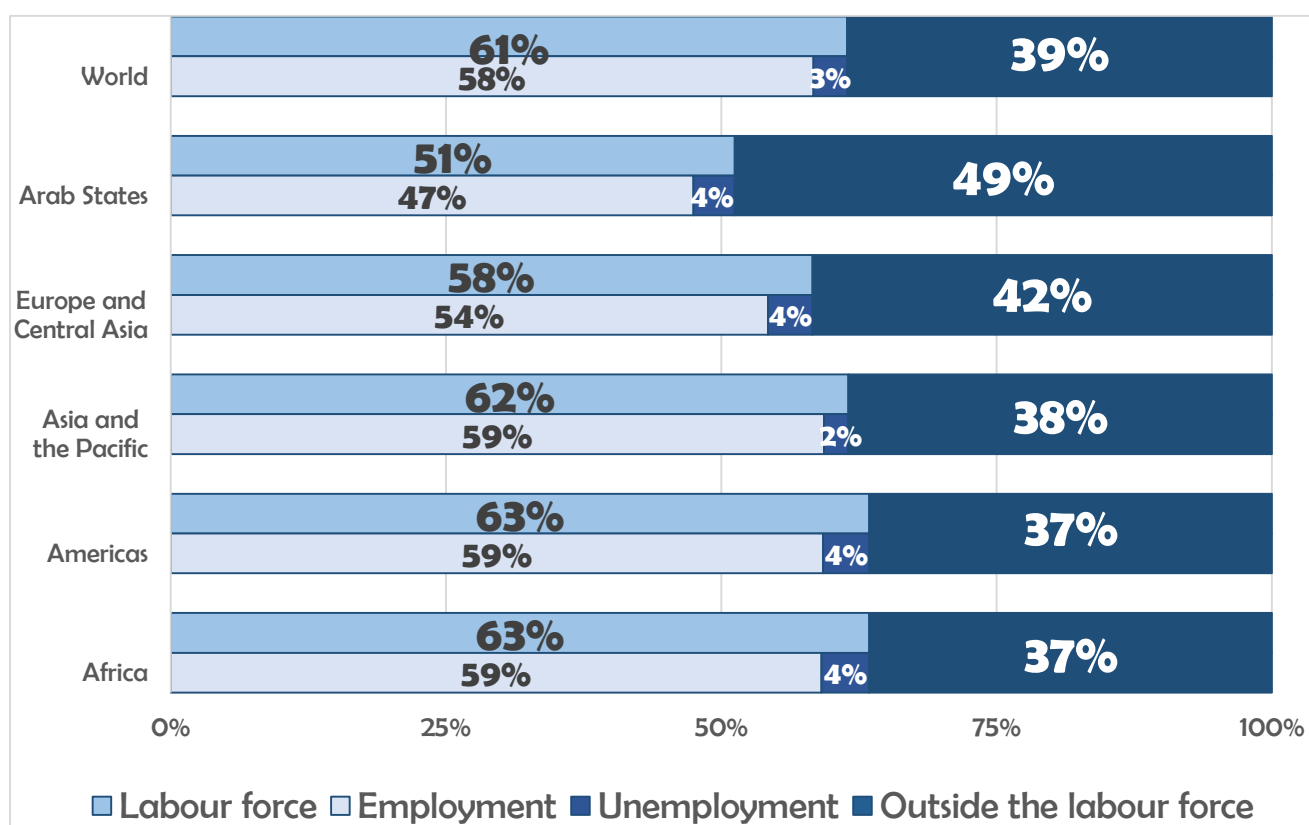
Source: ILO modelled estimates, November 2018 and UN estimates and projections, July 2017.

It is important to highlight that the unemployment rate refers to the three criteria described before, and this information should come from a household survey (typically a labour force survey). The unemployment rate is different than (and not strictly comparable to) data on registered unemployment. Registered unemployment relates to persons registered with the relevant employment office, unemployment insurance agency or other competent authority. Data on registered unemployment is thus generally derived from the administrative records of these agencies. Statistics on the number and share of persons registered under the relevant scheme to receive unemployment benefits, support in the job search and/or other services pertaining to employment may be crucial in some contexts, but they are in no way interchangeable with statistics on unemployment and the unemployment rate, as they refer to very different concepts. As a matter of fact, not all unemployed (persons not in employment but available and seeking employment) are necessarily registered with an employment office or unemployment insurance, and not all those registered with these authorities necessarily qualify as unemployed – maybe they do not fully meet the three criteria of being without a job but available and seeking.

