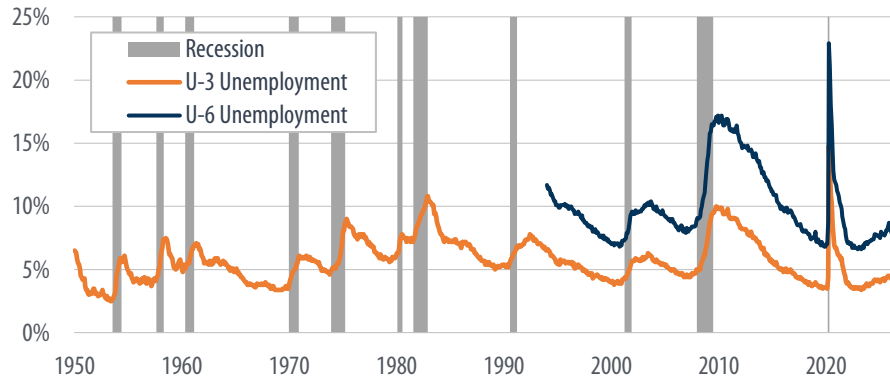


A Closer Look at the Unemployment Rate

In this week's edition of "Three on Thursday," we take a deeper look at the unemployment rate in the U.S., how it's calculated, and why it matters. Every month, usually on the first Friday, the Bureau of Labor Statistics (BLS) reports jobs data. This data comes from two surveys of establishments and households. Using a representative sample of 122,000 entities (private and public), the Establishment survey is best known for providing the monthly change in nonfarm payroll employment. Beyond this, it also captures data on earnings and hours worked. Alternatively, the Household survey samples roughly 60,000 eligible U.S. households. It is best known for measuring the national unemployment rate, but also looks at the labor force, and employment with demographic detail. Much can be gleaned from both reports, and over time the employment components tend to track each other closely. But today we will be focusing solely on the Household survey. To offer deeper insights, we've included three informative charts below.

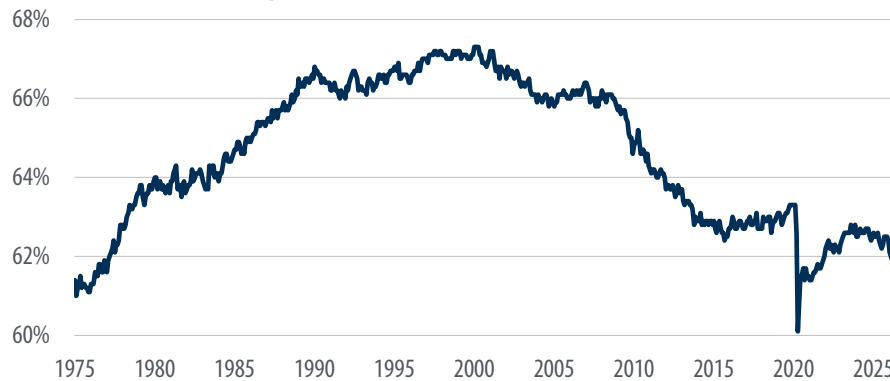
Measures of U.S. Unemployment



Source: Bureau of Labor Statistics, First Trust Advisors. Monthly data. U-3 Unemployment data from 1/1950-4/2026. U-6 Unemployment data from 1/1994-4/2026.

The BLS records six measures of unemployment, each capturing a progressively broader slice of labor underutilization. The U-3 measure is the official unemployment rate reported in the headlines. It counts people as unemployed who are jobless, available for work, and have actively searched for a job in the past four weeks. People who want work but have stopped looking don't show up in this measurement. The broader U-6 measure, which many use during a recession as a scare factor, adds those who have stopped looking or are otherwise sidelined from the workforce, as well as part-time workers who want full-time work but cannot find it. As of April, the U-3 unemployment rate stood at 4.3%, while the broader U-6 measure was 8.2%. Since the U-6 series began in 1994, it has averaged 4.5 percentage points above U-3, compared to a current spread of 3.9 points.

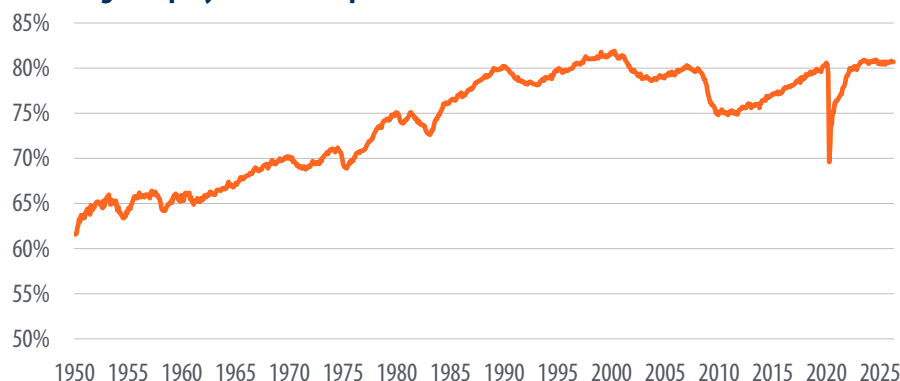
U.S. Labor Force Participation Rate



Source: Bureau of Labor Statistics, First Trust Advisors. Monthly data from 1/1975-4/2026.

When people stop searching for a job, they leave the labor force entirely and no longer count as unemployed, which can keep the unemployment rate lower than it otherwise would be even as labor market conditions soften. The labor force participation rate, which measures the share of the population age 16 and older that is either working or actively looking for work, has been declining for the past two decades. One of the biggest drivers of this trend has been the retirement of the Baby Boom generation. Boomers began turning 65 in 2011, and the retirement wave has steadily pushed participation lower ever since. Today, the participation rate sits at 61.8%, near the lowest level outside of COVID since the late 1970s. As workers exit the labor force, they fall out of both sides of the unemployment calculation, helping contain the unemployment rate even as job growth slows. Reduced immigration and a growing shift toward part-time rather than full-time job creation have added further complexity to today's labor market data.

Prime-Age Employment-to-Population Ratio



Source: Bureau of Labor Statistics, First Trust Advisors. Monthly data 1/1950-4/2026.

The prime-age employment-to-population ratio, which measures the percentage of Americans ages 25–54 who are actually employed, is widely viewed as one of the clearest indicators of labor market strength because it focuses on core working-age adults and avoids many of the demographic distortions that affect the broader unemployment rate. Unlike the unemployment rate, this measure is not impacted by whether someone is actively looking for work, meaning people who leave the labor force still count against the ratio if they remain unemployed. It also minimizes the impact of retirements among older workers, making it a cleaner gauge of underlying labor market conditions. Even as payroll growth has slowed, job openings have declined, and labor force growth has moderated in recent years, the prime-age employment-to-population ratio has remained relatively elevated, currently sitting at 80.7%, suggesting the labor market may be cooling but not collapsing.

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.