Understanding the Unemployment Picture

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Many Moving Parts

A LOOK INSIDE THE U.S. LABOR MARKET

By

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The Great Recession

- 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

- 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%).

Largest monthly loss: 314,000 (once)

Month-to-Month Change in Thousands, Seasonally Adjusted

Source: Bureau of Labor Statistics/Haver Analytics

Largest monthly loss: 350,000 (three times)

Month-to-Month Change in Thousands, Seasonally Adjusted

Source: Bureau of Labor Statistics/Haver Analytics

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

Month-to-Month Change in Thousands, Seasonally Adjusted

Source: Bureau of Labor Statistics/Haver Analytics
U.S. Private Payroll Employment

Job losses were much more severe in Great Recession

2001 Recession Peak: 111,681
Trough: 108,231

2009 Recession Peak: 115,610
Trough: 106,772

1991 Recession Peak: 91,317
Trough: 89,557

Source: Bureau of Labor Statistics/Haver Analytics
Unemployment Rate – 1948-Present

Source: Bureau of Labor Statistics/Haver Analytics
Unemployment Rate – Nation vs. District

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

- 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

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

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

Labor Force = Number of Employed + Number of Unemployed,
Unemployment: Definition

- 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

- 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

Participation rate has fallen by roughly 2 percent

Source: Bureau of Labor Statistics/Haver Analytics
Employment-Population Ratio Defined

- 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

Ratio is at the lowest level since September 1983

Source: Bureau of Labor Statistics/Haver Analytics
Unemployment Rate – By Age

Younger members of the labor force have been hit hard

Source: Bureau of Labor Statistics/Haver Analytics
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?

- Very important: 52.2%
- Important: 34.8%
- Somewhat important: 6.5%
- Not important: 6.5%
Pre-event poll question
Please provide your estimate of the unemployment rate among the following demographics:

- College graduates
- High-school graduates
- Those who have not finished high school
Unemployment Rate – By Education

Employment prospects for less educated are much worse

Source: Bureau of Labor Statistics/Haver Analytics
Unemployment Rate – By Education

Each level of educational attainment lowers the average UR

**Unemployment rate in 2010 (%)**

- Less than a high school diploma
- High school diploma
- Some college, no degree
- Associate degree
- Bachelor's degree
- Master's degree
- Professional degree
- Doctoral degree

Average: 8.2%

Unemployment spells are much longer for many.

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

Why isn’t the unemployment rate ever zero?

Why doesn’t government simply hire these workers and drive it to zero?
Labor Flows

- 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

- 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

Employed  

Non-Participant

Unemployed

Job Finding  
Job Separation

Stopped Searching  
Restarting Search
Magnitude of Labor Flows

Average monthly flows are huge relative to population.
Labor Flows

- **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?

- Very important: 25.3%
- Important: 26.4%
- Somewhat important: 27.5%
- Not important: 20.9%
Beveridge Curve

- 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.
Matching jobs with workers has become more difficult
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

- 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.
Over a decade and a half of job growth has been lost.
Role of the Housing Collapse

- 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?

- A great deal: 26.1%
- A moderate amount: 25.0%
- Only a little: 37.0%
- It is beyond the Fed's control: 6.5%
- Unsure: 5.4%
Policy Options

- 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

- 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 rates were comparable or smaller than U.S.


European rates were comparable or smaller than U.S.


European rates were comparable or smaller than U.S.


European rates were comparable or smaller than U.S.

Percent, SA

- United States
- Germany
- France
- Italy


European rates were comparable or smaller than U.S.

Percent, SA

United States  Germany  France  Italy  United Kingdom

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?

Unemployment rates become stuck at higher levels

Percent, SA


United States


Unemployment rates become stuck at higher levels


Unemployment rates become stuck at higher levels


Unemployment rates become stuck at higher levels


Unemployment rates become stuck at higher levels


Percent, SA

United States
Germany
France
Italy
United Kingdom
Conclusion

- 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
Question and Answer Session

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