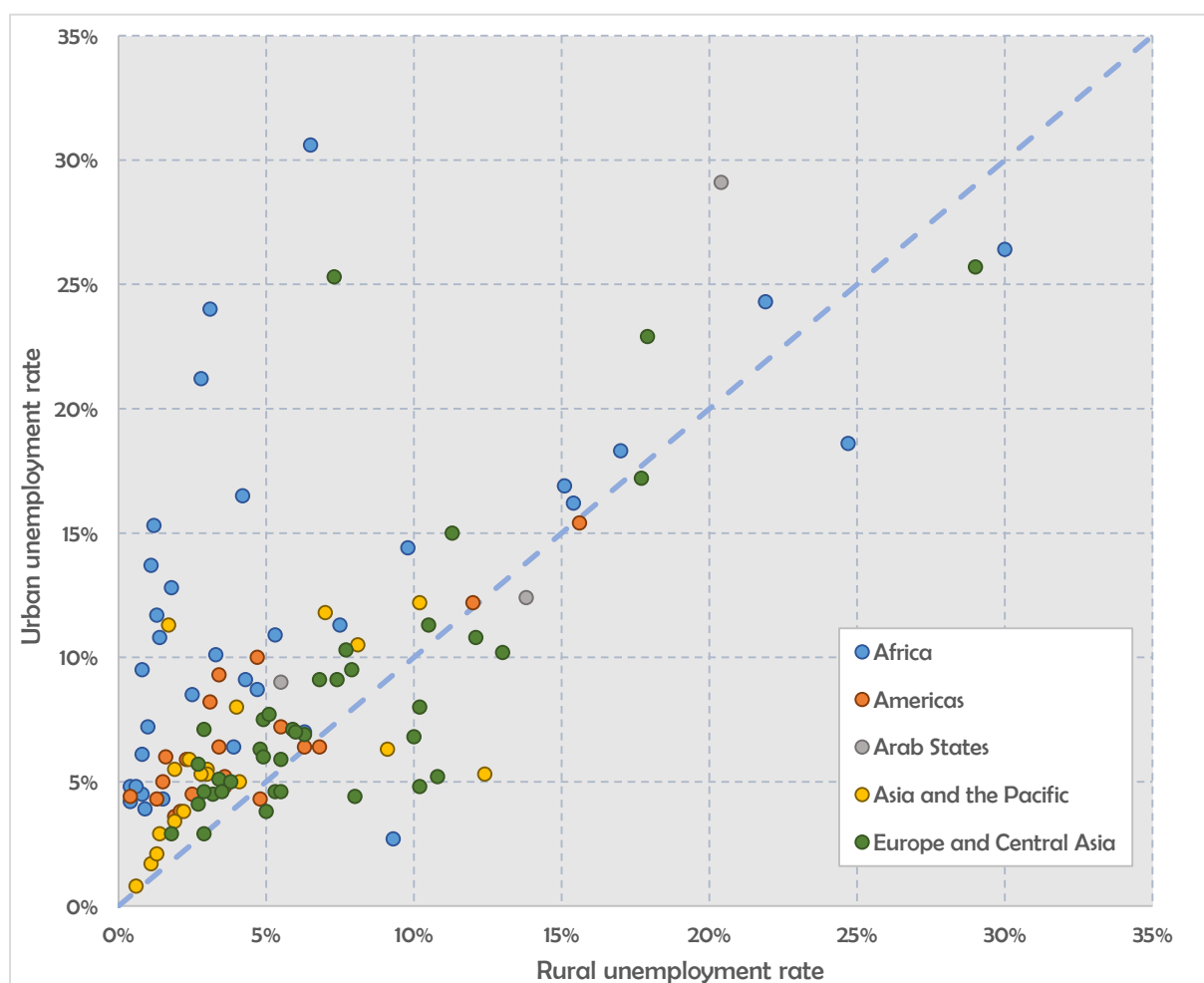## 2.2.   Impact of geographical coverage

Within a country, the structure and characteristics of the labour market may vary a lot from one region to the next, particularly across regions with different levels of urbanization. In fact, urban labour markets tend to be very different than rural labour markets, and labour markets of capital

cities or main metropolitan areas generally have different characteristics than those of other areas. Thus, it is critical to keep in mind whether the statistics at hand on the unemployment rate refer to the whole country or only to some specific areas, and if so, which ones.

If the coverage of the data source is not national, but rather limited only to urban areas or the main metropolitan area, this will have major implications for the labour statistics produced, particularly the unemployment rate. In these cases it is vital to interpret the resulting unemployment rate statistics within their geographical context, noting that they are not representative of the country as a whole.

As shown in the following figure, in about 80 per cent of countries with available data, the urban unemployment rate is higher than the rural unemployment rate, suggesting that unemployment is more of an urban occurrence. There are several possible explanations for this, including the lack of appropriate infrastructure and networks for job search in rural areas, the greater prevalence of poverty in rural areas which drives the jobless to take up any type of employment possible rather than remaining unemployed until a satisfactory job opportunity comes along, and better coverage of the social protection system and higher levels of unemployment benefits in urban areas. All of these conjectures can be checked against the data, by complementing the unemployment rate with other relevant indicators on the quality of employment, job search discouragement, the potential labour force and social protection coverage.

Urban and rural unemployment rates, 2017 (or latest year available for each country)

Source: ILOSTAT.

Given these fundamental structural differences in urban and rural labour markets, which particularly affect the unemployment rate, it is of chief importance to be aware of the geographical coverage of the data source when interpreting the unemployment rate. Indeed, interpreting, for instance, figures on the unemployment rate derived from an urban survey as though they were representative of the whole country could lead to a distorted picture of the national labour market. When doing cross-country analysis, it may be relevant to keep in mind the differences in urbanization levels across countries, as these may have an impact on unemployment patterns.

2.3.   Impact of age coverage

The age coverage of the data source, that is, the minimum and maximum (if any) age thresholds used to determine individuals' on whom labour market information is compiled from the survey in question, will have an impact on the resulting labour market indicators. Different age groups may have different labour market characteristics, with some particular age groups more or less likely to be employed, unemployed or outside the labour force, which is why their inclusion or exclusion in the working-age population influences the results.

The usual international practice for defining the working-age population refers to all persons aged 15 years and above. Any deviation from this common practice will greatly hinder international comparability. If the working-age population refers, for example, to all persons aged 10 and above rather than 15 and above, the impact will depend on how different the labour market situation of children aged 10 to 15 is from that of the rest of the working-age population. Particularly for the unemployment rate, it would be necessary to ask: are children aged 10 to 15 likely to be unemployed? More so or less so than adults? Are they likely to actively participate in job search activities? Are they more likely than others to be hired quickly without having to job search for long? The likelihood of children aged 10 to 15 of being unemployed may drive the total unemployment rate up or down compared to what it would be for persons aged 15 and above only.

Similarly, if a maximum age threshold is used, its impact on the total unemployment rate should be assessed by studying the labour market characteristics of older persons excluded from the working-age population compared to those of the rest of the working-age population.

Keeping in mind the specificities of the labour market situation of the age groups included or excluded from the working-age population is especially important when analysing trends: if the minimum age or maximum age thresholds used changed from one year to the next, this will influence the data. Changes in the age coverage of the unemployment rate can produce considerable breaks in series. For example, if the definition of the working-age population was modified from persons aged 15 and above in one survey year to persons aged 10 and above the following year, a decrease in the unemployment rate during this time may be the result of this methodological change rather than an actual reduction in the incidence of unemployment. If data availability permits, and for the purpose of trends analysis, in this case it would be ideal to recalculate the unemployment rates so that they cover the same age groups both years.

