

DIALOGUE  
WITH THE FED

*Beyond Today's Financial Headlines*

# Understanding the Unemployment Picture

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Federal Reserve Bank of St. Louis*



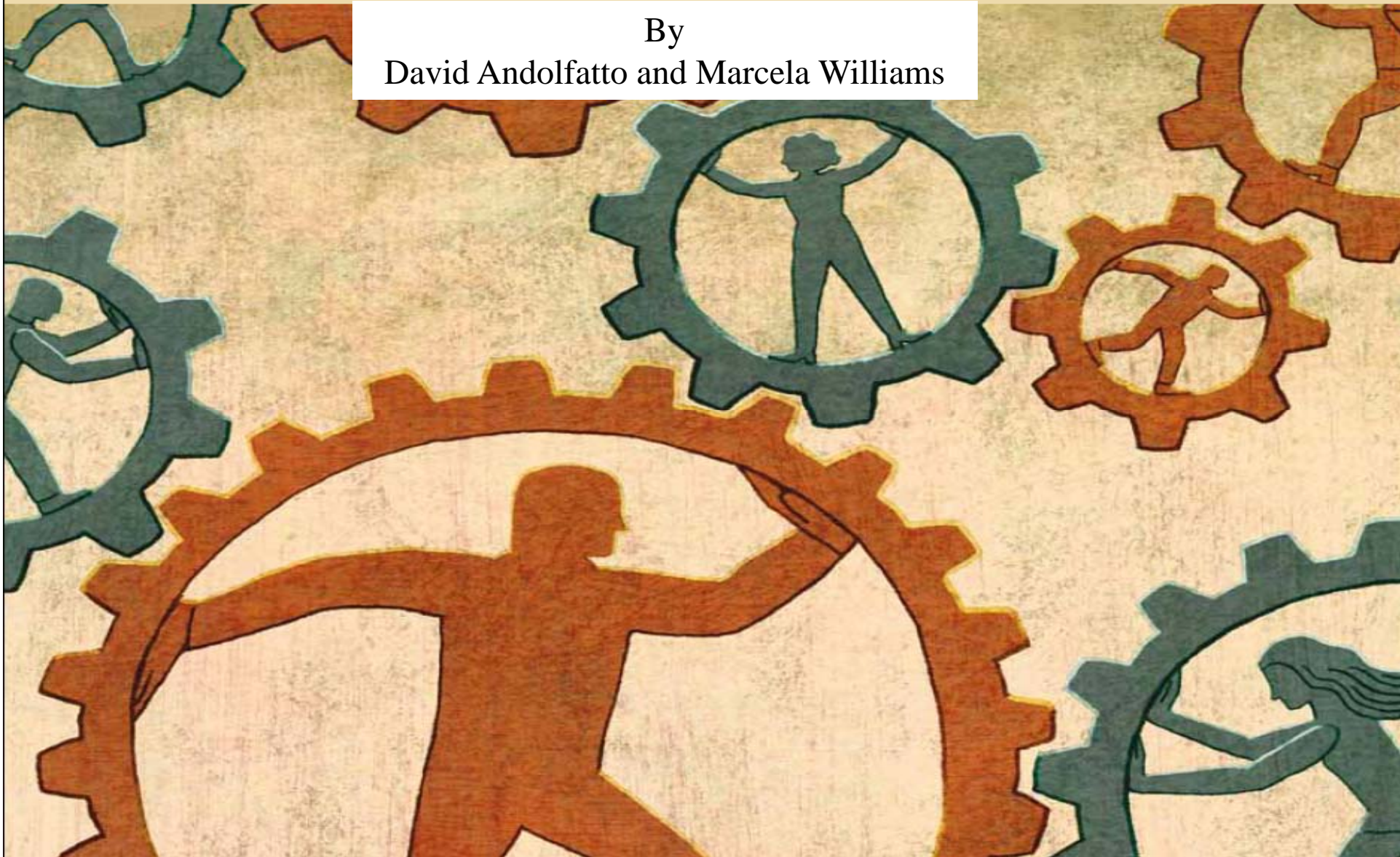
CENTRAL TO AMERICA'S ECONOMY™

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# Many Moving Parts

A LOOK INSIDE THE **U.S. LABOR MARKET**

By  
David Andolfatto and Marcela Williams



# The Great Recession

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- ❑ Labor markets have been ravaged by the worst U.S. economic crisis since the Great Depression.
- ❑ Over the course of 25 months approximately **8,838,000** Americans in the labor force lost their jobs.
- ❑ That amounts to a loss of **353,520** jobs *each month* (on average).

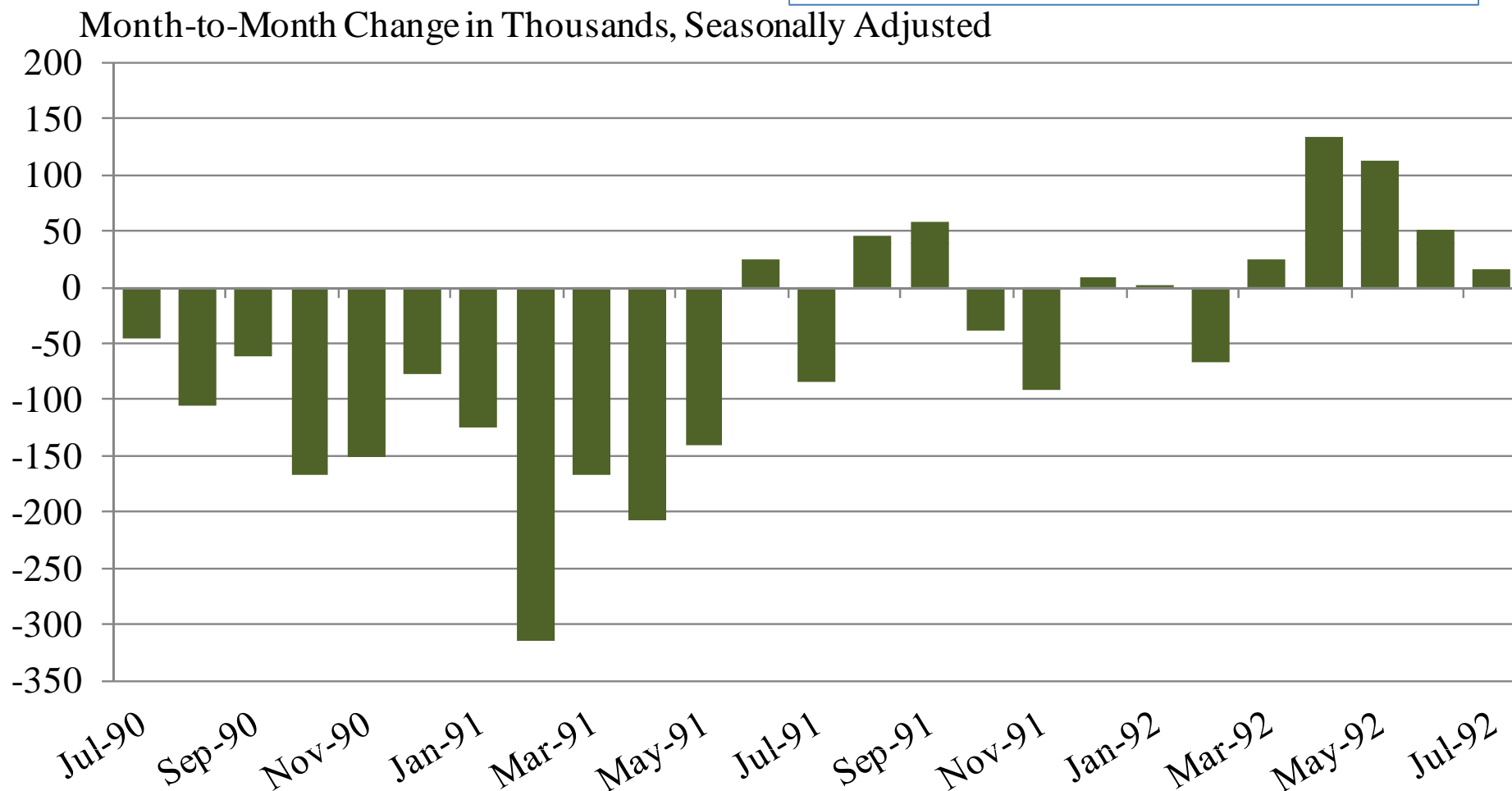
# The Great Recession

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- ❑ The unemployment rate **doubled** from January 2008 to October 2009.
- ❑ It went from 5% to more than 10%!
- ❑ Since October 2009 the unemployment rate has dropped a measly 1.1 percentage points (to 9.0%).

# U.S. Private Payroll Employment: 1990-1992

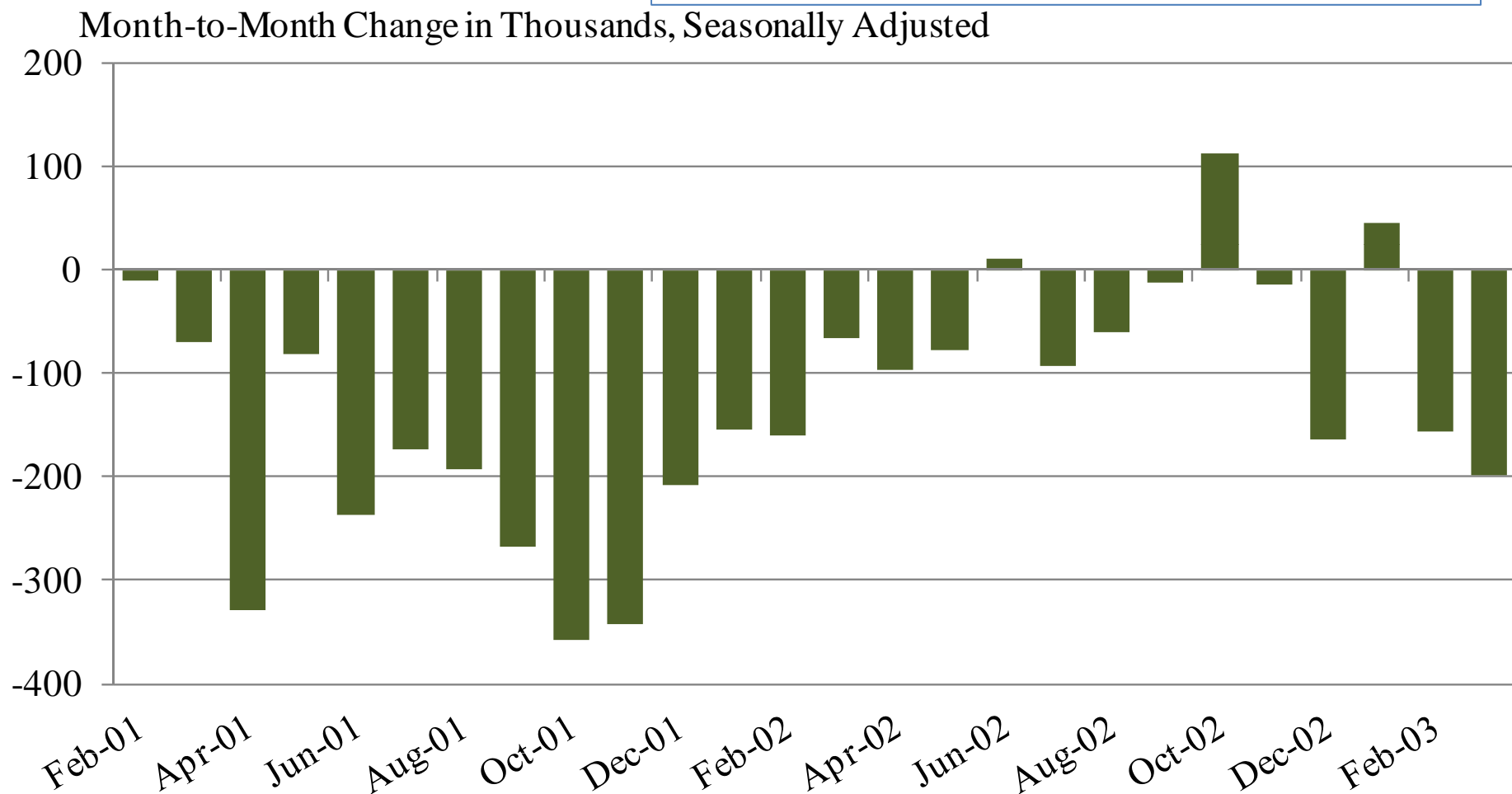
Largest monthly loss: 314,000 (once)



Source: Bureau of Labor Statistics/Haver Analytics

# U.S. Private Payroll Employment: 2001-2003

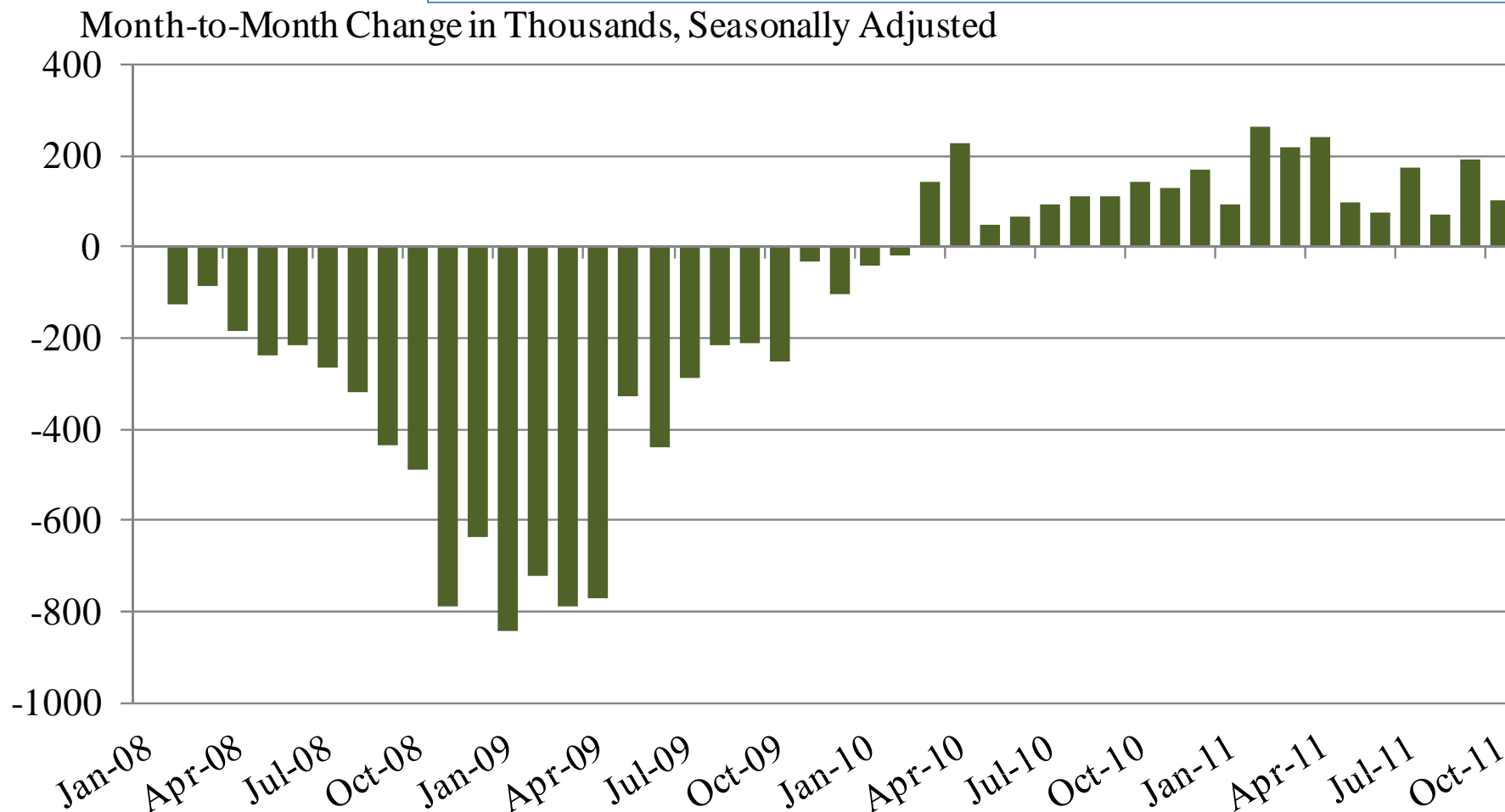
Largest monthly loss: 350,000 (three times)



