

Economic SYNOPSES

short essays and reports on the economic issues of the day



2014 ■ Number 7

Labor Market Update

Fernando M. Martin, *Senior Economist*

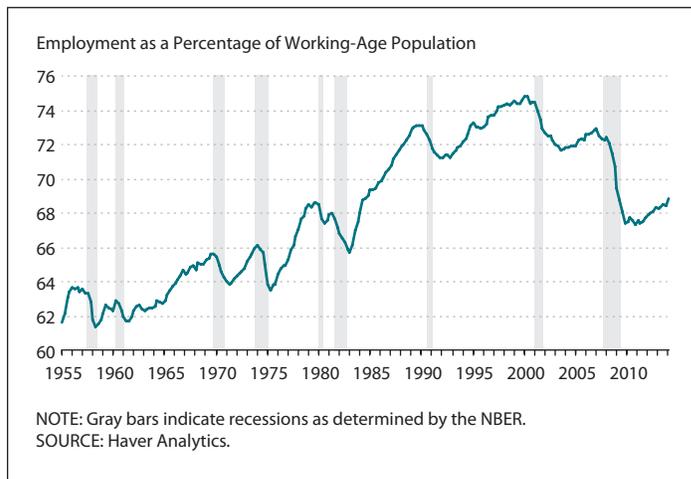
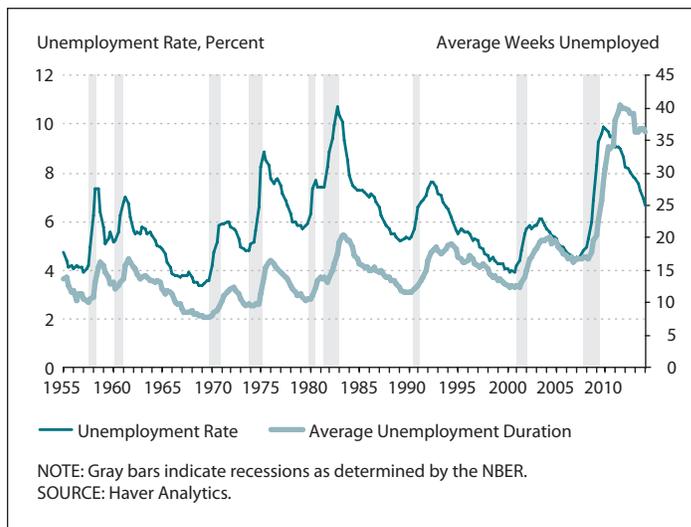
As mandated by Congress, the Federal Reserve conducts monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates. The most recent recession was characterized by sharp drops in output and employment and a significant increase in the unemployment rate. In contrast, core inflation (as measured by the personal consumption expenditures price index excluding food and energy prices) remained low, fluctuating between 1 and 2 percent annually.¹

There has been a significant and steady drop in the unemployment rate since late 2009, but unemployment duration remains high and employment as a percentage of the working-age population has not recovered.

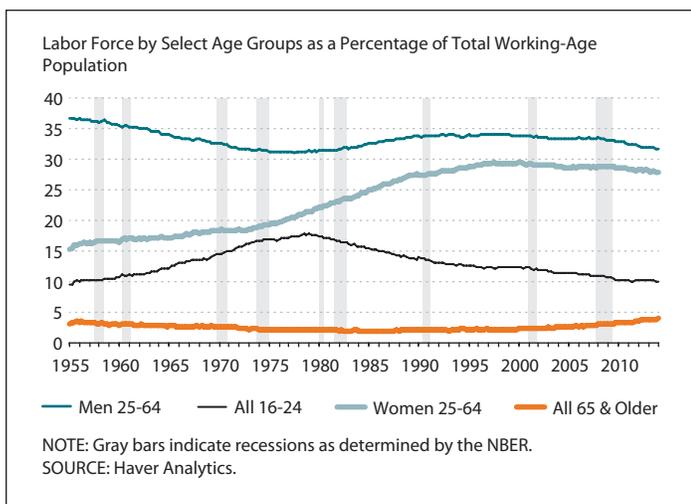
This essay analyzes recent developments in the U.S. labor market, focusing on the unemployment rate, the employment level, and the labor force participation rate.

The first chart shows the U.S. quarterly unemployment rate since 1955.² The gray bars indicate recessions as determined by the National Bureau of Economic Research (NBER). During the 2007-09 recession, the unemployment rate increased sharply, from about 4.5 percent to a peak of almost 10 percent in the fourth quarter of 2009. The unemployment rate then significantly and steadily declined but remains elevated at 6.7 percent in the first quarter of 2014.