2.4.   Impact of the reference period

In many countries, unemployment has strong seasonal patterns, as it is closely linked to the fluctuations of seasonal economic activities (such as agriculture and tourism). Thus, the unemployment rate is very sensitive to seasonality, and the short-term fluctuations of the unemployment rate can be due to a large extent to seasonal phenomena. This is why it is crucial when studying long-term trends in the unemployment rate to always refer to the same period each year, to remove the seasonality effect and to be able to assess the underlying evolution of unemployment. For short-term trends analysis, various adjustment methods can be used to remove the effect of seasonality.

Having information on when the data collection took place and the reference periods used is essential to place unemployment figures in the appropriate context and to interpret them accordingly. Countries around the world produce unemployment figures with different periodicity, depending on the frequency of the survey used to derive the statistics. Some countries have a monthly labour force survey in place, allowing them to produce monthly unemployment figures, others have a quarterly survey and some conduct it only once a year. There are also countries conducting labour force surveys less regularly than annually.

When doing cross-country comparisons of the unemployment rate for a given year (or several years), it is important to know what the reference period is for the annual figure in each country. That is, whether the annual figure refers to the average of twelve monthly data points, or to the average of four quarterly data points, or to one specific month or quarter. Depending on the particular characteristics of the labour market, this may have an impact on data comparability.

2.5.   Impact of significant methodological changes

Any change in the methodology used to produce unemployment figures, including changes in sample design, questionnaire design, coverage, definitions and operational criteria used will have an impact on the statistics, resulting in a break in series. The magnitude of the break will depend on the type of change implemented.

Breaks in series should be respected as such, and users should refrain from doing trends analysis if there was a significant change in the series. Some methodological changes may affect the unemployment rate significantly, making the data points prior to the change not strictly comparable or consistent with those following the change. Where there is a break in series, the evolution of the unemployment rate may be due to the methodological change rather than to an actual fluctuation in unemployment, which is why it is advisable to refrain from analysing the trend of the unemployment rate for a period covering a break, unless it is possible to assess the extent to which the break affected the figures.

3. What the unemployment rate does not tell

The unemployment rate simply conveys the share of unemployed persons in the total labour force (where the labour force is comprised of all persons either employed or unemployed). This is indeed valuable information, but it is also clearly incomplete, as the measure entirely disregards persons

outside the labour force. Similarly, it provides absolutely no information on the quality of employment for those in employment, or on the characteristics or nature of unemployment. Moreover, by focusing on whether or not individuals are in employment, it conveys no information on the participation in forms of work other than employment.

3.1. It does not provide a comprehensive measure of labour underutilization

The unemployment rate is a key measure of labour underutilization, as it provides an indication of the most evidently and straightforwardly unused labour supply: jobless persons who are available and looking for a job. This is valuable information, but it does not cover all the ways in which the current labour supply may be underutilized. In fact, even though the unemployed represent the most explicit unused labour supply, there may also be a further potential supply of labour among the employed or among those outside the labour force. It may be that some employed persons are working fewer hours than they would like to work and are available to work more hours. This would also constitute a form of labour underutilization. It is also possible that some jobless individuals may not be classified as unemployed because they do not fulfil simultaneously the two criteria of being available to take up a job and being actively seeking employment, thus qualifying as persons outside the labour force. However, jobless persons who are available for employment although they are not actively seeking, and jobless persons who are actively seeking employment although they are not currently available for it, also represent a form of labour underutilization. They constitute a potential supply of labour even though they are outside the labour force.

Recognizing the limitations of the unemployment rate as a measure of labour underutilization, the 19th International Conference of Labour Statisticians introduced in the *Resolution concerning statistics of work, employment and labour underutilization* (mentioned in section 2.1) the statistical definition of labour underutilization and four labour underutilization indicators. In this resolution, labour underutilization is defined as all mismatches between labour supply and demand which translate into an unmet need for employment among the population.

Measures of labour underutilization include, but may not be restricted to:

- **Time-related underemployment:** Persons in employment whose working time is insufficient in relation to alternative employment situations in which they are willing and available to engage.

- **Unemployment**: Persons not in employment, available and actively searching for a job.

- **Potential labour force**: Persons not in employment who express an interest in it but for whom existing conditions limit their active job search and/or their availability. Specifically, the potential labour force is comprised of two groups: persons not in employment who are available for employment but not actively seeking, and persons not in employment who are seeking employment but not currently available.

  - **Discouraged jobseekers:** These are a subgroup of persons not in employment, available for employment but not actively seeking employment, comprising those who did not seek employment for labour market-related reasons such as the past failure to find a suitable job, lack of experience, qualifications or jobs matching the person's skills, lack of jobs in the area, and being considered too young or too old

by prospective employers.

The four headline labour underutilization indicators introduced in the resolution are calculated as follows:

- **LU1 - Unemployment rate** $= \dfrac{Unemployment}{Labour\ force}$ x 100

- **LU2 - Combined rate of time-related underemployment and unemployment** $= \dfrac{Time\ related\ underemployment + Unemployment}{Labour\ force}$ x 100

- **LU3 - Combined rate of unemployment and potential labour force** $= \dfrac{Unemployment + Potential\ Labour\ force}{Labour\ force + Potential\ Labour\ force}$ x 100

- **LU4 - Composite measure of labour underutilization** $= \dfrac{Time\ related\ underemployment + Unemployment + Potential\ Labour\ force}{Labour\ force + Potential\ Labour\ force}$ x 100

The figure presented next shows the composition of the working-age population in terms of labour force status, and where labour underutilization falls within this framework.