Source: Bureau of Labor Statistics/Haver Analytics

# U.S. Private Payroll Employment: 2008-2011

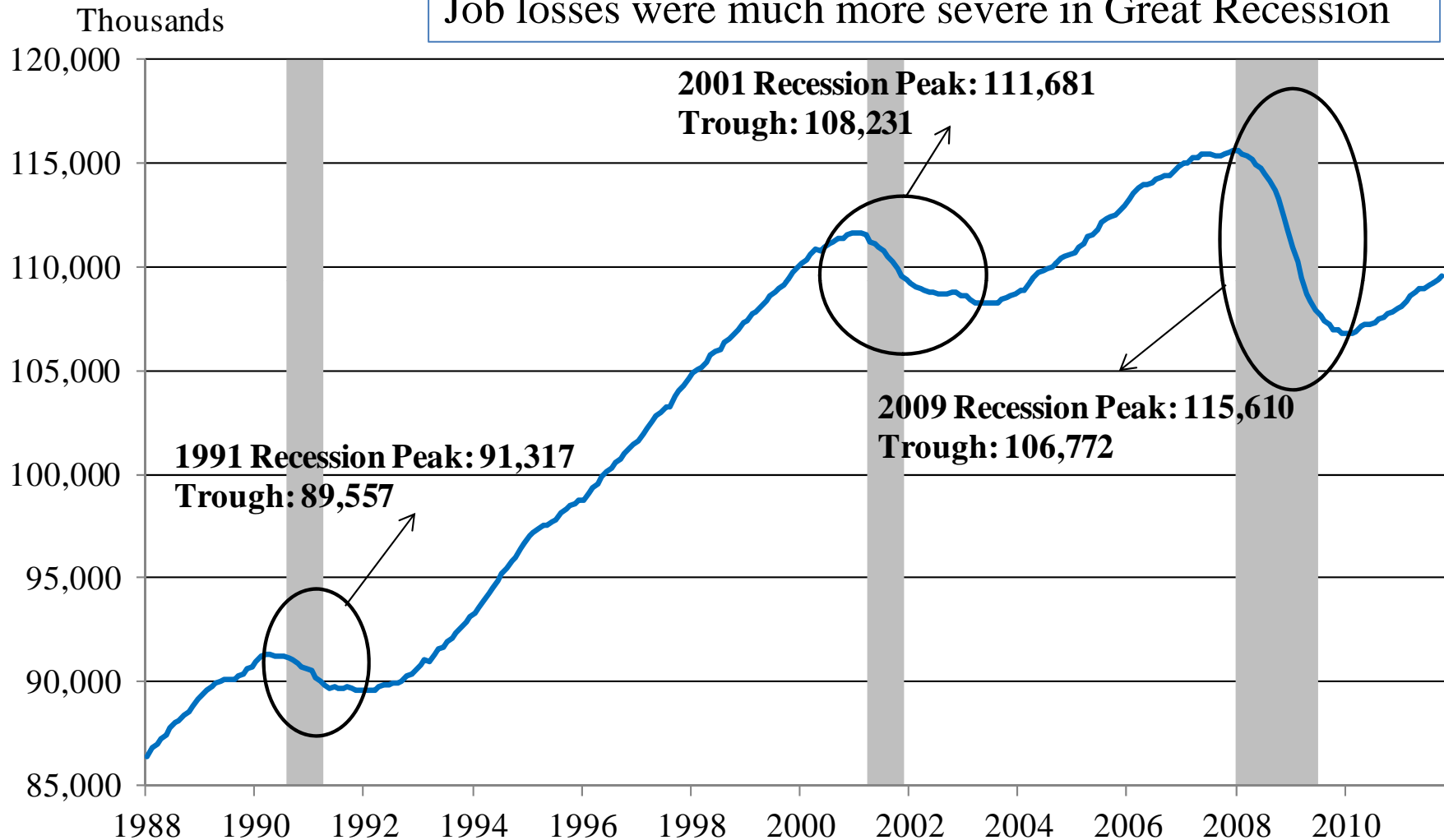
Largest monthly loss: Average of 750,000 for 6 months!!!



Source: Bureau of Labor Statistics/Haver Analytics

# U.S. Private Payroll Employment

Job losses were much more severe in Great Recession

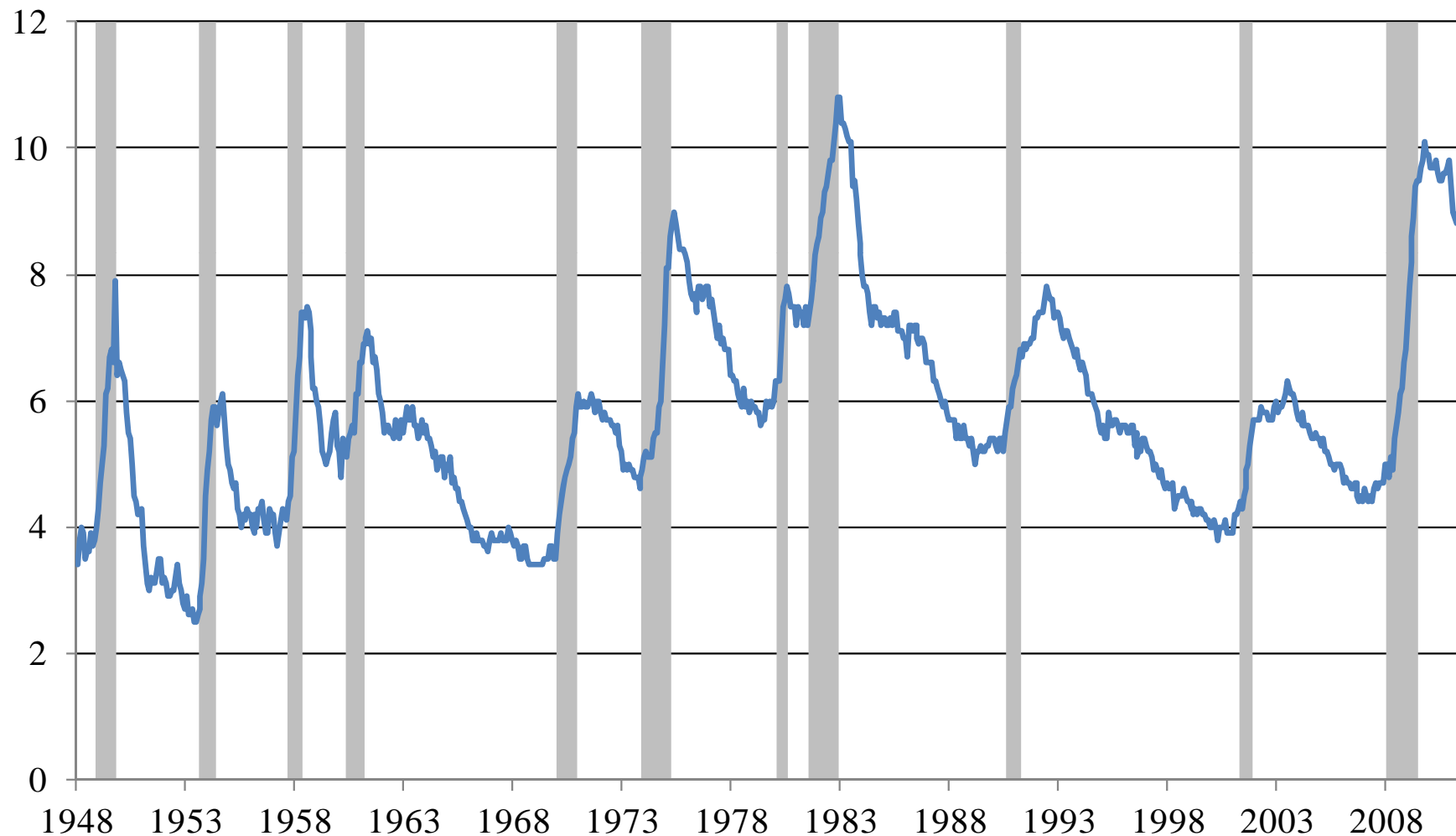


Source: Bureau of Labor Statistics/Haver Analytics



# Unemployment Rate – 1948-Present

Percent, SA



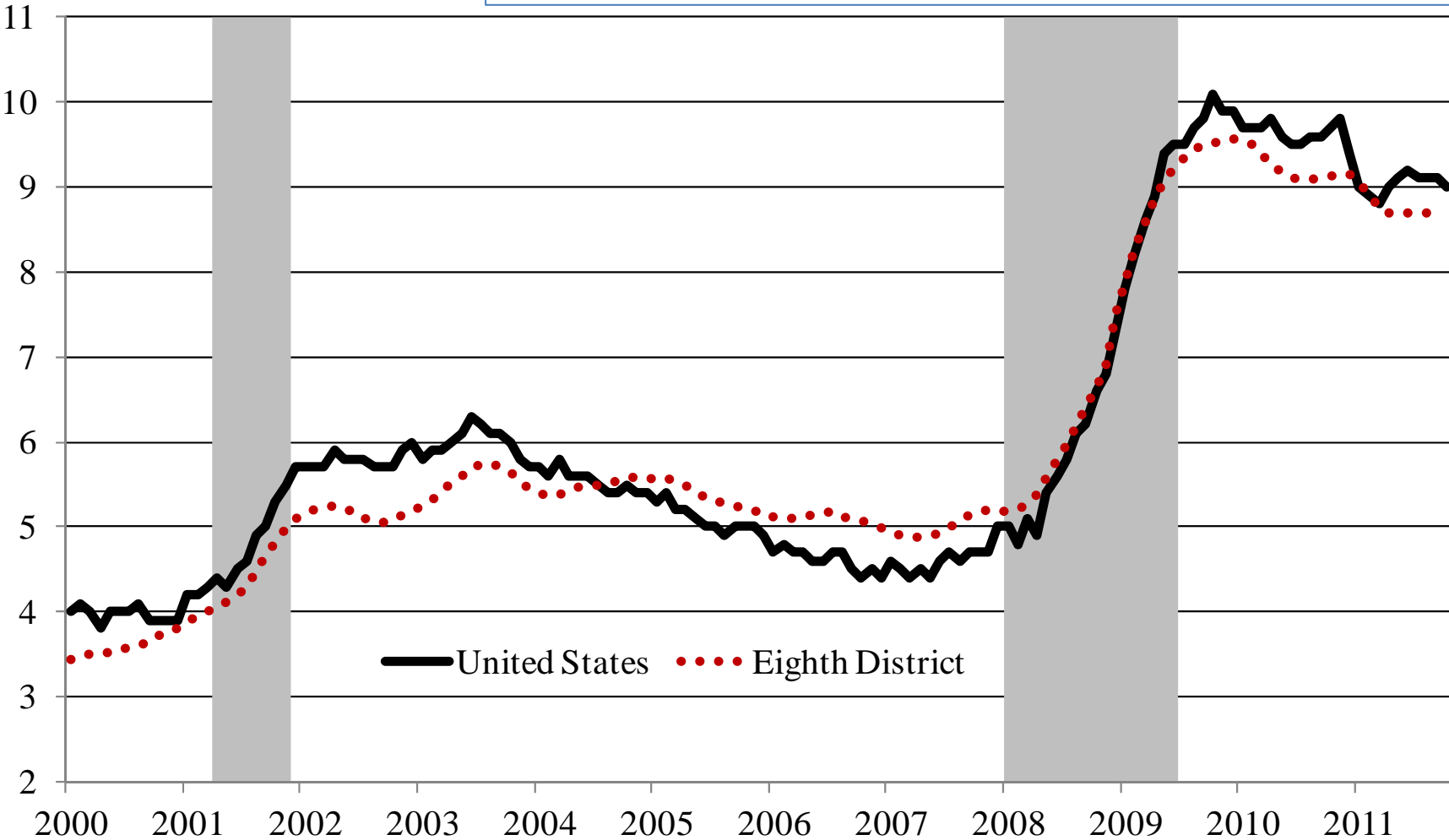
Source: Bureau of Labor Statistics/Haver Analytics

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# Unemployment Rate – Nation vs. District

Percent, SA

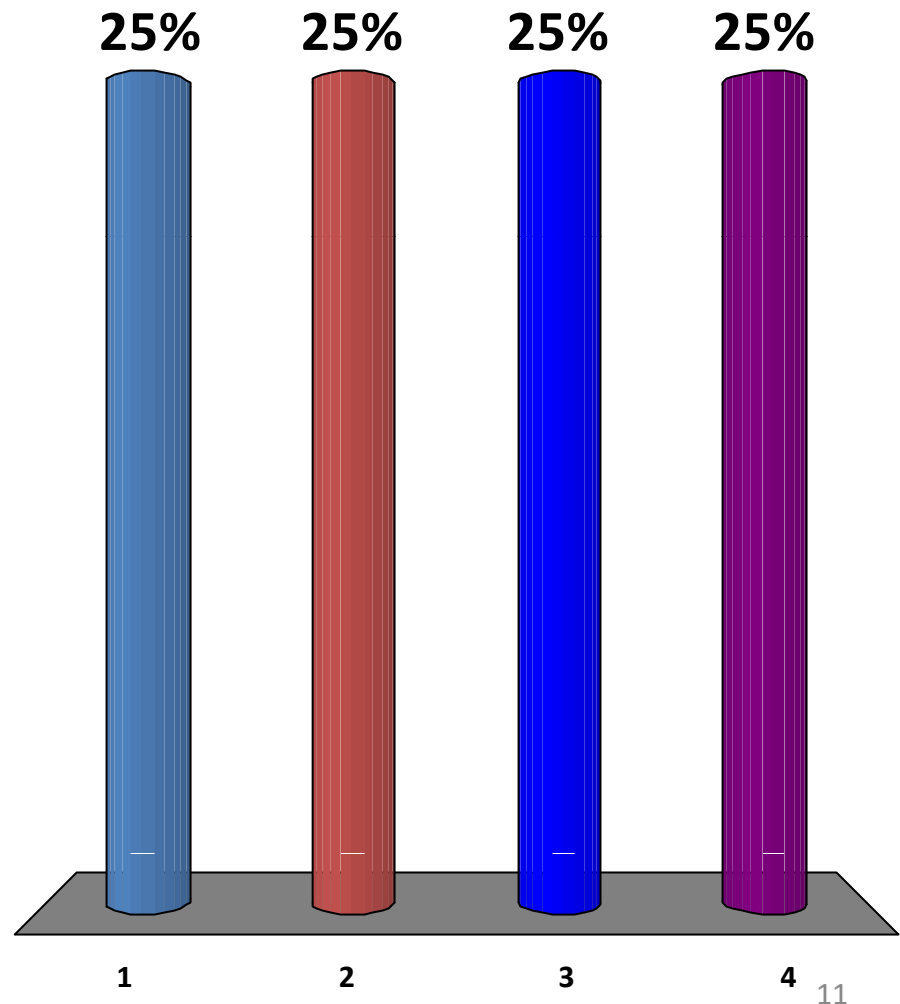
District has typically fared better than the nation



Source: Bureau of Labor Statistics/Haver Analytics

## The unemployment rate is based on:

1. Surveys of fifty percent of households in each large city.
2. Reports of the number of people collecting unemployment benefits each month.
3. Surveys of a representative sample of households each month.
4. Surveys of all households in the U.S. each month.



# Unemployment: Definition

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- ❑ The unemployment rate is calculated using **60,000** household survey responses.
- ❑ Based on those responses each adult in each household is placed into one of three categories:
  1. Employed: Those who worked as paid employees, worked in their own business, or worked as unpaid workers in a family member's business.

## Unemployment: Definition

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2. Unemployed: Those who were not employed, were available for work, and had tried to find employment during the previous **four weeks**.
  
  3. Not in the labor force: Those who fit neither of the first two categories, such as a full-time student, homemaker, or retiree.
- ❑ A person who has given up looking for a job is counted as **not being in the labor force**.