The response of the unemployment rate to the most-recent recession was unusually high for the postwar period but closely resembles the response to the “Twin Recessions” of 1980-82. The two episodes differ, however, in average unemployment duration. Between 1955 and 2007, unemployed workers took 14 weeks on average to find a new job, with a peak of 21 weeks in the third quarter of 1983. More recently, the average duration peaked at a record 40 weeks in the third quarter of 2011 and remains high at 36 weeks in the first quarter of 2014.³



The employment level is another relevant indicator of labor market performance.⁴ The second chart shows this level as a percentage of the working-age population (WAP).⁵ Up until recently this percentage grew steadily, with temporary setbacks during recessions. During the last three recessions, however, the fall in employment as a percentage of the WAP was very persistent. Furthermore, the employ-



ment level has not yet recovered from the drops experienced in the last two recessions.⁶

The final labor market indicator examined here is the labor force participation rate. After about three decades of steady growth, the rate plateaued in the late 1990s and started a persistent decline in 2000. This decline could be interpreted as signaling weak prospects for the labor market.⁷ The long-run evolution of the participation rate, however, appears mostly unrelated to the business cycle.

The third chart divides the labor force participation rate into age categories to show underlying trends. The movement in the categories reflects a combination of demographic trends and changes in behavior due to economic developments. First, the participation of young people (16 to 24 years of age) has declined steadily since the 1980s. Second, women 25 to 64 years of age increased their participation rate substantially between 1970 and the mid-1990s, after which it slowly declined. Third, the participation rate of men 25 to 64 years of age experienced wide swings: a marked downward trend until the late 1970s; a moderate recovery during the 1980s; and a steady decline beginning in the early 1990s, which appears to have accelerated with the most recent recession. Fourth, countering the trend of the other groups, people 65 years of age and older have increased their participation rate since mid-2005—that is, before the most recent recession began.

The total labor force participation rate has dropped 4 percentage points since 2000. Young people 16 to 24 years of age and men 25 to 64 years of age contributed the most to the decline. Women 25 to 64 years of age also contributed

significantly. People 65 years of age and older compensated for the decline by increasing their participation in the labor force.

In sum, there has been a significant and steady drop in the unemployment rate since late 2009, but unemployment duration remains high and employment as a percentage of the working-age population has not recovered. In addition, there are prominent long-run trends in labor force participation that will continue to shape the labor market outlook. ■

NOTES

¹ For example, see Martin (2013).

² Labor data are from the Current Population Survey, published monthly by the Bureau of Labor Statistics. The data run only through February 2014; thus, the average for the first quarter of 2014 is for January and February.

³ The Current Population Survey underwent a significant redesign in 1994. When correcting for this change, the pre-1994 average unemployment duration is higher than in the official series. However, this difference is small when compared with the increase during the most recent recession. See Busch (2012).

⁴ Total hours worked could also be used, but the conclusions would be similar.

⁵ Working-age population is defined as civilian noninstitutional population 16 to 64 years of age plus civilian labor force 65 years of age and older.

⁶ Jaimovich and Siu (2013) relate the recent behavior of employment with the disappearance of middle-skill occupations.

⁷ The participation rate is typically defined as the labor force divided by the civilian noninstitutional population. Here, I use WAP, as defined above, instead of population. The change in denominator removes the effect of variations in the percentage of retired people. For recent analyses of labor force participation, see Canon, Debbaut, and Kudlyak (2013) and Bullard (2014).

REFERENCES

- Bullard, James. "The Rise and Fall of Labor Force Participation in the U.S." Speech at the Exchequer Club, Washington, DC, February 19, 2014; <http://research.stlouisfed.org/econ/bullard/the-rise-and-fall-of-labor-force-participation-in-the-u-s/>.
- Busch, Michael E. "The CPS Redesign's Effects on Measured Unemployment Duration in the Great Recession." *B.E. Journal of Economic Analysis & Policy*, May 2012, 12(1), pp. 1-19.
- Canon, Maria E.; Debbaut, Peter and Kudlyak, Marianna. "A Closer Look at the Decline in the Labor Force Participation Rate." *Federal Reserve Bank of St. Louis Regional Economist*, October 2013, pp. 10-11; http://www.stlouisfed.org/publications/pub_assets/pdf/re/2013/d/labor_force.pdf.
- Jaimovich, Nir and Siu, Henry. "The Trend is the Cycle: Job Polarization and Jobless Recoveries." Unpublished manuscript, 2013, Duke University.
- Martin, Fernando M. "U.S. Inflation and Its Components." *Federal Reserve Bank of St. Louis Economic Synopses*, 2013, No. 33, December 6, 2013; http://research.stlouisfed.org/publications/es/13/ES_33_2013-12-06.pdf.

Posted on March 21, 2014

Views expressed do not necessarily reflect official positions of the Federal Reserve System.