Composition of the working-age population by labour force status and labour underutilization
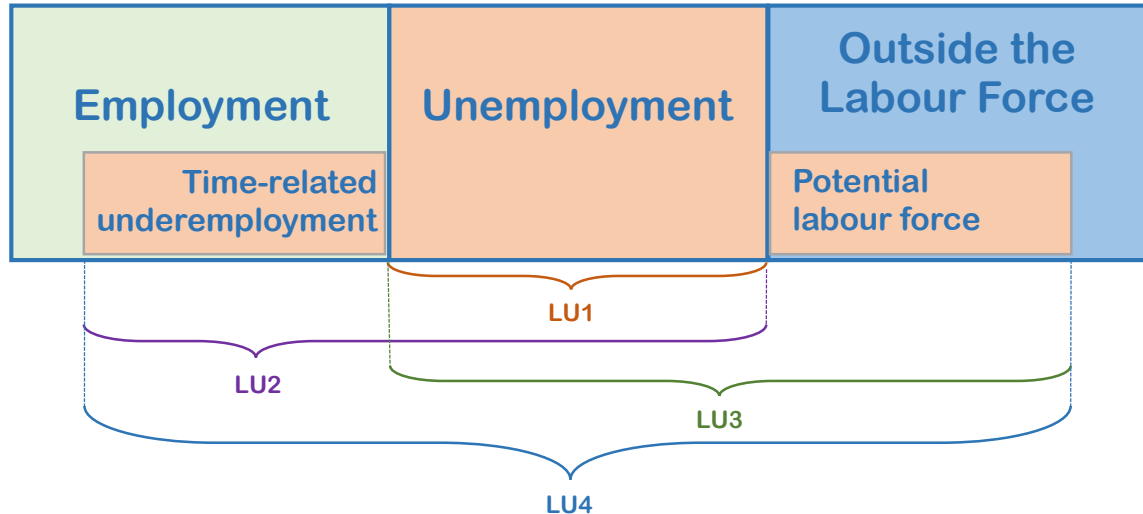
Depending on the context, low unemployment rates may be associated with a satisfactory labour market situation where jobs available match many job seekers' skills and expectations, and where appropriate infrastructure and networks facilitate the job search. However, low unemployment rates may also be associated with the prevalence of other forms of labour underutilization (such as time-related underemployment, job search discouragement or obstacles to availability for employment). Accordingly, in order to more accurately assess the situation of the labour market, it is prudent to interpret the unemployment rate alongside other complementary measures of labour underutilization such as those described above.

3.2. It provides no information on persons outside the labour force

By focusing on the share of persons in the labour force who are unemployed, the unemployment rate systematically and entirely overlooks the situation and prevalence of persons outside the labour force. This is a key limitation of the indicator, as the conditions of persons outside the labour force vary significantly, with different implications for labour market analysis. By excluding persons outside the labour force from our interpretation of the unemployment rate, we would be assuming that they do not put any pressure whatsoever on the labour market, and they do not have any sort of attachment to it, which may not always be true. Therefore, it is crucial to interpret the unemployment rate alongside information on the attachment to the labour market of persons outside the labour force (i.e. whether they are part of the potential labour force or not) and their reasons for not being in the labour force (the specific reasons for not currently being available for employment or for not seeking employment).

Having information on the share of persons outside the labour force who are part of the potential labour force will reveal the extent to which persons outside the labour force are attached to the labour market and put pressure on it. Additionally, data on the specific reasons of persons outside the labour force for not seeking employment or for not currently being available to take up a job may reveal key labour market and socioeconomic issues related to job search infrastructure, labour market inclusiveness, and organization of care and household activities, among others.

In some contexts, especially where infrastructure and networks for job search are insufficient and the labour market is not fully inclusive to all population groups, analysing data on discouraged jobseekers may be as important as studying unemployment rate figures.

Looking at the data available in ILOSTAT for 101 countries we note that in all countries the unemployment rate is lower than the combined rate of unemployment and potential labour force. This is due to a large extent to the mathematical construction of these two indicators, being that the unemployment rate is in a way comprised within the combined rate of unemployment and potential labour force. However, although the fact that the unemployment rate is lower than the combined rate of unemployment and potential labour force is not revealing per se, the magnitude of this difference may be of great interest. Indeed, we observe that in 64 of the 101 countries with data, the difference between the two indicators is less than five percentage points, suggesting that in the majority of countries labour underutilization does not seem to affect persons outside the labour force much, at least not relative to those unemployed. Nevertheless, there are also 14 countries where the combined rate of unemployment and potential labour force is over 10 percentage points higher than the unemployment rate, possibly signalling issues of job search discouragement, lack of appropriate infrastructure for job search, and impediments to availability to work. Interestingly, eight out of these 14 countries are in Africa (see figure in the following page).

Unemployment rates and combined rates of unemployment and potential labour force, 2017 (or latest year available for each country)

Source: ILOSTAT.

3.3. It provides no information on the quality of employment

Another major shortcoming of the unemployment rate is that it does not provide on its own any information on the quality of employment, that is, on the working conditions of the employed population. A low unemployment rate implies that a large share of the labour force is employed, reflecting a situation where jobseekers are to a great extent able to find and hold jobs. Nonetheless, it does not inform us on the quality, nature and types of these jobs.

A robust and healthy labour market is not one that simply generates enough jobs for everyone interested in employment, but one that also ensures the quality of jobs. A well-functioning labour market promotes decent work by featuring jobs with satisfactory working conditions, including adequate earnings and working time, occupational safety and health, and access to social protection and social dialogue, among others.

Where there are well-developed social protection schemes providing suitable unemployment insurance or when savings or other means of support are available, jobless individuals can take the

time to find more desirable jobs. Conversely, in contexts with no unemployment insurance or social protection benefits, many individuals simply cannot afford to be unemployed, and thus have to take up any job available, even if it is informal or with undesirable working conditions. In such contexts, low unemployment rates would be masking the dire situation of the employed. Hence, the interpretation of the unemployment rate as a stand-alone indicator would be misleading, providing a questionable impression of a labour market in good health. In this sense, it is crucial to interpret the unemployment rate alongside indicators on the quality of employment, to point to any decent work deficits beyond the simple lack of employment.