# Unemployment: Definition

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- The **labor force** is the sum of the **employed** and **unemployed**

Labor Force = Number of Employed + Number of Unemployed,

# Unemployment: Definition

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- The **unemployment rate** is the *percentage* of the labor force that is unemployed:

$$\text{Unemployment Rate} = \frac{\text{Number of Unemployed}}{\text{Labor Force}} \times 100$$

# Unemployment: Definition

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- The **labor-force participation rate** is the percentage of the adult population that is in the labor force:

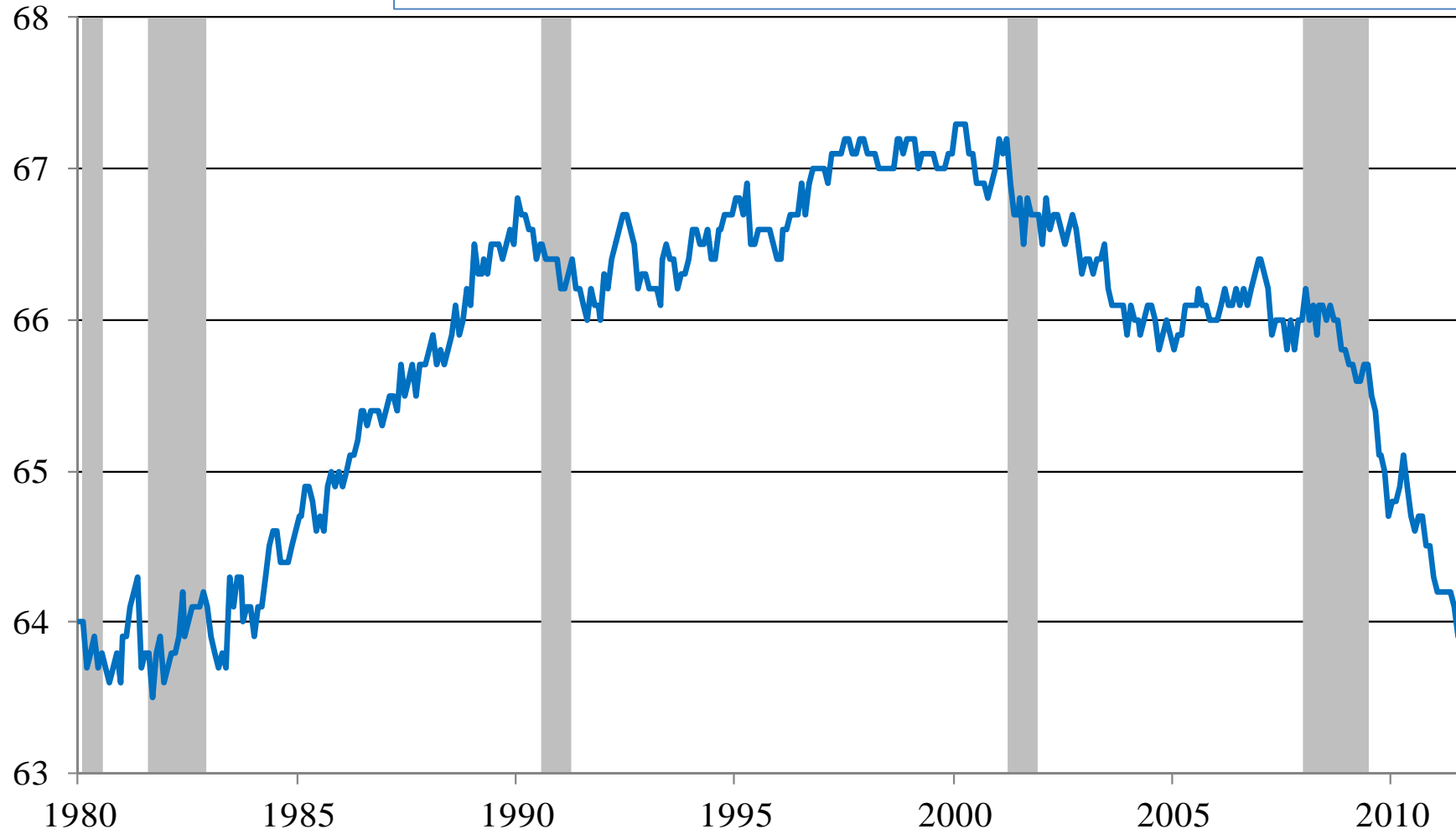
$$\text{Labor-Force Participation Rate} = \frac{\text{Labor Force}}{\text{Adult Population}} \times 100$$



# Labor-Force Participation Rate

Percent, SA

Participation rate has fallen by roughly 2 percent



Source: Bureau of Labor Statistics/Haver Analytics

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# Employment-Population Ratio Defined

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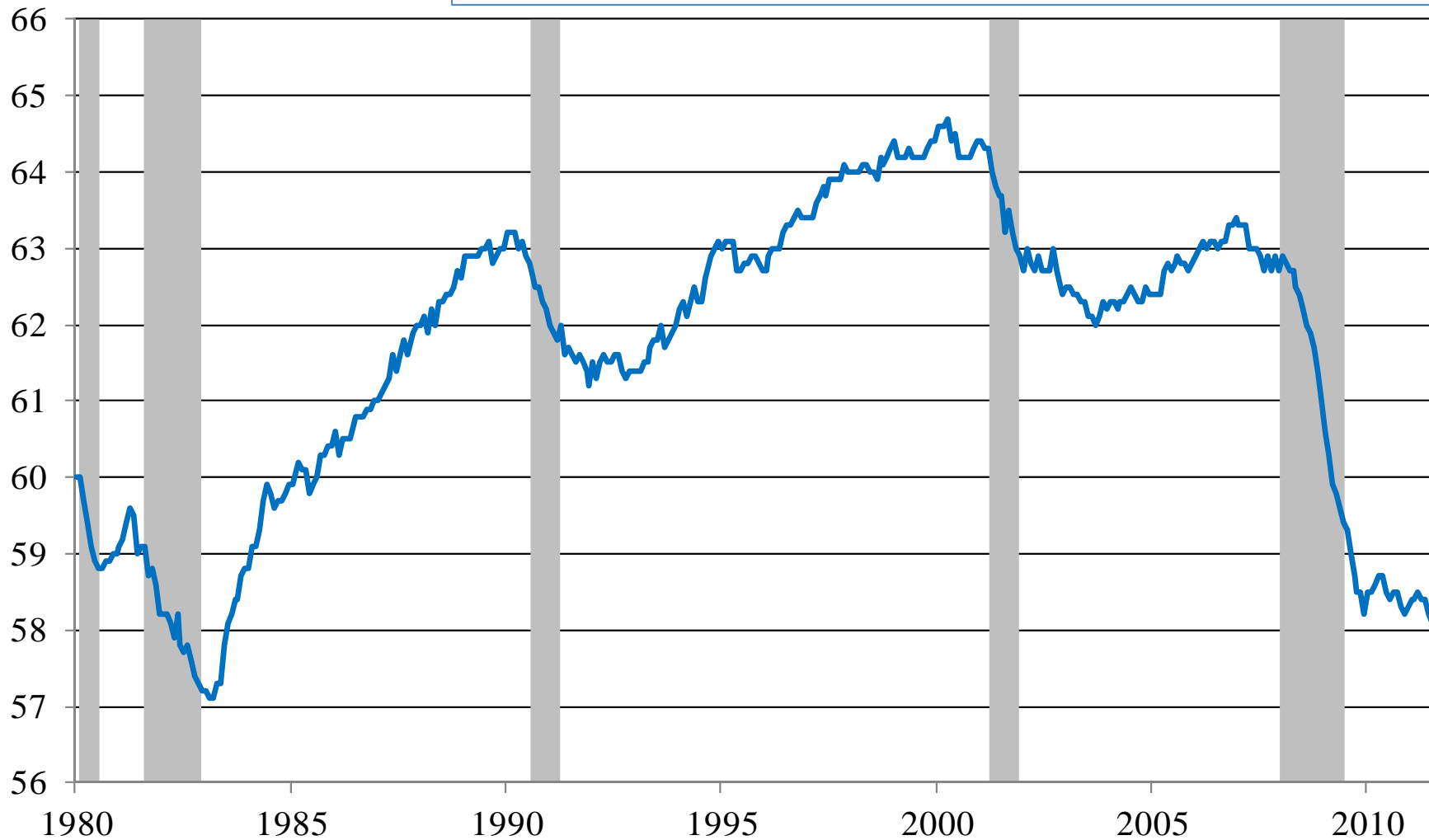
- Another statistic that evaluates labor market performance is the **Employment-Population Ratio**.
- The ratio measures the proportion of the working-age population that is employed.

$$\text{Employment-Population Ratio} = \frac{\text{Number Employed}}{\text{Adult Population}} \times 100$$

# Employment-Population Ratio

Percent, SA

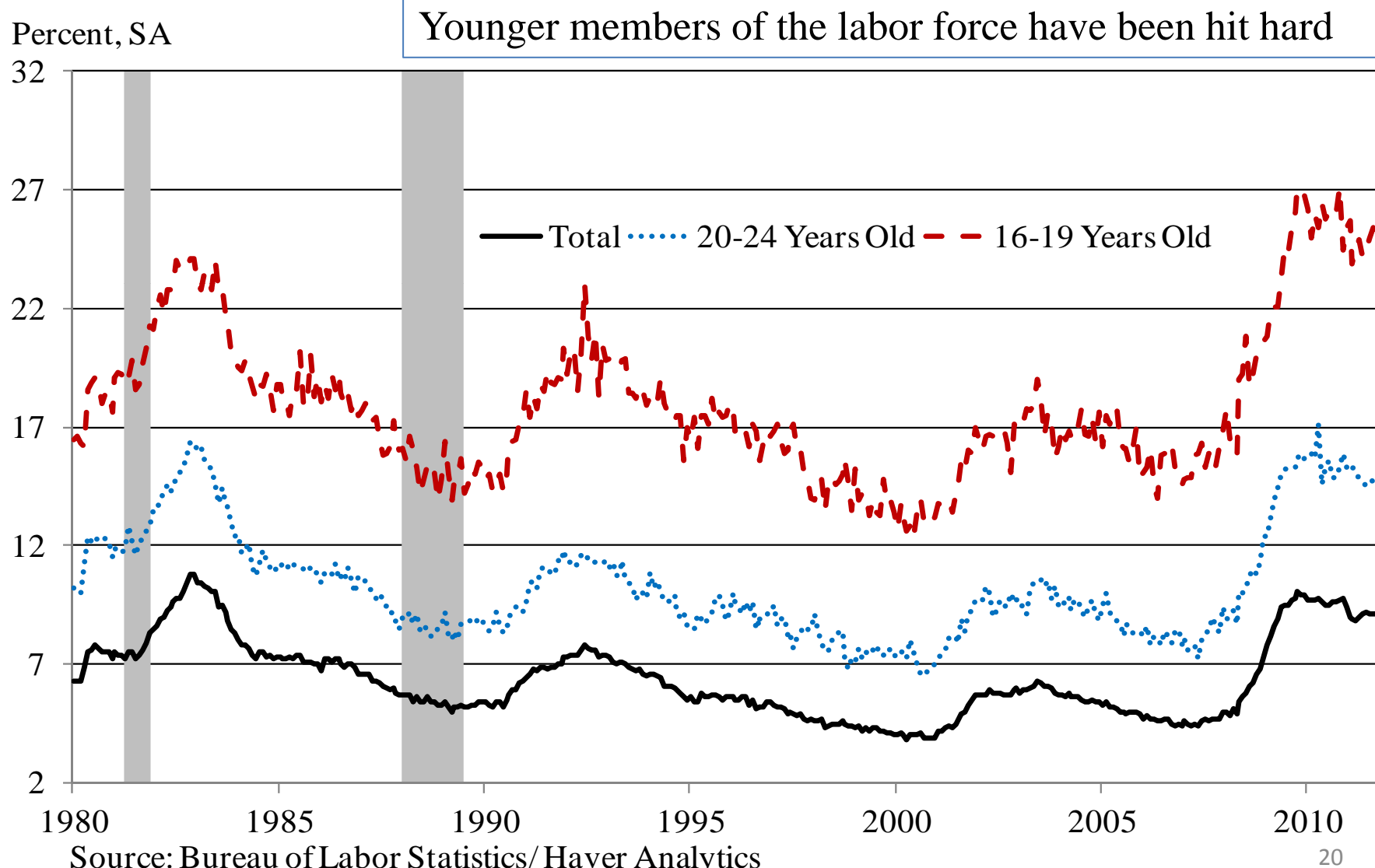
Ratio is at the lowest level since September 1983



Source: Bureau of Labor Statistics/Haver Analytics

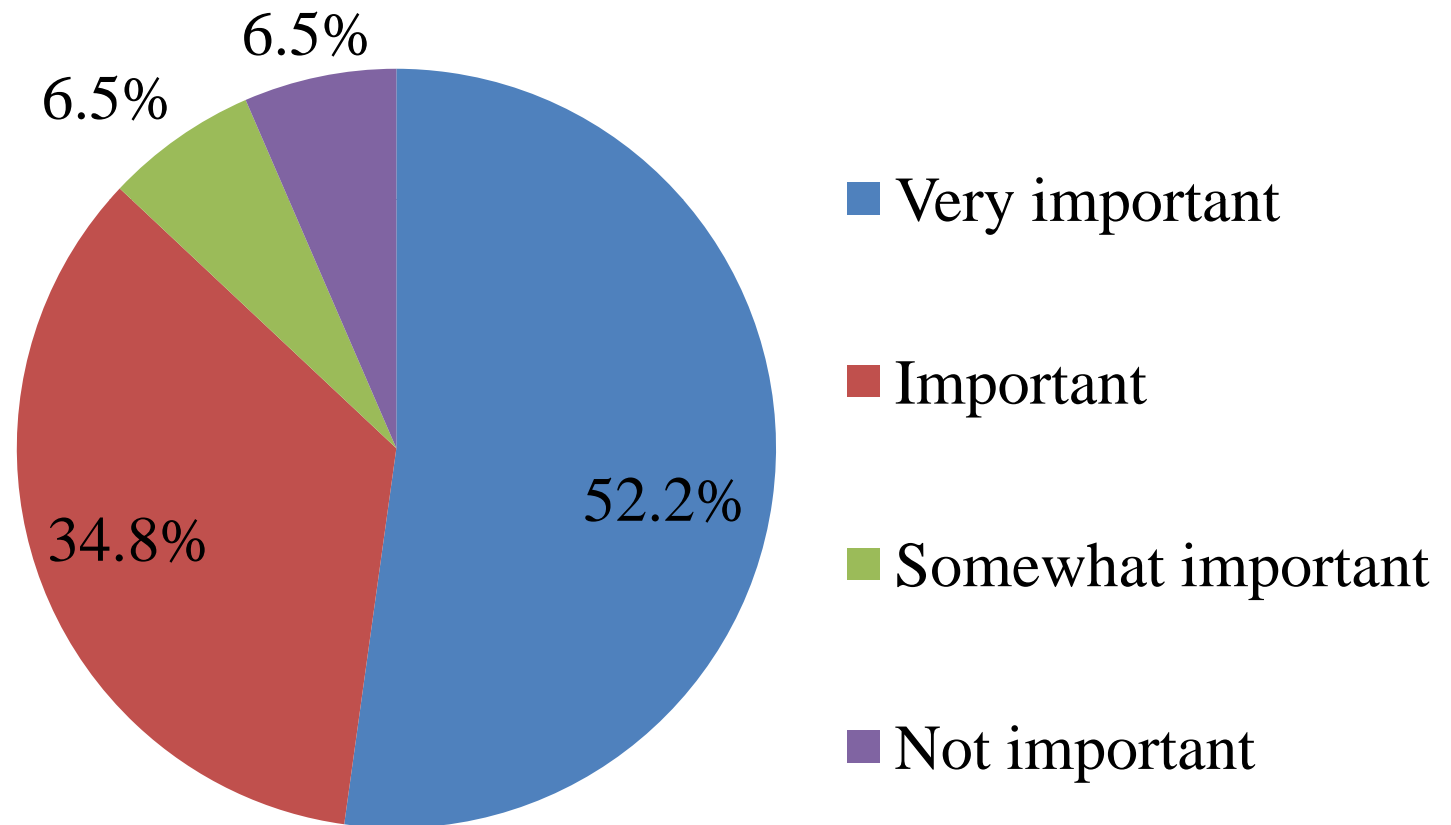
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# Unemployment Rate – By Age