One crucial aspect of the quality of employment is the adequacy of earnings, which can be studied through indicators such as the working poverty rate (the share of persons employed who live in poor households despite having a job), the low pay rate (the share of employees receiving what is considered a low pay under national circumstances), the mean and median hourly and monthly earnings in each sector and for each occupation, the difference between the mean and median wages and the minimum wage (where one exists) and the share of employees earning the minimum wage.

Working time is another main aspect of employment quality. On the one hand, the hours of work of the employed must be enough to satisfy their needs and provide them with sufficient earnings, and on the other, they must not be excessive, so as to preserve their wellbeing and social lives. In this regard, indicators such as the time-related underemployment rate (the share of persons employed who are available and wanting to work more hours than they do), the involuntary part-time rate (the share of employees who are working part-time involuntarily), mean and median hours of work in each sector and for each occupation, and the excessive working time rate (the share of persons employed working 48 hours a week or more) are crucial to understand the working conditions of the employed population.

Furthermore, informal working arrangements represent a considerable hindrance to decent work. Individuals working in the informal sector or holding an informal job are usually in a very vulnerable position, given the difficulties to ensure the application of the relevant labour legislation for informal workers and the fact that they are typically not covered by social protection and labour inspection. In order to understand the extent to which jobless individuals resort to informal employment to escape unemployment, it is crucial to interpret the unemployment rate alongside indicators on informality such as the share of informal employment and the share of employment in the informal sector.

As shown in the figure below, similar levels of the unemployment rate can refer to very different labour market situations in terms of the prevalence of informality. For instance, in both Yemen and Serbia, the unemployment rate was close to 13.5 per cent for the latest year available (2014 for Yemen and 2017 for Serbia) whereas 77.4 per cent of all employment was informal in Yemen compared to only 21.7 per cent in Serbia. Even though the share of persons in the labour force who are unemployed is very similar in these two countries, the situation of those employed is very different, particularly in terms of the prevalence of informality (associated with precariousness and vulnerability). Thus, looking only at the unemployment rate may mislead us into thinking that the conditions of the labour force in these two labour markets are similar, when they are actually rather different.

Share of informal employment and unemployment rates, 2017 (or latest year available for each country)
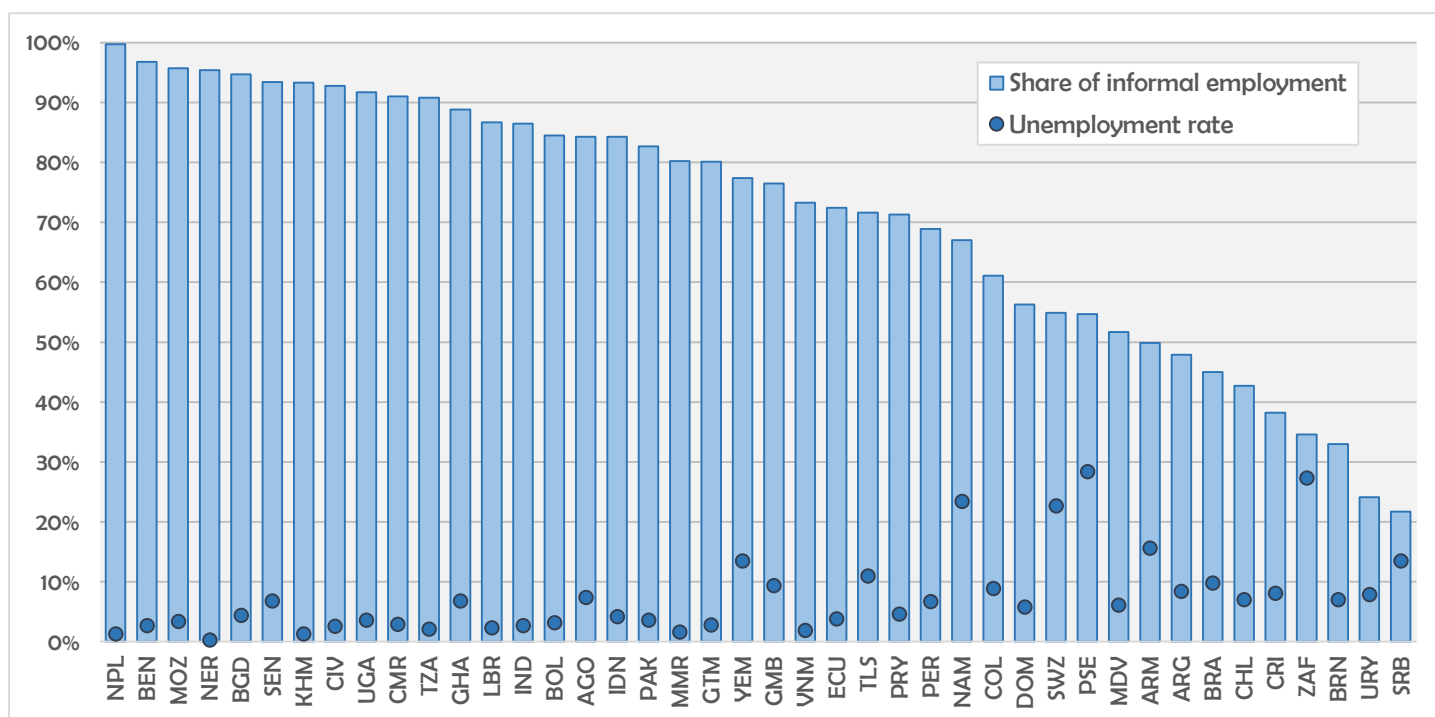
Source: ILOSTAT. Notes: The share of informal employment refers to harmonized ILO statistics based on standard definitions and operational criteria. ISO alpha 3 country codes are used.

Other indicators which could inform on the quality of employment include social protection coverage indicators, occupational safety and health indicators and social dialogue indicators such as the trade union density rate and the collective bargaining coverage rate.[7]

3.4. It provides no information on the characteristics of the unemployed and the nature of unemployment

Unemployment may refer to a variety of situations, including differences in the duration of unemployment, the skills and educational level of the unemployed, and their past work experience.

The duration of unemployment is a key factor determining the conditions of the unemployed. Unemployment is believed to have a hysteresis effect whereby the longer individuals remain unemployed the harder it will be for them to find a job, thus remaining unemployed for even longer. In this sense, it is essential to complement the interpretation of the unemployment rate with information on the duration of unemployment, via the use of indicators such as the average duration of unemployment and the share of long-term unemployed (the share of persons who have been unemployed for one year or more as a percentage of total unemployment).

---

[7] There are several sets of indicators designed for the purposes of informing on the quality of employment, such as the ILO Decent Work Indicators (see the manual mentioned in footnote 2 for more information), UNECE's Statistical Framework for Measuring Quality of Employment (for more information refer to UNECE's *Handbook on Measuring Quality of Employment – A Statistical Framework*, available at https://www.unece.org/stats/publications/stat_qua_emp.html) and the OECD's Job Quality Framework (for more information visit http://www.oecd.org/statistics/job-quality.htm).

It may also be interesting to have information on the level of education of the unemployed and their skills and competencies, as these characteristics of the unemployed may have implications for policy making and labour market analysis.

Also, in terms of the past work experience of the unemployed, it may be revealing to assess the extent to which the unemployed are first-time jobseekers (looking for their first work experience) or have previously had jobs, and if so, in what sector of economic activity and occupation.

Furthermore, individuals classified as unemployed may be in different situations in terms of social security transfers. The unemployed may be receiving sufficient unemployment benefits, ensuring satisfactory living conditions during the spell of joblessness, or they may be in a dire situation where they receive no income and no social security transfers. This is a key issue, one that greatly influences the conditions of the unemployed, and the extent to which they can afford to remain jobless while looking for a satisfactory job opportunity.

The figure presented next uses data on the unemployment rate and the share of unemployed receiving unemployment cash benefits to show how similar levels of the unemployment rate can correspond to very different conditions of the unemployed. Around the world, social protection coverage of the unemployed varies tremendously, ranging from full coverage, where all unemployed persons receive cash benefits to situations in which virtually no unemployed person receives unemployment benefits.

Share of unemployed receiving unemployment cash benefits and unemployment rates, latest year available for each country
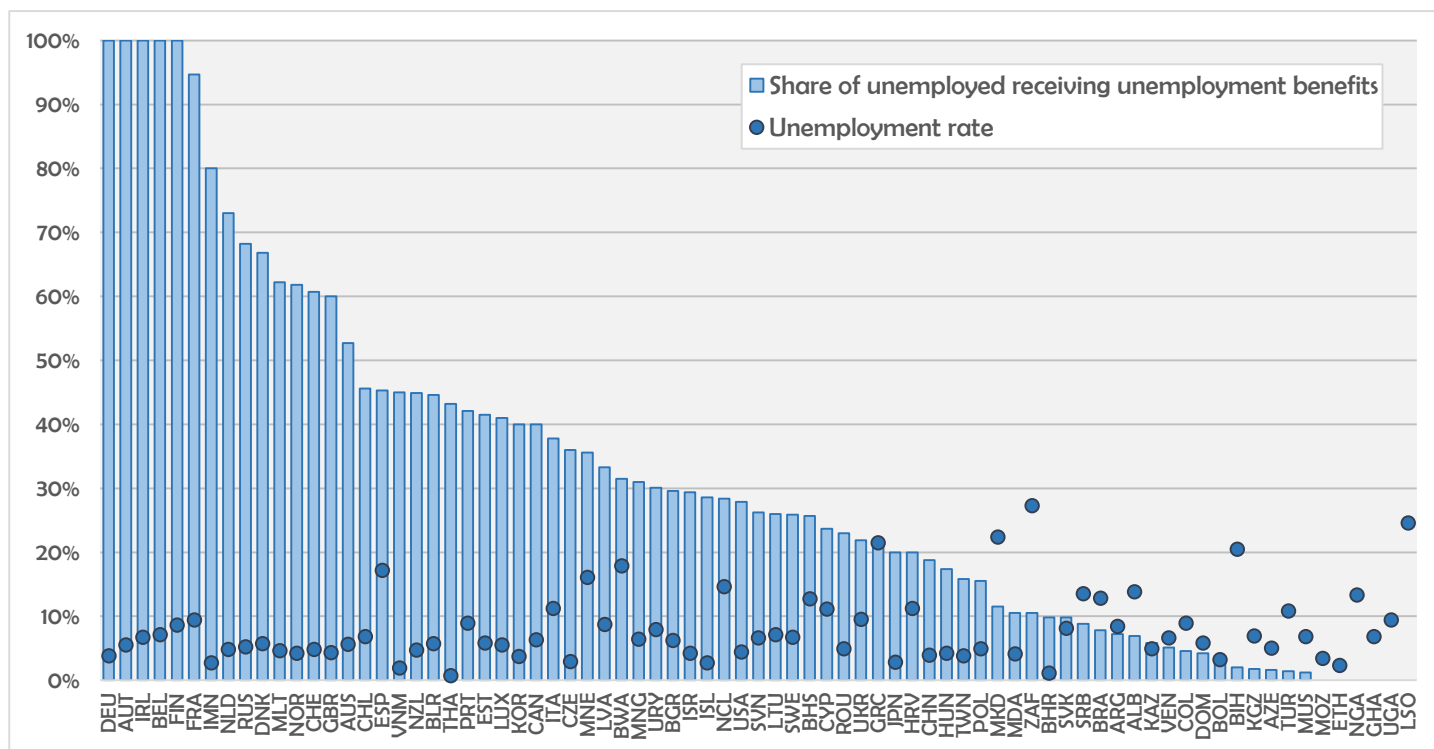
Source: ILOSTAT and ILO World Social Protection Report 2017-2019. Note: ISO alpha 3 country codes are used.