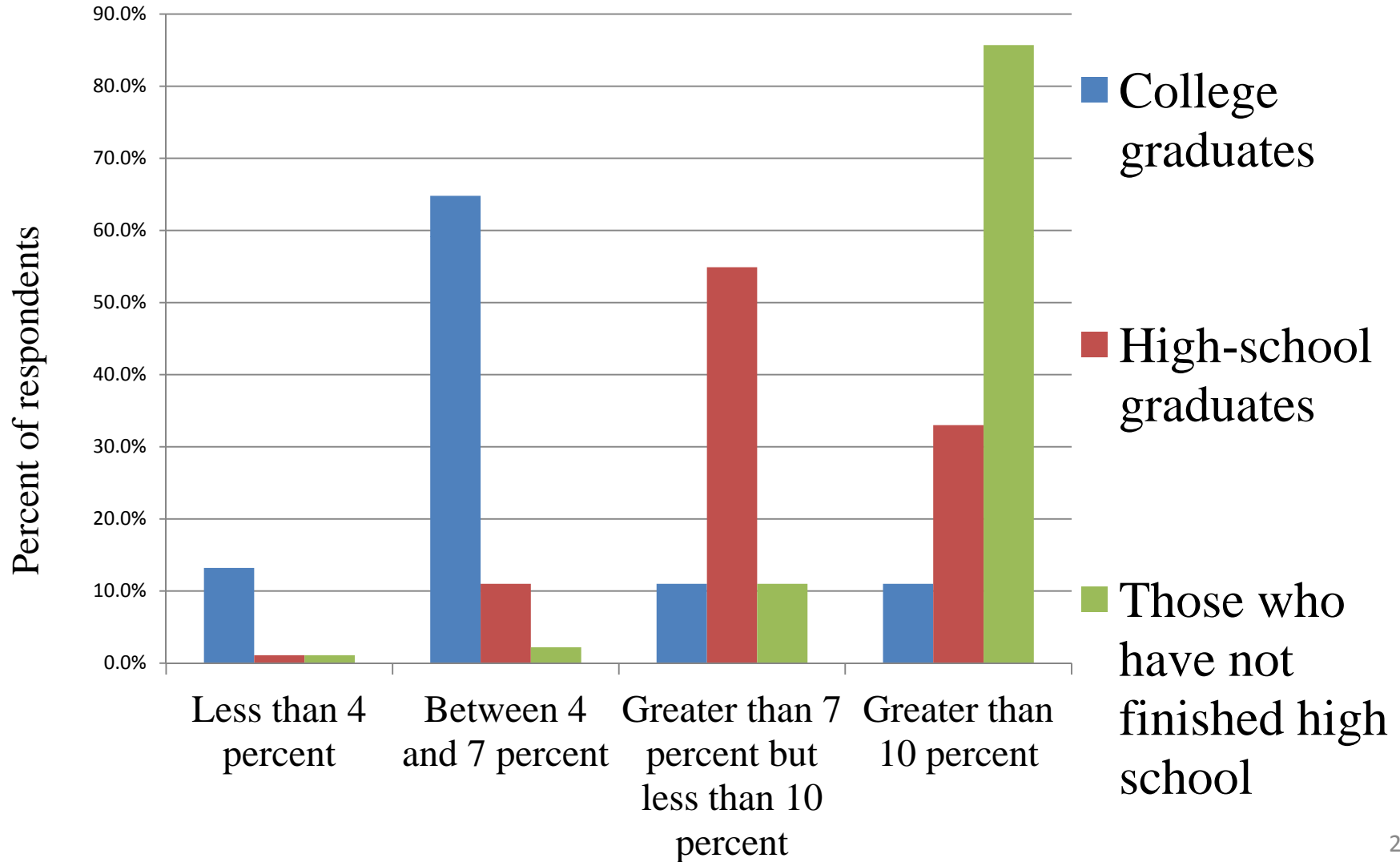
**Pre-event poll question**

How important do you think differences across individuals in their levels of education, training, and skills are in explaining current levels of unemployment?



### Pre-event poll question

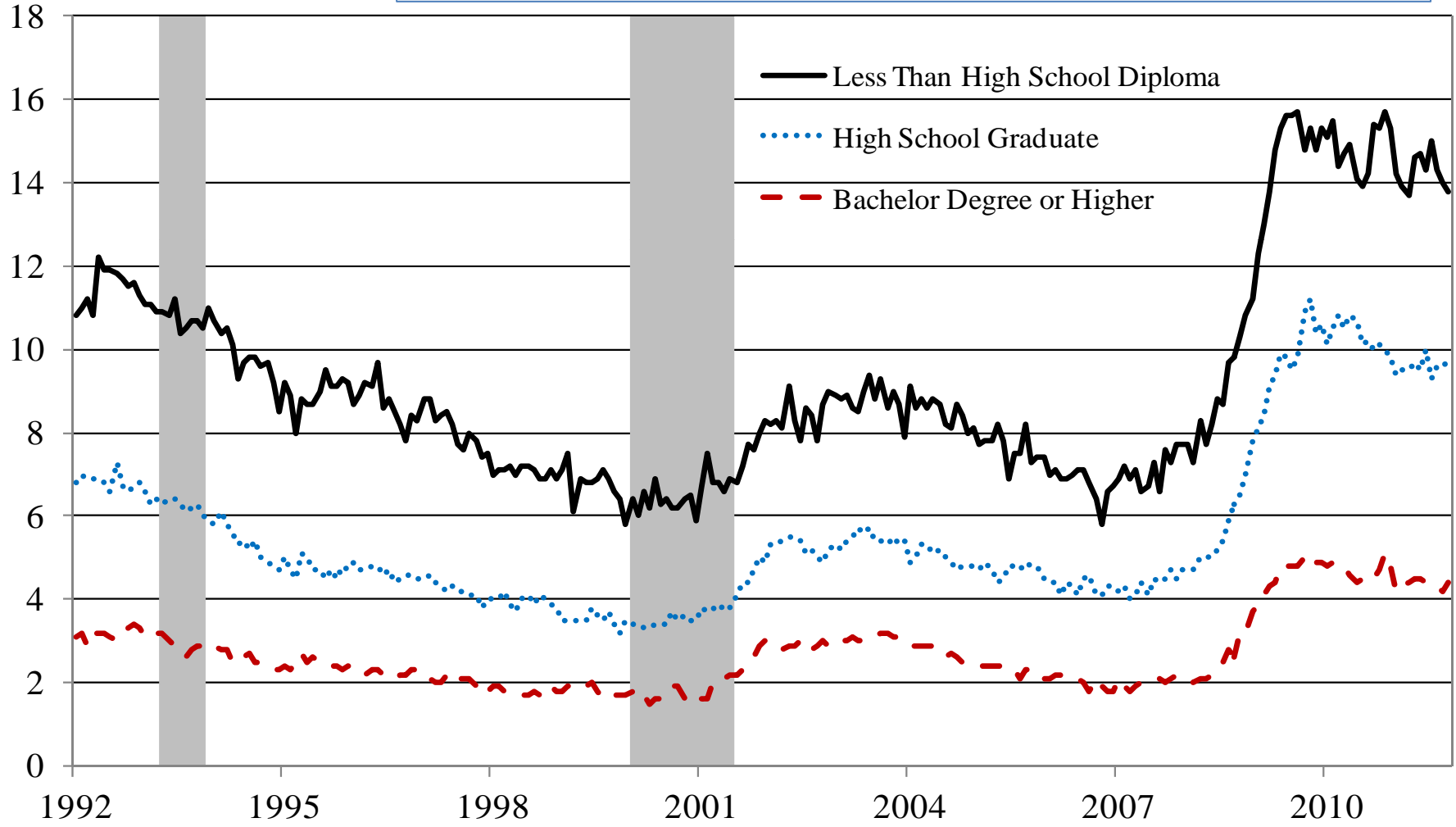
Please provide your estimate of the unemployment rate among the following demographics:



# Unemployment Rate – By Education

Percent, SA

Employment prospects for less educated are much worse



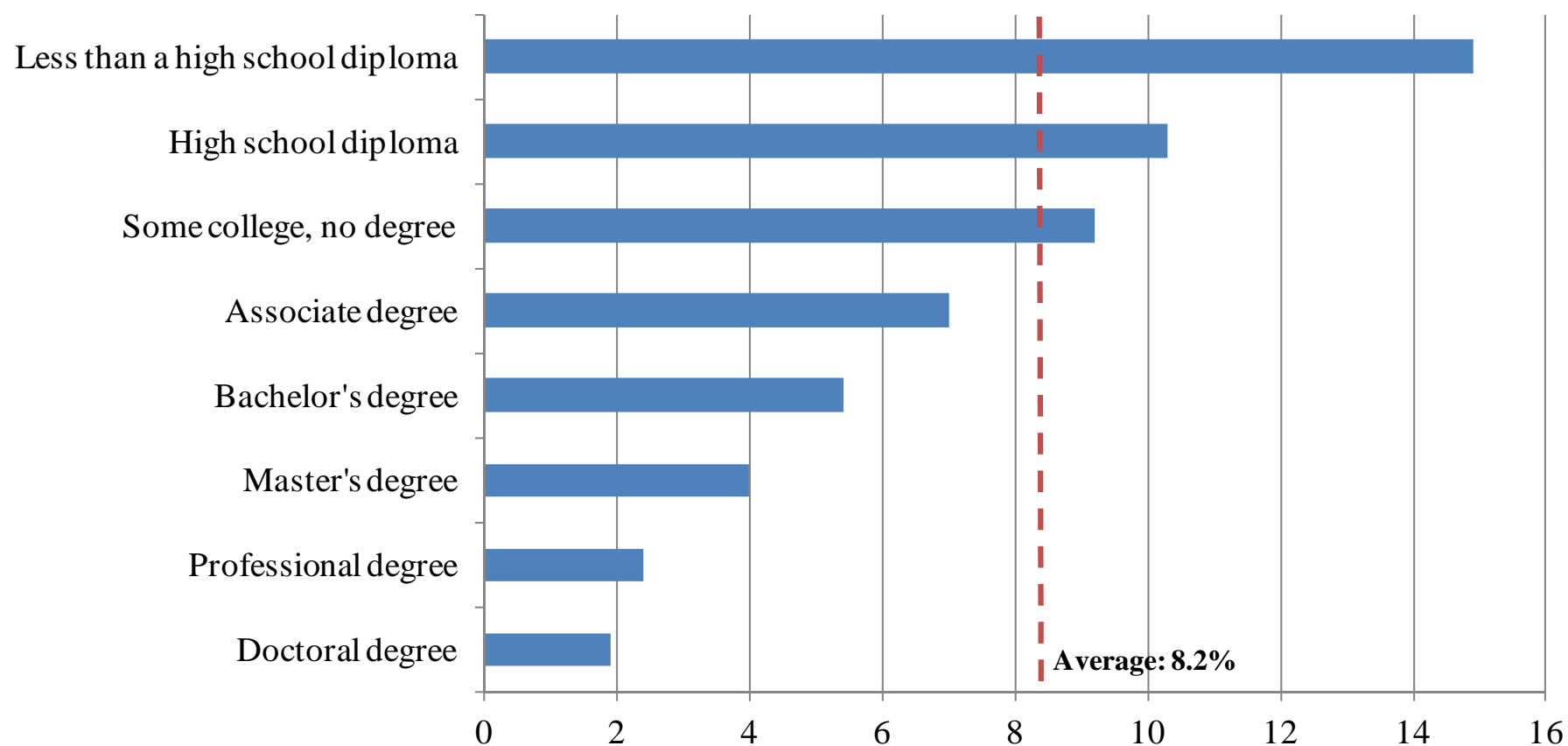
Source: Bureau of Labor Statistics/Haver Analytics

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# Unemployment Rate – By Education

Each level of educational attainment lowers the average UR

## Unemployment rate in 2010 (%)



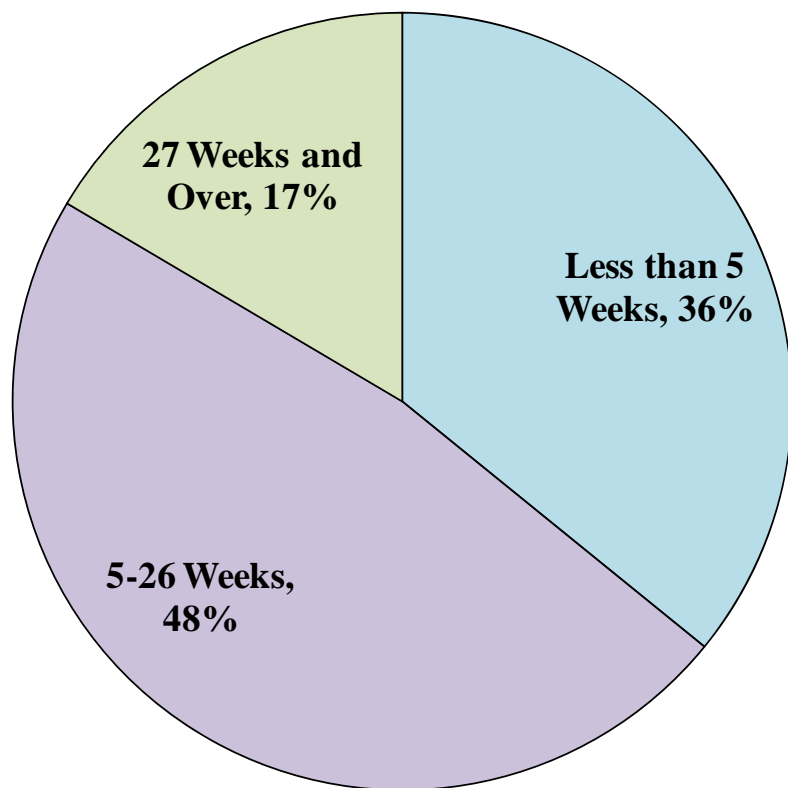
Source: Bureau of Labor Statistics, Current Population Survey.



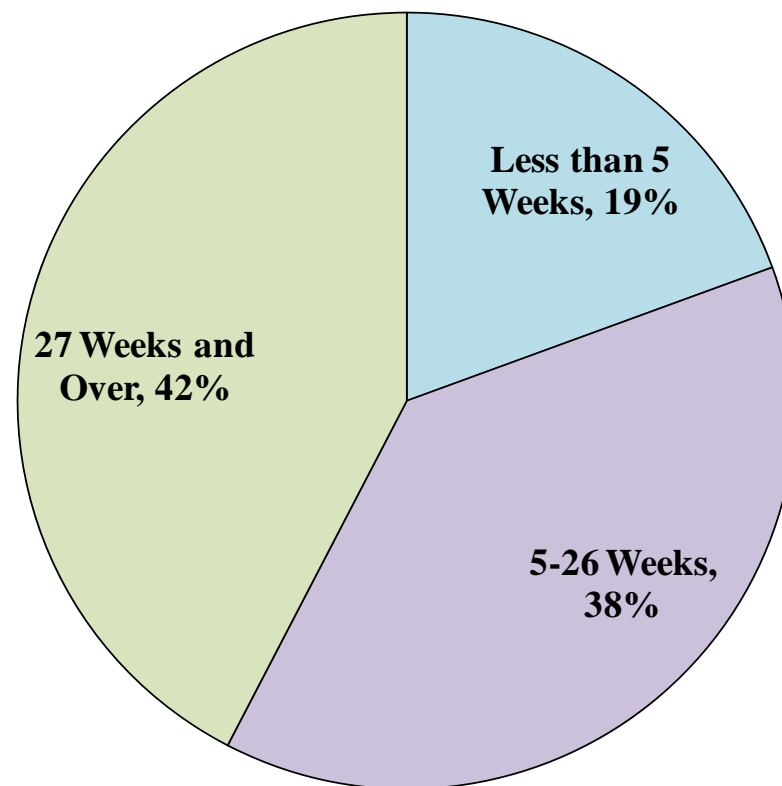
# Unemployment Duration

Unemployment spells are much longer for many

May 2007



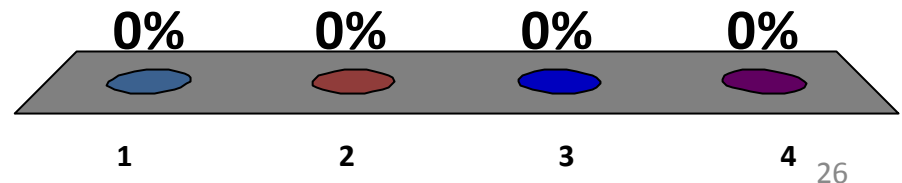
October 2011



Source: Bureau of Labor Statistics

# The government should drive the unemployment rate to zero.

1. Strongly agree
2. Agree
3. Disagree
4. Strongly Disagree



# Two Important Questions

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Why isn't the unemployment rate ever zero?

Why doesn't government simply hire these workers and drive it to zero?

# Labor Flows

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- ❑ The labor market is a **dynamic** place – it has many moving parts.
- ❑ Think of a river – the water level appears to be unchanged from one day to the next.
- ❑ But the water you saw yesterday is gone and replaced by new water.
- ❑ The same holds for the labor market.