Moreover, although the unemployment rate shows the magnitude of the mismatch between labour demand and labour supply, it does not provide information on the characteristics of this mismatch. In fact, unemployment may be of different types: frictional (resulting merely from the time it takes job seekers and employers to find each other), cyclical (reflecting economic fluctuations and business cycles) or structural (revealing a serious, long-term discord between jobs sought by workers and those available). Identifying the type of mismatch (and thus, the prevailing type of unemployment) is critical to develop appropriate labour market policies.

## 3.5. It provides no information on the participation in other forms of work

The *Resolution concerning statistics of work, employment and labour underutilization* adopted by the 19th International Conference of Labour Statisticians recognized that employment (work done for pay or profit and for use by others) does not represent all the work carried out by the population, and introduced the forms of work framework, defining several forms of work other than employment: namely own-use production work, volunteer work, unpaid trainee work and other work activities.

The measure of unemployment simply refers to whether or not people are in employment, focusing fully on this particular form of work. Nevertheless, the unemployed may be participating (perhaps even intensively) in other forms of work such as volunteer work, unpaid trainee work

and own-use production work. Gathering and analysing statistics on unemployed individuals' participation in other forms of work may be revealing, as these work activities may have an impact on the living conditions and wellbeing of the unemployed.

The figure below shows how the forms of work framework and the labour force status framework relate, thus presenting how the unemployed fit into the forms of work framework.

Composition of the working-age population by main form of work and by labour force status
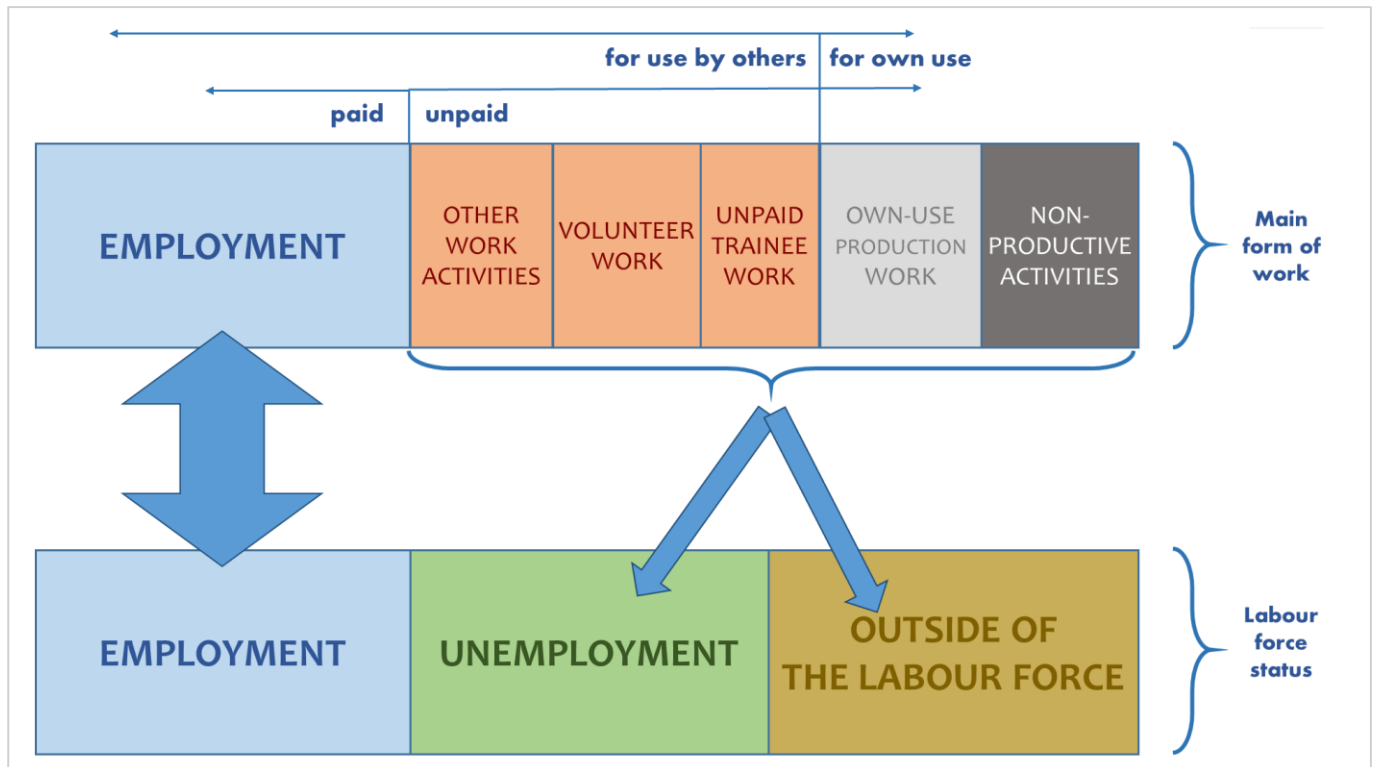

4. Analyzing trends

The unemployment rate is expressed as a percentage, in terms of the share of the labour force, which renders its interpretation easier than by looking at absolute numbers of unemployment. Indeed, absolute numbers are less accessible and harder to grasp than rates, ratios or shares. Expressing things in relative terms (relative to another meaningful measure, such as the reference population) facilitates our understanding of the phenomenon within its context, and in this sense, the unemployment rate provides a valuable indication of the extent to which persons in the labour force are able to find and secure jobs.

However, by looking only at the rates we may disregard the magnitude of the issue in terms of the number of people actually affected. Also, by focusing solely on the evolution of the unemployment rate, we may overlook large variations in the underlying numbers, which correspond to the labour market situation of a potentially significant number of people. The unemployment rate in percentage terms may have stayed the same, but if the labour force grows, unemployment will affect more people. More jobs will need to be generated to satisfy the growing numbers of unemployed.