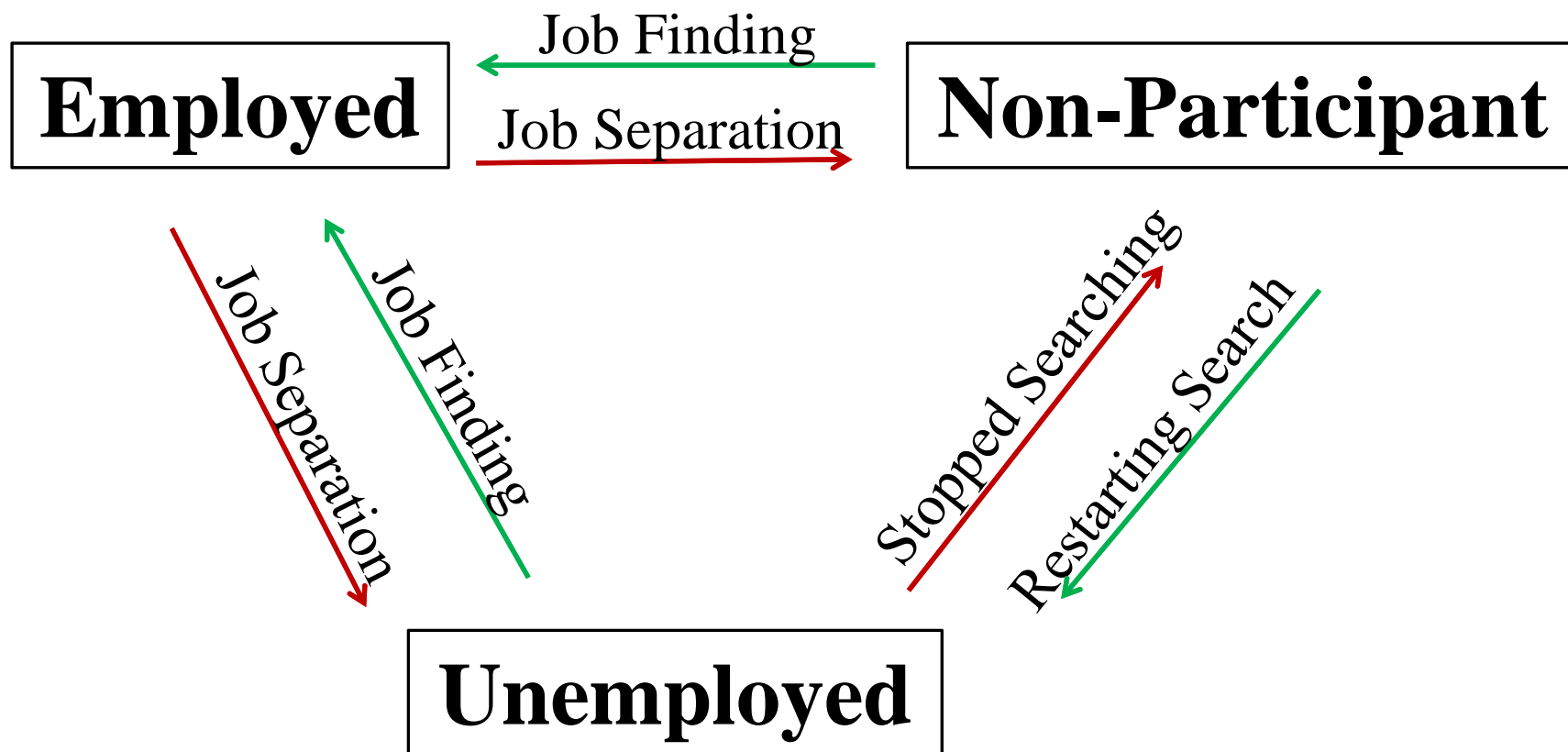
# Labor Flows

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- ❑ Employment, unemployment, and participation rates provide a brief “snap shot” of labor market activity.
- ❑ However, over a given time period workers will transition from one labor market category to another.
- ❑ Think of workers like water – they flow from one category to another.

# Labor Flows

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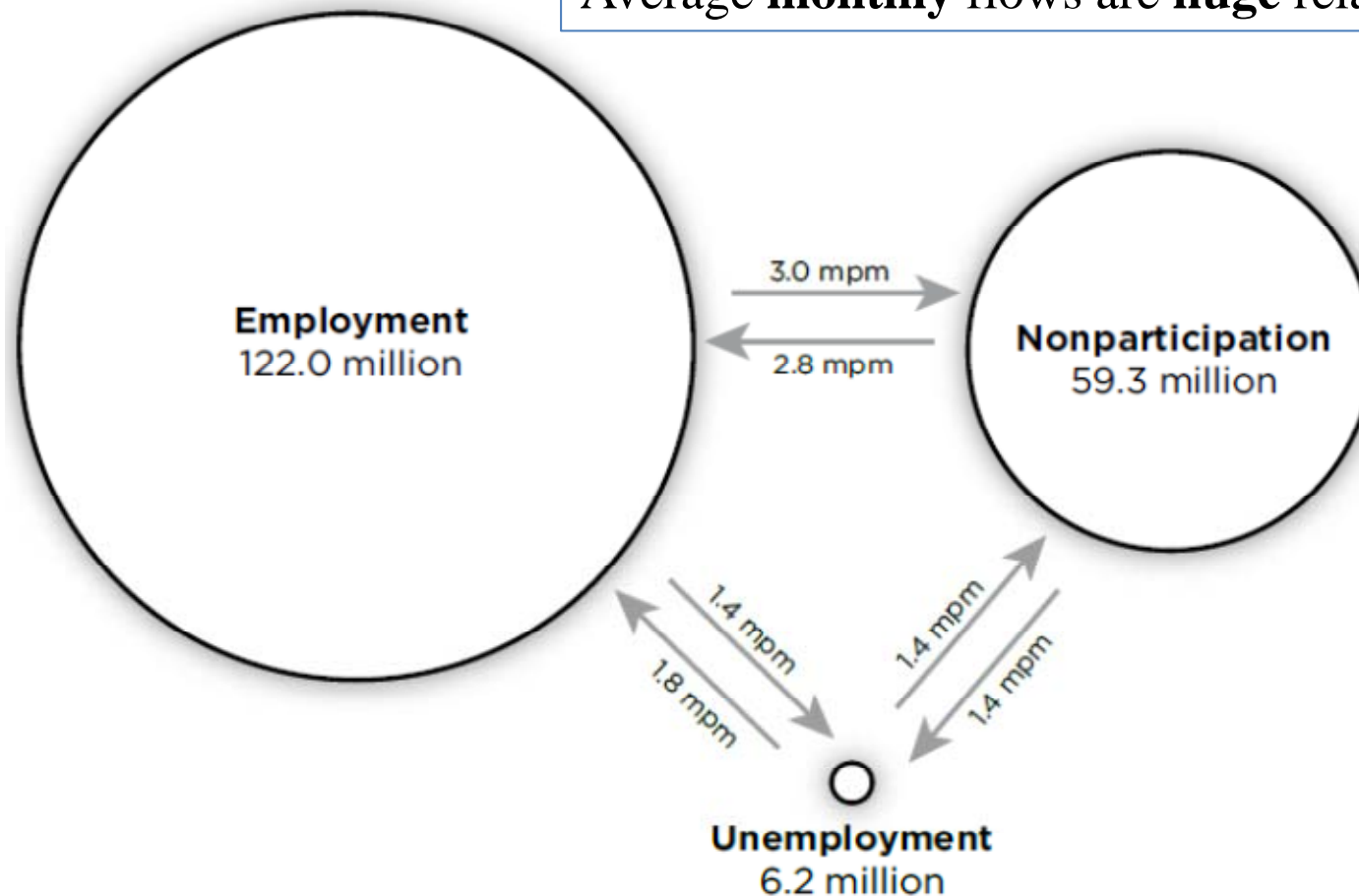


# Magnitude of Labor Flows

## Average Worker Flows 1996-2003

mpm = millions per month

Average **monthly** flows are **huge** relative to population



SOURCE: Adapted from Davis, Faberman and Haltiwanger (2006) Figure 1.

# Labor Flows

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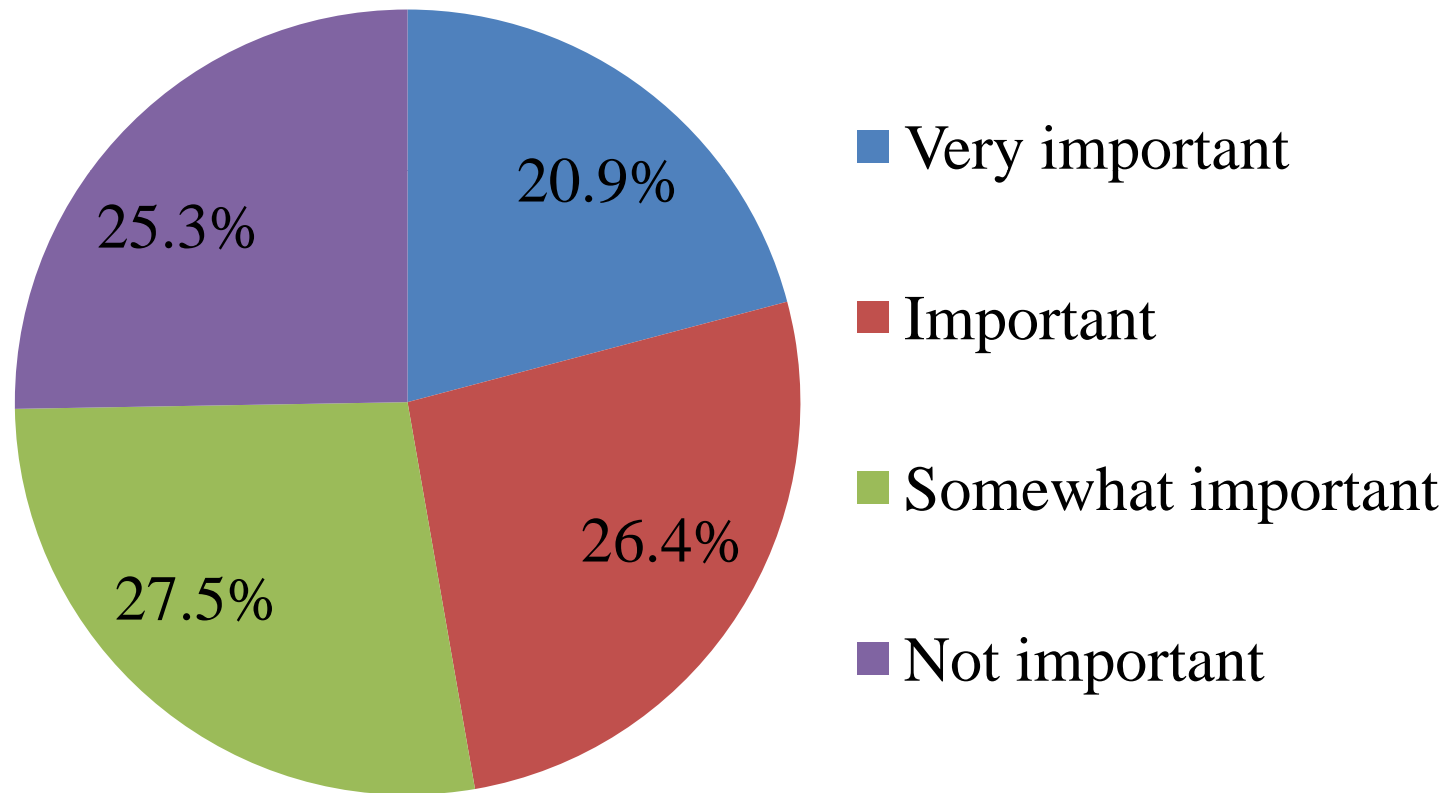
□ **Demand** side and **supply** side economic forces dictate worker flows:

- **Demand side:** Employers continuously destroy old jobs and create new ones. Post vacancies to find workers.
- **Supply side:** Workers switch jobs and change their labor market status due to various life events.



**Pre-event poll question**

How important do you think the availability of unemployment benefits is in explaining current levels of unemployment?



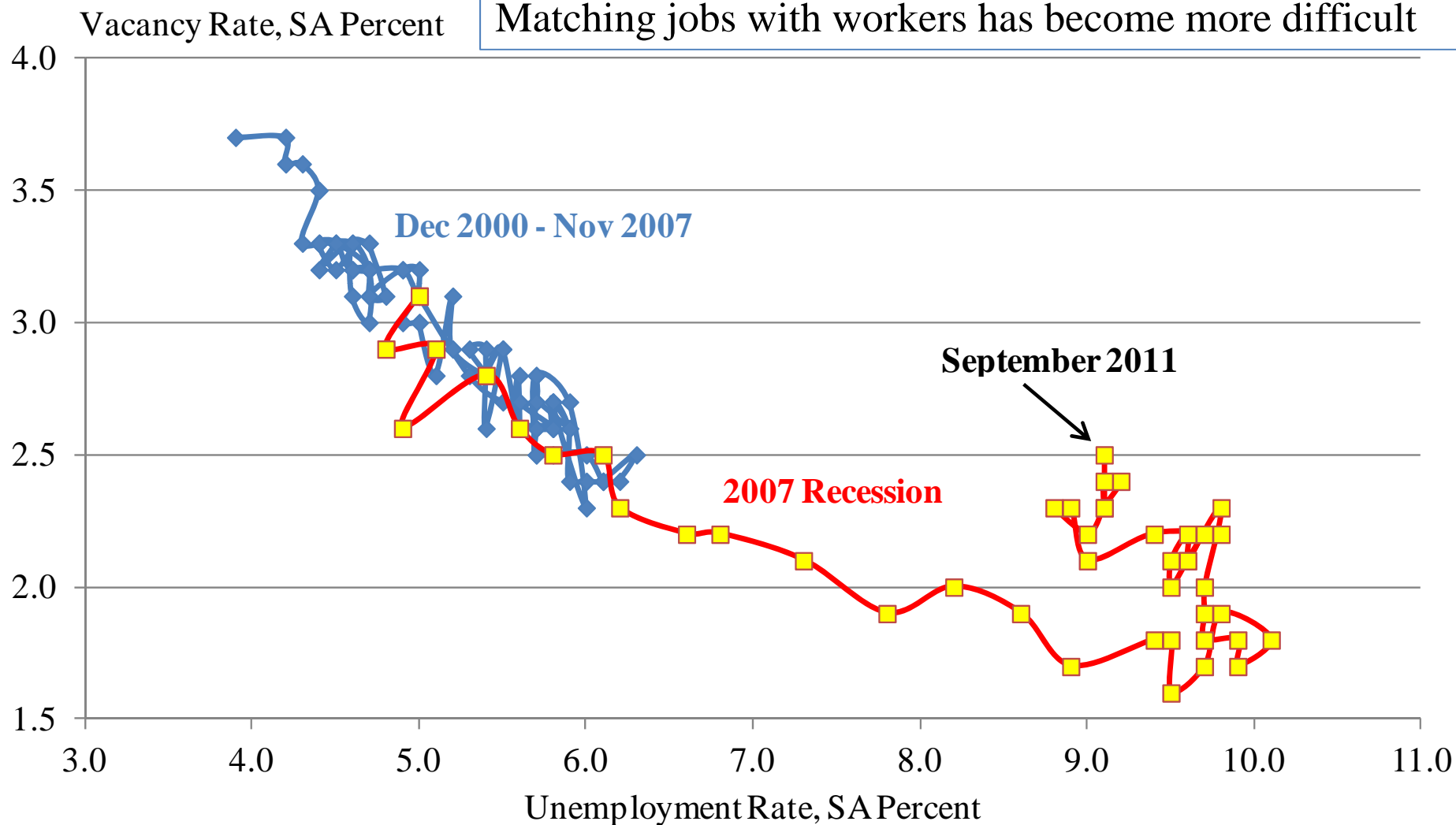
# Beveridge Curve

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- ❑ Job vacancy rates and unemployment vary over the business cycle.
- ❑ The relationship between these two variables is referred to as the **Beveridge curve**.
- ❑ A negative slope is the norm – vacancies are high when unemployment is low and vice versa.

# Beveridge Curve

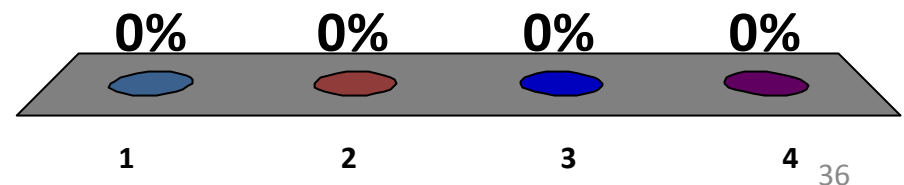
Matching jobs with workers has become more difficult



Source: Job Opening and Labor Turnover Survey, Bureau of Labor Statistics/Haver Analytics 35

How important do you think negative housing equity is in explaining the current level of worker mobility across state lines and high levels of unemployment?

1. Very important
2. Important
3. Somewhat important
4. Not important

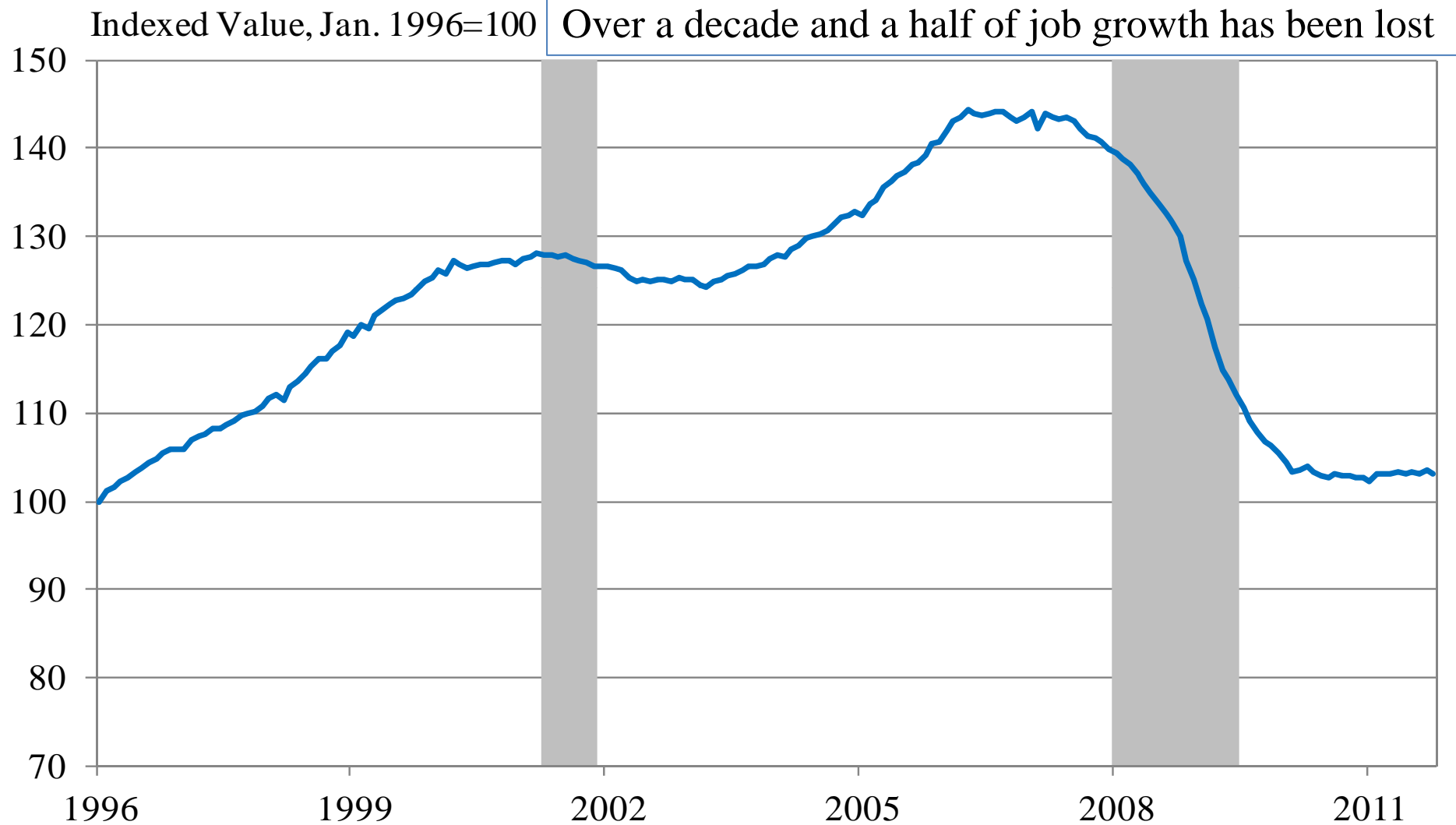


# Role of the Housing Collapse

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- ❑ The collapse in housing displaced **1,954,000** construction workers.
- ❑ Prior to 2007, employment in the residential construction sector and peripheral industries grew dramatically.
- ❑ It will take time for those employees to shift to a different industry.
- ❑ The housing market also affects the mobility of workers and could impede labor relocation.

# Construction Employment



Source: Bureau of Labor Statistics/Haver Analytics.

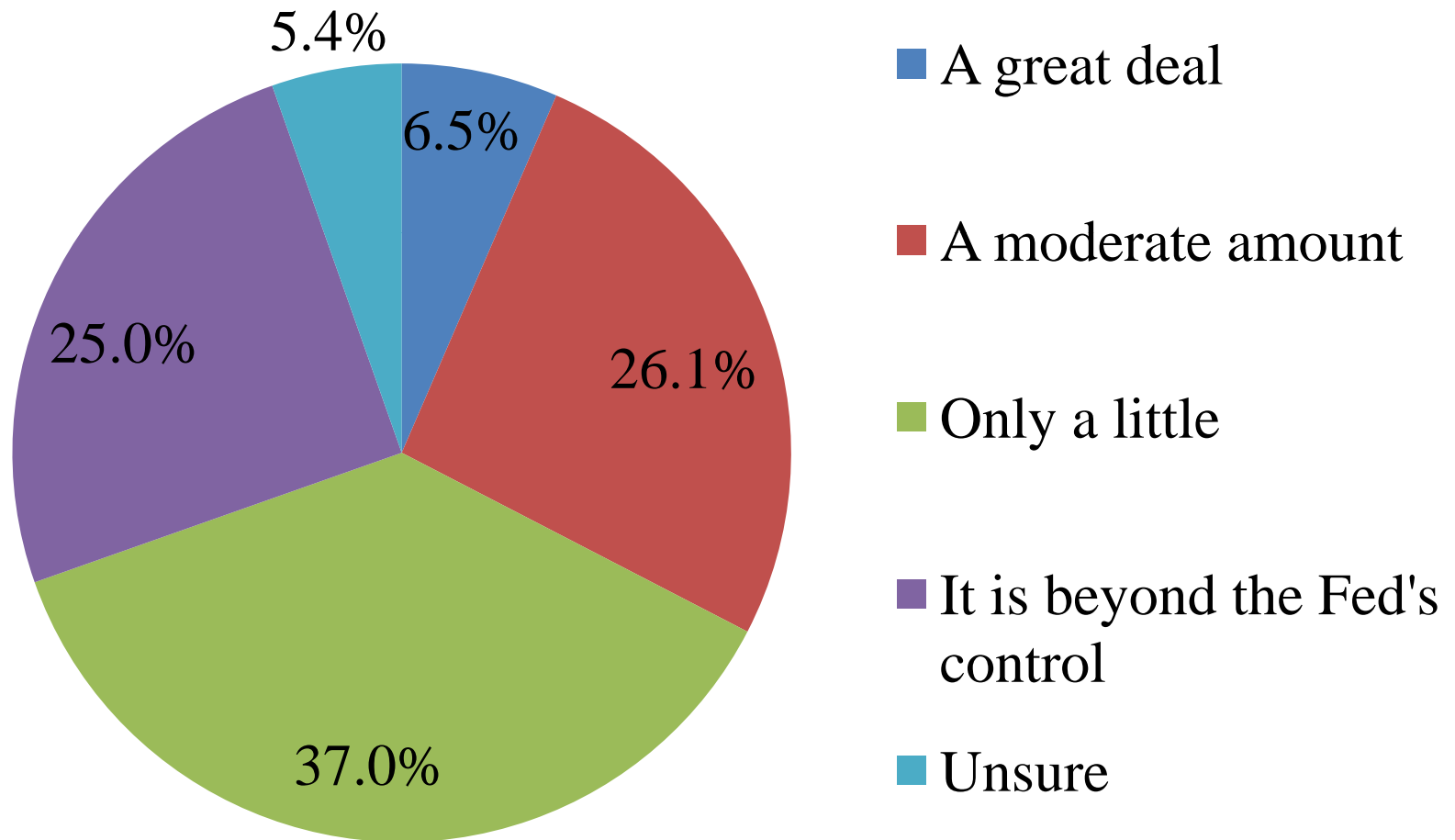
# Role of the Housing Collapse

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- Juan Sanchez, a St. Louis Fed economist, points out that the 2 million jobs lost in construction is only the direct effect of the recession on one industry.
- Nearly **800,000** additional jobs were lost in other industries that relied on construction.
- The decline in construction employment and its connected industries accounts for **40 percent** of the total decline.

## Pre-event poll question

In general, how much do you think the Federal Reserve can do to affect the unemployment situation in the United States?





# Policy Options

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- ❑ The Fed has lowered interest rates dramatically.
  - Should encourage investment and consumption of big ticket items.
  - This has not spurred businesses to hire more or consumers to spend more on durables and housing.
- ❑ Fiscal policy has lowered tax rates and spent a LOT of money to stimulate the economy.
- ❑ Again, this does not appear to have had much effect.

# Reasons

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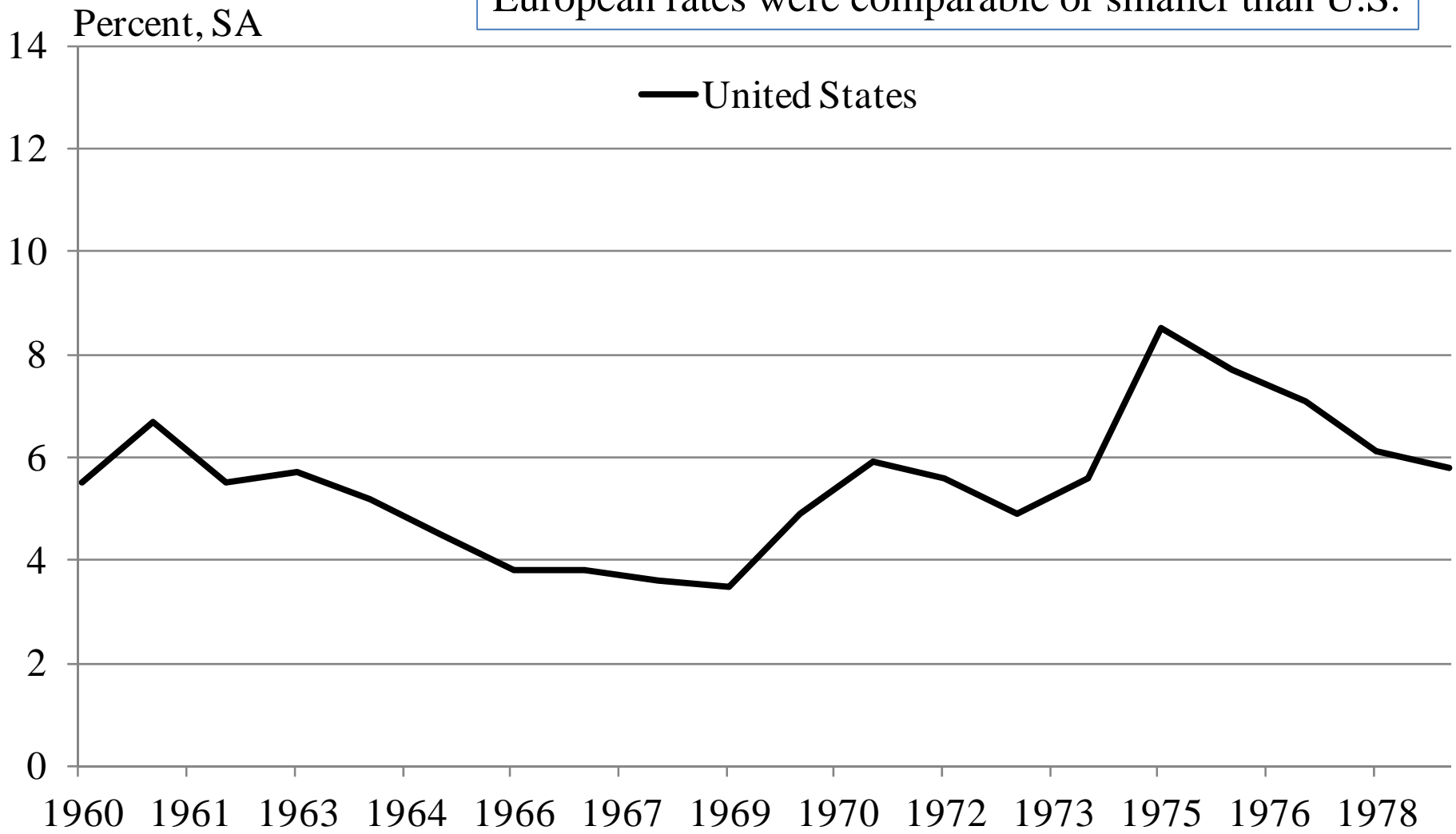
- ❑ Firms are reluctant to hire due to:
  1. Weak demand for their products and pessimism.
  2. Legitimate concerns about policy uncertainty resulting from new regulations and political power struggles.
  
- ❑ Households are deleveraging and restraining consumption of durables.
  
- ❑ Housing was overbuilt – no recovery in housing.

# A Cautionary Tale: European Labor Markets

- ❑ Unemployment rates in the U.S. were higher than those in Europe prior to 1980.
- ❑ Oil shocks of 1970s drove up the unemployment rate in both areas.
- ❑ Europe created a very rigid labor market in response – high firing costs and generous UI.

# European Unemployment Rates – 1960-1980

European rates were comparable or smaller than U.S.

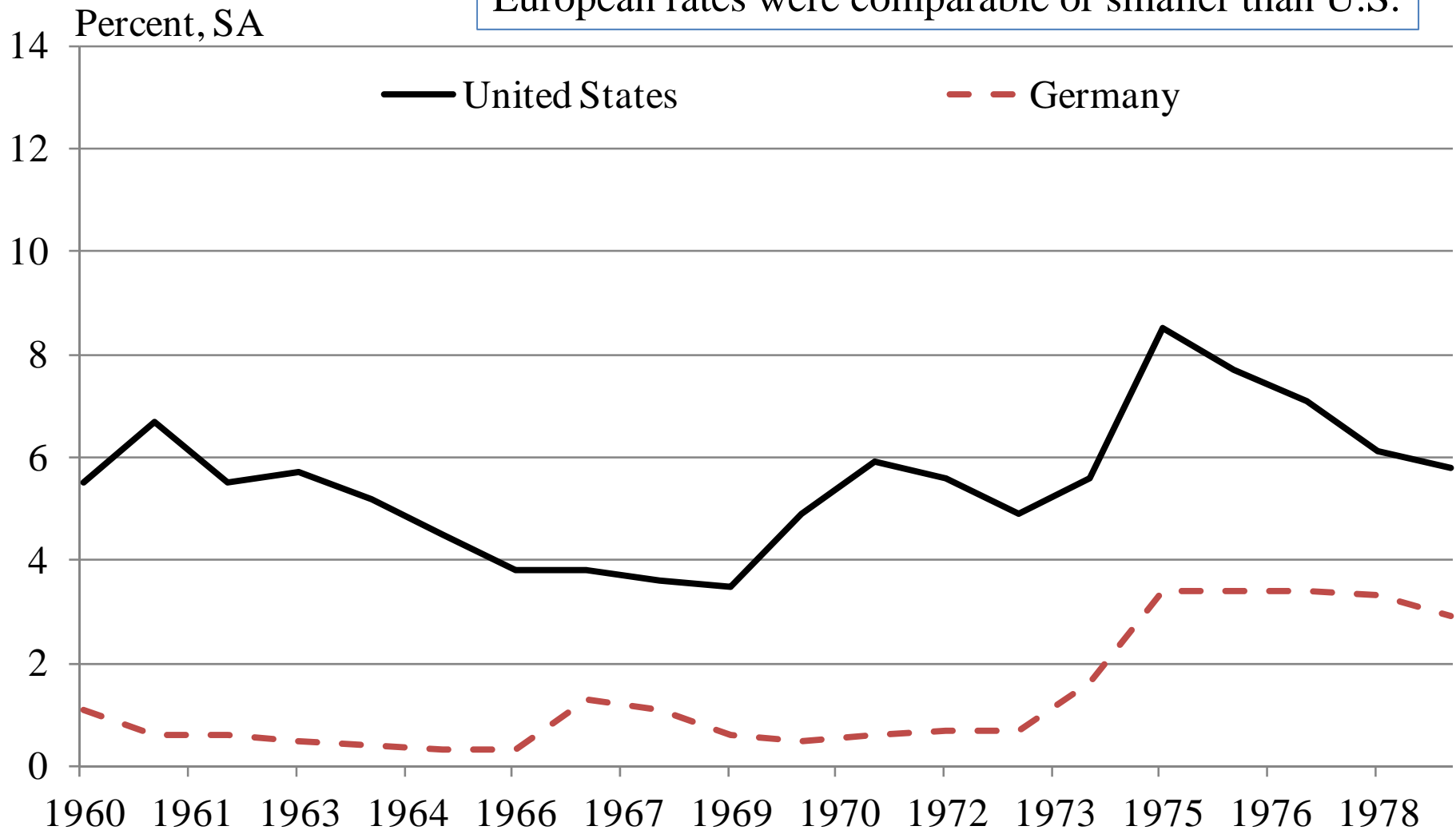


Source: Bureau of Labor Statistics.