As shown in the figure on the right, the working-age population is made up by three mutually-exclusive groups: employed persons, unemployed persons and persons outside the labour force. This means that whenever the unemployment rate fluctuates, there must have been a shift in the composition of the working-age population, and it would be crucial to understand the nature of this shift. In this regard, interpreting the unemployment rate alongside data on the employment-to-population ratio and the inactivity rate will reveal whether, for example, a decrease in the unemployment rate is due to jobseekers finding employment (and thus, coupled with an increase in the employment-to-population ratio) or to jobseekers deciding to quit the labour force altogether (and thus, coupled with an increase in the inactivity rate). If employment is going up, it would be interesting to know what types of jobs are being created, thanks to the use of indicators on the quality of employment. It may also be revealing to gather information on the unemployed, for instance, if unemployment remained constant while employment increased (meaning that the unemployment rate declined), are the current unemployed the same individuals who were previously unemployed, thus unemployed for longer, while new entrants to the labour market found jobs immediately, or are they newly unemployed and those unemployed in the previous period found jobs? These specificities help categorize the labour market and have implications for policy formulation.

Composition of the working-age population by labour force status
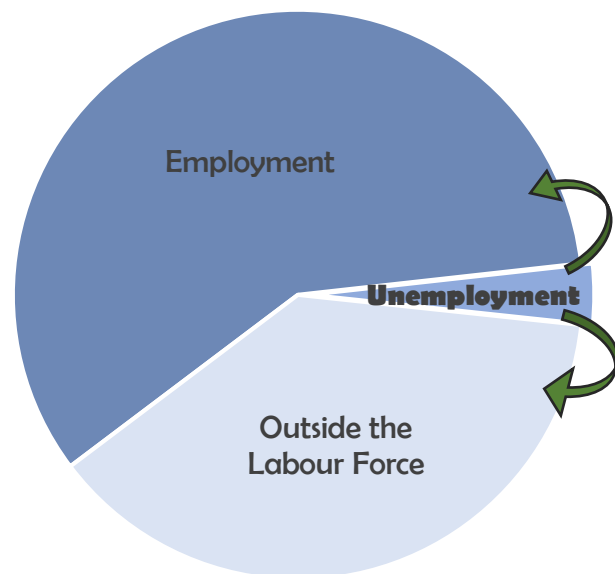
5. Using breakdowns to unveil more information

Analysing only a total national unemployment rate figure, without referring to any breakdowns, may mask significant disparities in the labour market situation of workers across population groups and geographic areas. Certain population groups, categories of workers or geographic areas may have a higher incidence of unemployment. Data on the unemployment rate broken down by categories such as sex, age, educational level, geographic region, duration of job search, and former sector or occupation, allow for the identification of groups of workers, sectors or areas most vulnerable to joblessness, which will then favour the formulation of targeted policies.

It should be noted once again, however, that a lower unemployment rate does not necessarily mean a better labour market situation, and a higher unemployment rate cannot be automatically associated with a frail labour market. Complementary data on the quality of employment, other labour underutilization measures, and the conditions of the unemployed can provide a fuller picture of the labour market and the means to interpret unemployment rate figures within their socioeconomic context. This is particularly relevant when analysing disaggregated data on the unemployment rate: in order to better understand the differences in the unemployment rate across

population groups, categories or regions, these should be interpreted within a broader context alongside other key labour market indicators.

For instance, the study of data on the unemployment rate by sex and age group may reveal that individuals of a particular gender and/or age group are less likely to be unemployed. Nevertheless, we should not take the lower unemployment rate for this group as an unequivocal sign that this group is better off in the labour market than their counterparts. On the contrary, we should look further into their labour market situation by complementing the analysis with other disaggregated indicators, such as the time-related underemployment rate by sex and age, the potential labour force by sex and age, involuntary part-time employment share by sex and age, and discouraged jobseekers by sex and age.

In this regard, we can refer to the example of seniors in the labour market. Elder workers tend to have lower unemployment rates than the rest of the working-age population, but when looking more closely into their situation in the labour market, we realize that their low unemployment rates are not a straightforward reflection of the fact that seniors are doing well in the labour market. Far from it, seniors face very strong difficulties in the labour market, but because their labour underutilization often takes the form of job search discouragement and time-related underemployment than unemployment, these difficulties are not reflected in their unemployment rates.[8]

6. Conclusion

The unemployment rate is a key labour market indicator, enabling different types of labour market stakeholders and data users to assess an economy's ability to generate enough jobs for the labour force. It provides an indication of labour market performance and is an insightful measure of the mismatches between labour supply and demand, reflecting to some extent the business cycle and the socioeconomic situation of individuals.

Nonetheless, the unemployment rate is a simplistic summary measure, which cannot convey the heterogeneity of individuals' labour market situations. Given that the unemployment rate provides no information on other forms of labour underutilization, or on the specific characteristics of the employed, the unemployed and persons outside the labour force, interpreting it solely as a stand-alone indicator can lead to misconceptions about the state and performance of the labour market. Therefore, for a more accurate interpretation of workers' conditions, this headline labour market indicator should be interpreted alongside other key indicators, including indicators on economic growth and labour productivity, indicators of quality of employment (such as data on earnings, working time, and informal employment), and other labour underutilization indicators covering time-related underemployment, discouraged jobseekers, and the potential labour force.

It is particularly important to complement the analysis of the unemployment rate with other indicators when studying changes in unemployment rates over time, to accurately understand what lies beneath these trends.

---

[8] For more information about the labour market situation of seniors, refer to the first issue of ILOSTAT's brief series *Spotlight on Work Statistics*, titled *What about seniors? – A quick analysis of the situation of older persons in the labour market*, available at https://ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_629567.pdf

In addition, the characteristics of the source of data used to derive unemployment figures and the methodology applied both have a great impact on the resulting statistics. Thus, for a reliable interpretation of the unemployment data, it is essential to take into consideration the key methodological aspects underlying the data production, such as the concepts and definitions used, the geographical and age coverage of the data source, and its reference period.