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# European Unemployment Rates – 1960-1980

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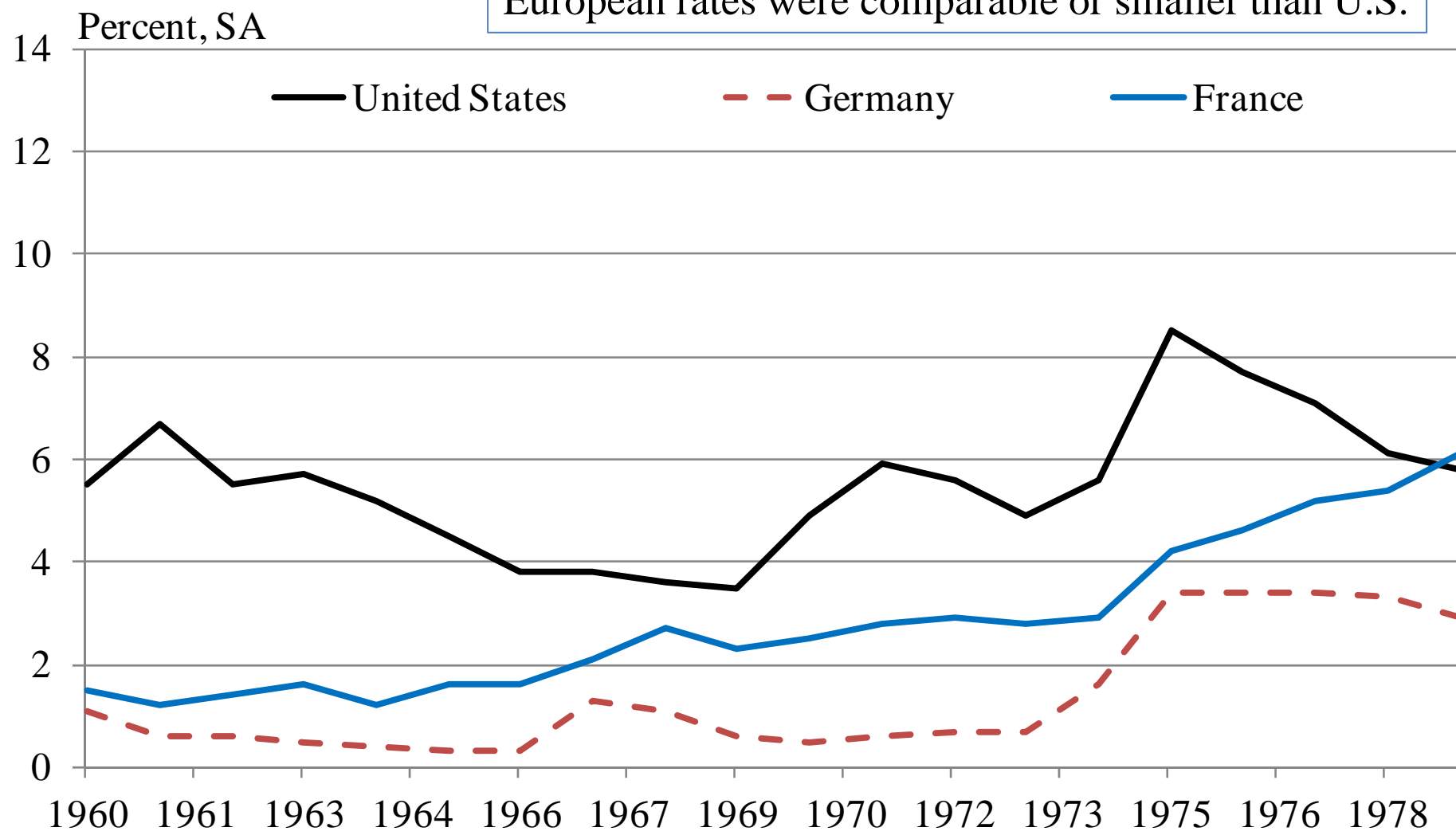


Source: Bureau of Labor Statistics.

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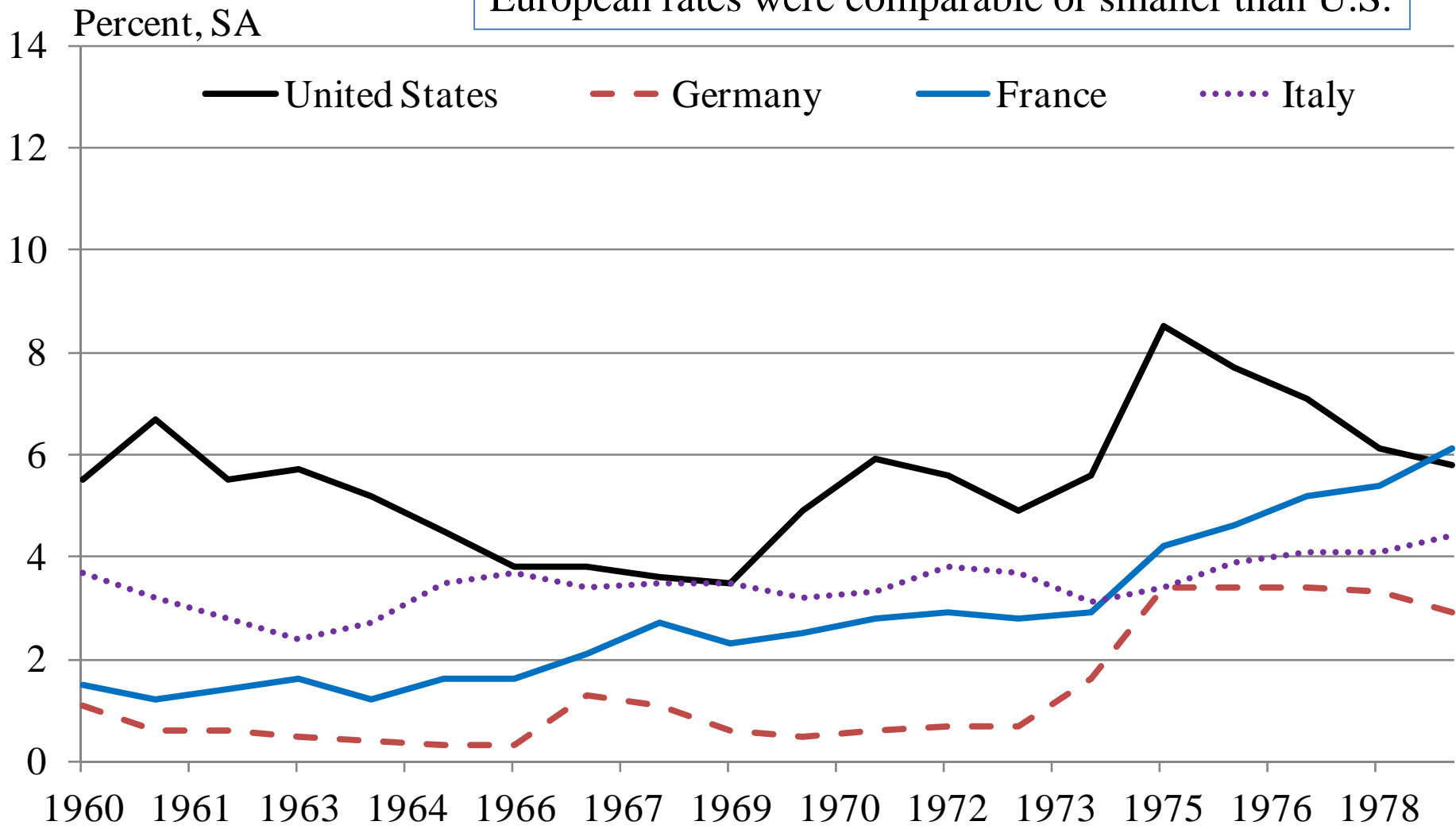


Source: Bureau of Labor Statistics.

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# European Unemployment Rates – 1960-1980

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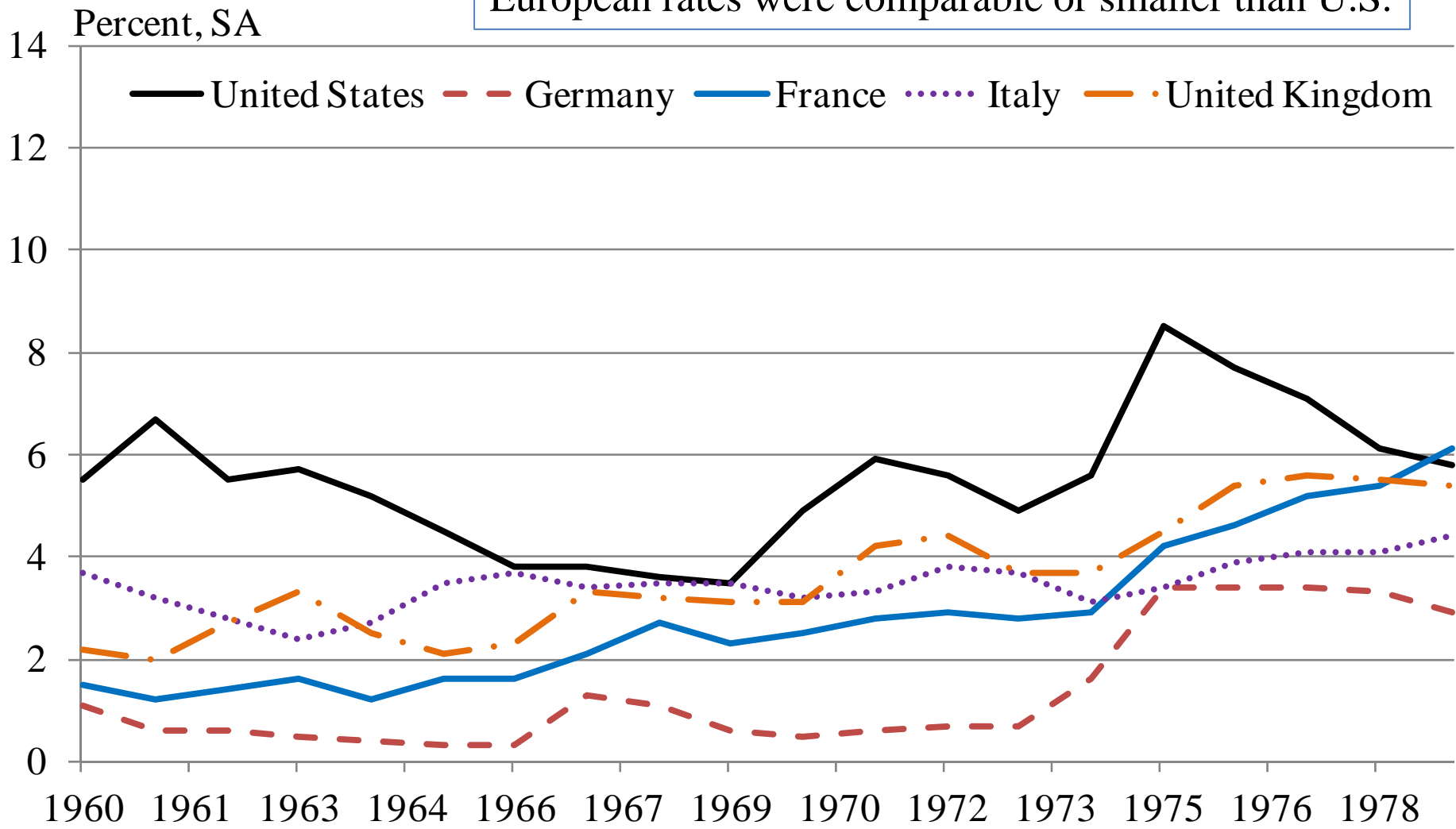


Source: Bureau of Labor Statistics.

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# European Unemployment Rates – 1960-1980

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Source: Bureau of Labor Statistics.

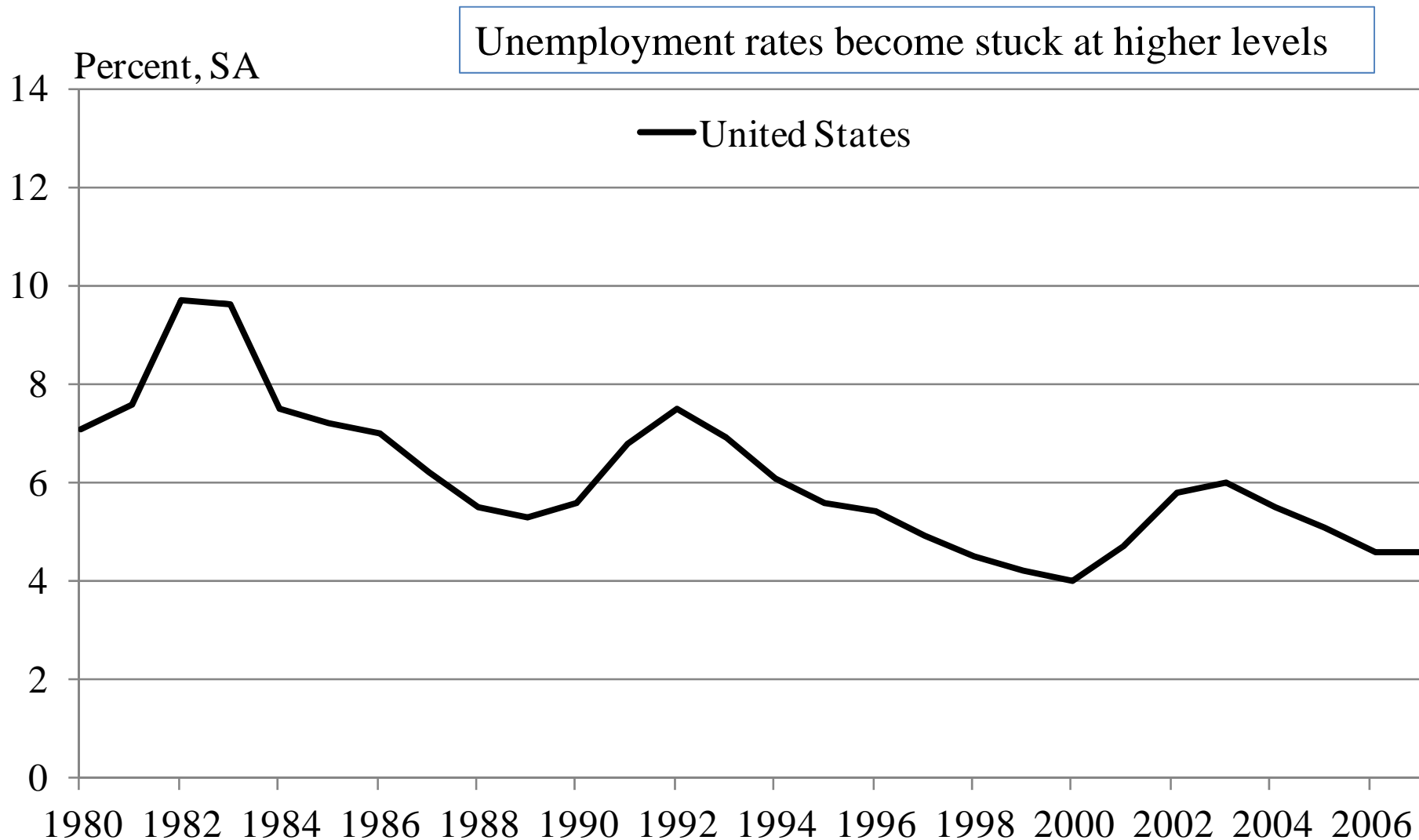
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# A Cautionary Tale: European Labor Markets

- ❑ U.S. unemployment rates declined after 1980.
- ❑ As a result of its labor market policies, Europe's did not.
- ❑ Is the U.S. labor market experiencing the same phenomena now?

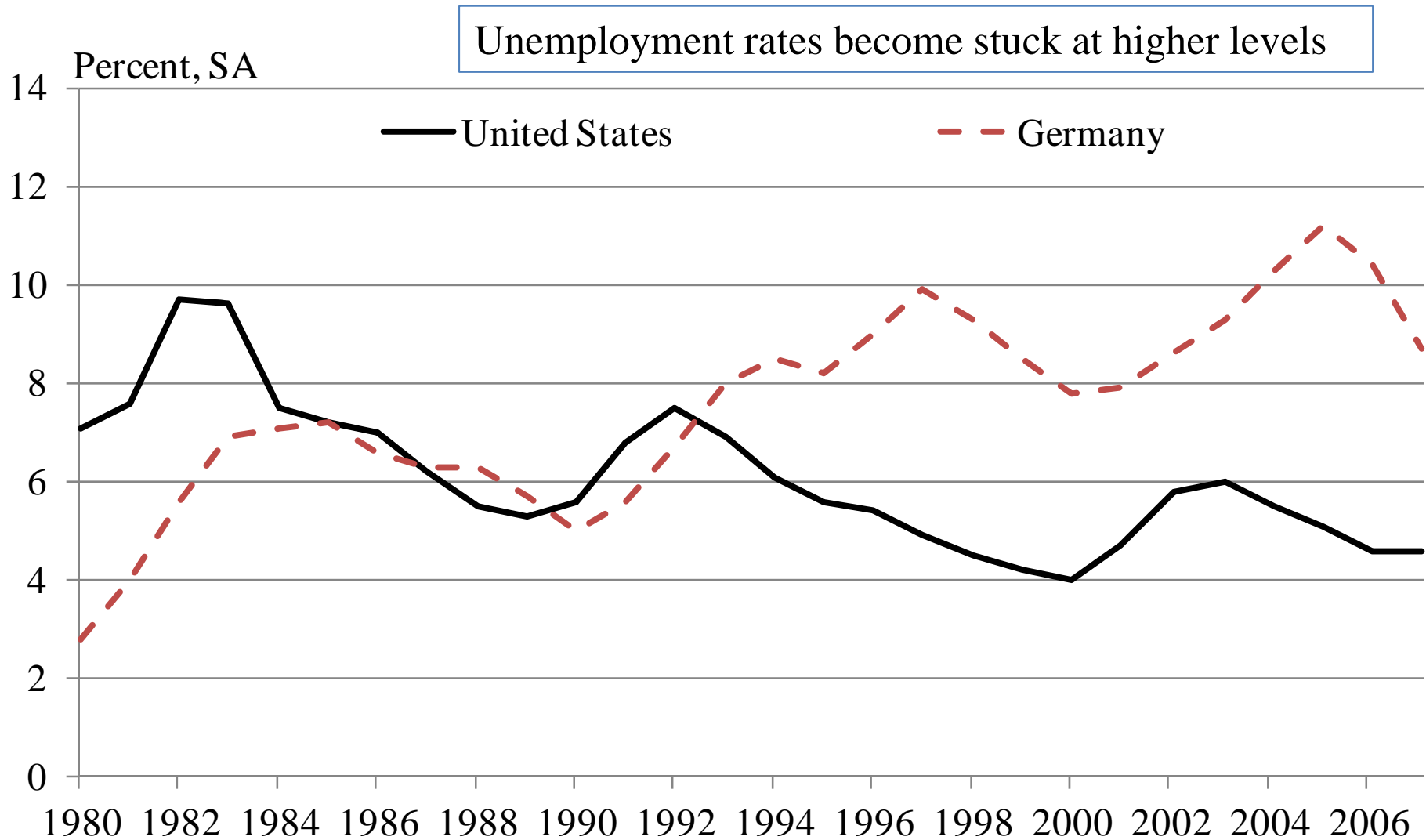
# European Unemployment Rates – 1980-2007



Source: Bureau of Labor Statistics.

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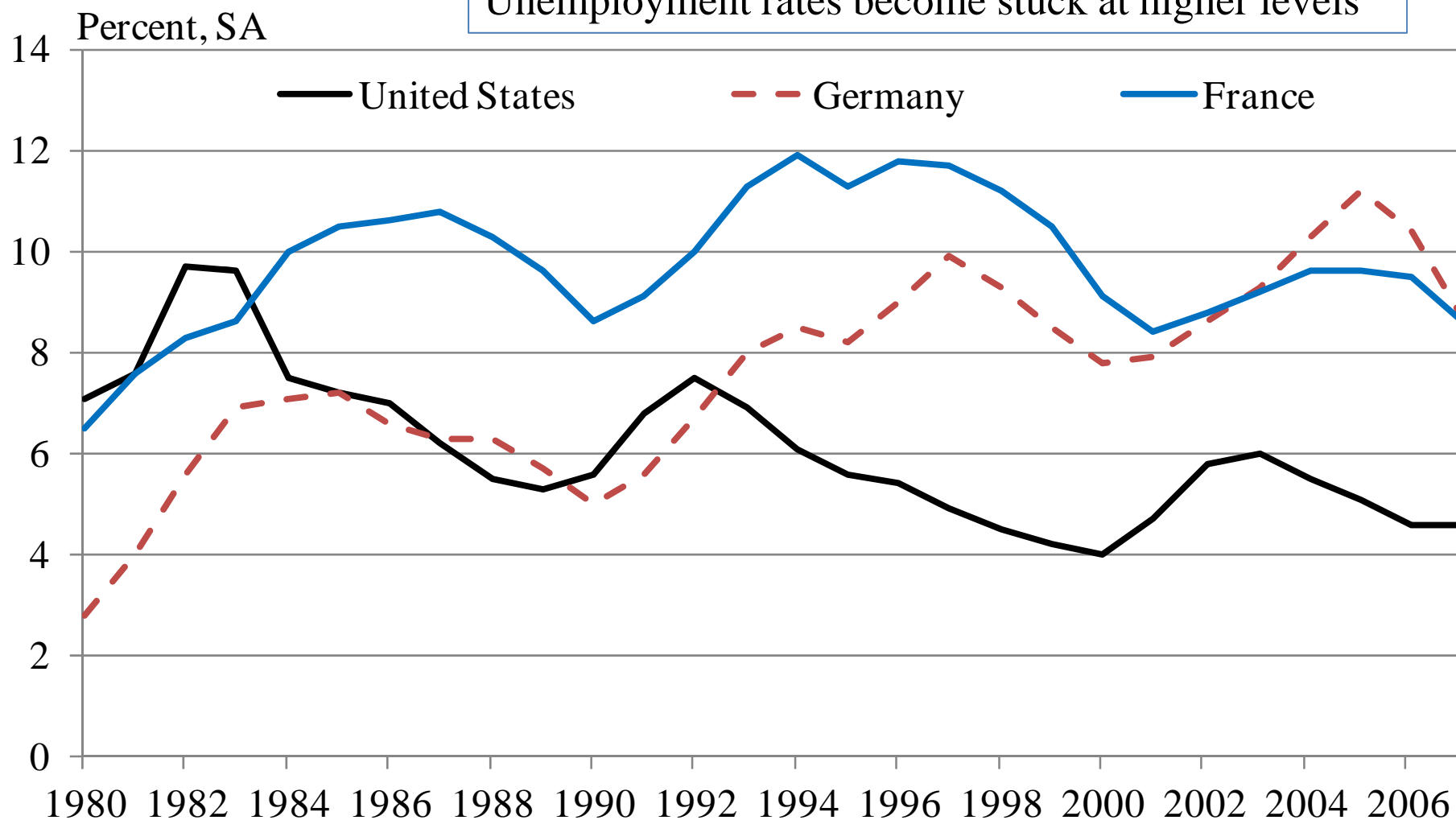
# European Unemployment Rates – 1980-2007



Source: Bureau of Labor Statistics.

# European Unemployment Rates – 1980-2007

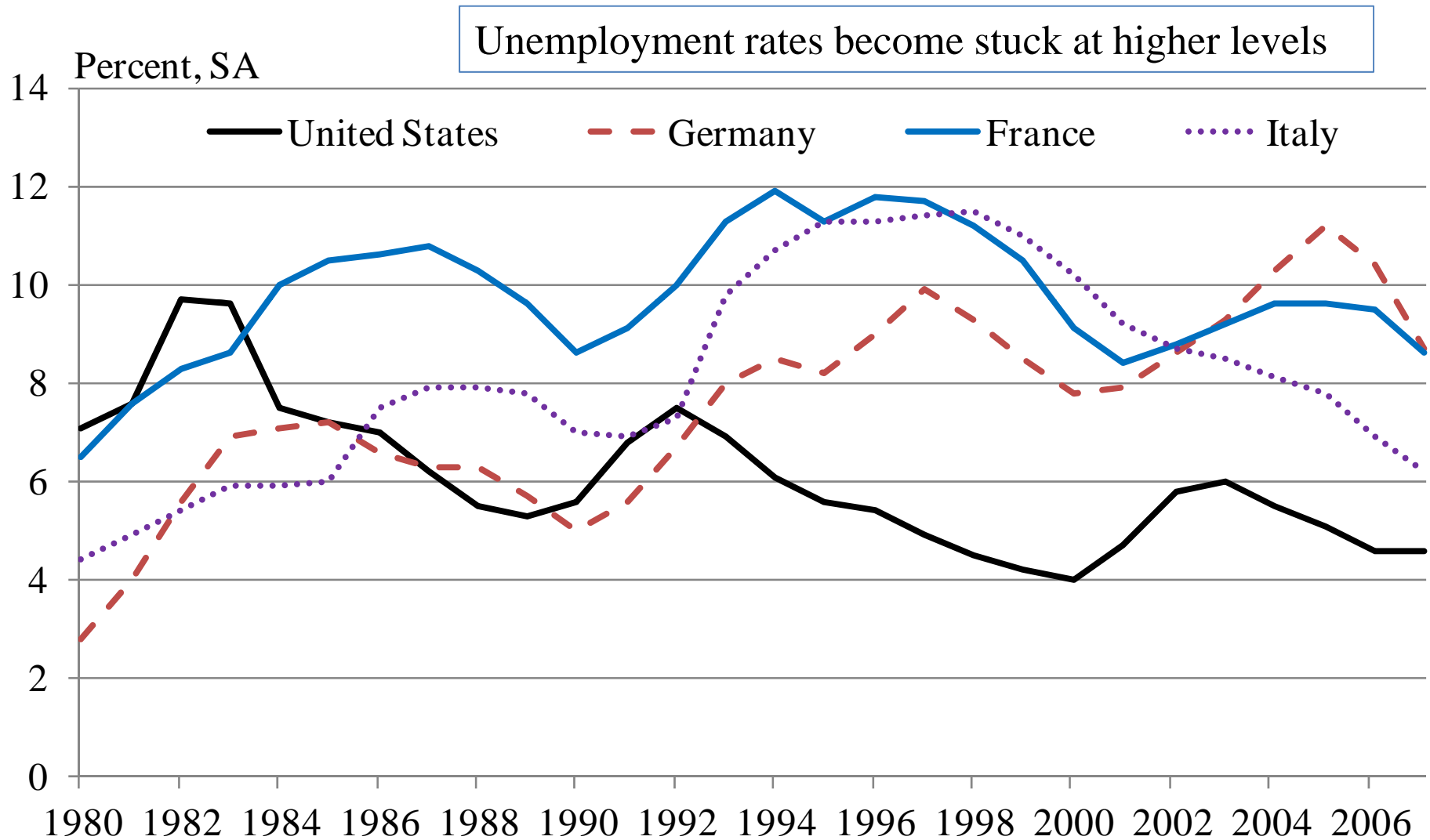
Unemployment rates become stuck at higher levels



Source: Bureau of Labor Statistics.

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# European Unemployment Rates – 1980-2007

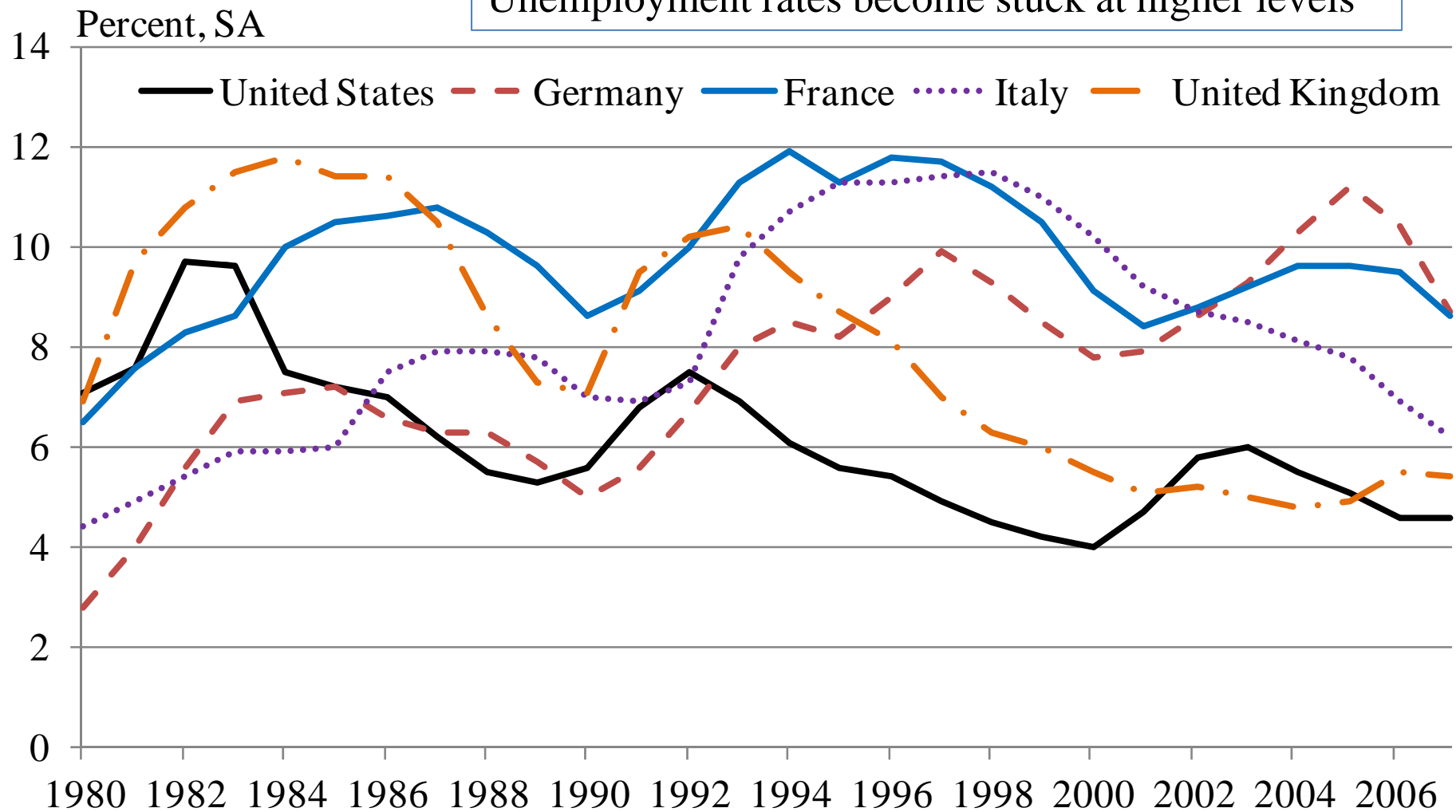


Source: Bureau of Labor Statistics.

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# European Unemployment Rates – 1980-2007

Unemployment rates become stuck at higher levels



Source: Bureau of Labor Statistics.

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# Conclusion

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- ❑ The Great Recession was very severe and the recovery has had high unemployment and a longer duration of unemployment.
- ❑ Jobs are opening up but hires are not being made.
- ❑ Employment has not responded to aggressive monetary and fiscal policies.
- ❑ Parallels with Europe raise the concern we are headed for a long period of high unemployment.

# Are you interested in attending future Dialogues with the Fed?

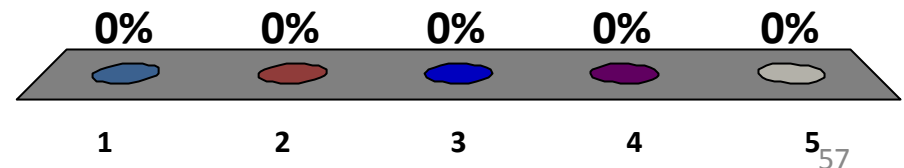
1. Yes
2. No





Please choose the 3 topics in which you would be most interested.

1. Dodd-Frank Legislation
2. Structure and Functions of the Federal Reserve
3. History of the Federal Reserve
4. Monetary Policy
5. Regional Topics



# DIALOGUE WITH THE FED

*Beyond Today's Financial Headlines*

## Question and Answer Session

**Please be sure to turn on your  
microphone when asking a  
question.**



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