Labor Market Slack and Monetary Policy

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Recent Economic Data

- Recent data have been disappointing
  - Payroll employment grew by 113,000 jobs in January and 75,000 in December
  - Two-month average of 94,000 is well below the previous two-month average of October and November
- Is the weakness a trend (slower economy) or an anomaly (severe weather)?
- This uncertainty provides an additional strong rationale for taking a patient approach to removing monetary policy accommodation
Does the Traditional Unemployment Measure Understate Labor Market Slack?

- Unemployment rate has fallen to 6.6 percent
  - Unemployment rate is near the 6.5 percent threshold noted in the Fed’s guidance
  - Of late the unemployment rate has fallen more quickly than most forecasters expected
- Labor force participation remains low – are workers able and willing to work?
Other Indicators of Slack in Labor Markets

- 7.3 million Americans want full-time work but are currently working part time
  - A number that is dramatically higher than the 4.6 million workers in that situation in December of 2007
  - These workers are qualified and willing to work
- Very low inflation rate and very slow growth in labor compensation are consistent with significant labor market slack
Figure 1: Civilian Unemployment Rate (U-3): Total Unemployed, as a Percent of the Civilian Labor Force

January 1994 - January 2014

Source: BLS, NBER, Haver Analytics
Figure 2: Civilian Unemployment Rate (U-3) Path based on Okun’s Law and Recent Trends


Note: Okun’s Law projections assume growth of 1% above potential GDP growth of 2%.

Source: BLS, NBER, Haver Analytics and author’s calculations
Figure 3: Measures of Labor Underutilization
January 1994 - January 2014

Note: U-6 measure is total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.

Source: BLS, NBER, Haver Analytics
Figure 4: Persons Employed Part Time for Economic Reasons

January 1994 - January 2014

Source: BLS, NBER, Haver Analytics
Figure 5: Persons Employed Part Time for Economic Reasons – Because of Slack Work or Business Conditions

January 1994 - January 2014

Source: BLS, NBER, Haver Analytics
Figure 6: Persons Employed Part Time for Economic Reasons – Because They Could Only Find Part-Time Work

January 1994 - January 2014

Source: BLS, NBER, Haver Analytics
Figure 7: Persons Employed Part Time for Economic Reasons for Selected Industries

January 2000 - January 2014

Note: Series are not seasonally adjusted. Selected industries are the industries with the largest numbers of workers part time for economic reasons in January 2014.

Source: BLS, NBER, Haver Analytics
Figure 8: Persons Employed Part Time for Economic Reasons: Age 25 - 54

January 1994 - January 2014

*Note: Series is not seasonally adjusted.*

*Source: BLS, NBER, Haver Analytics*
Figure 9: Persons Employed Part Time for Economic Reasons in Nonagricultural Industries by Race and Hispanic or Latino Ethnicity

January 2000 - January 2014

Note: Series are not seasonally adjusted. The numbers add to more than the total as workers may be counted in more than one category.

Source: BLS, NBER, Haver Analytics
Part Time for Economic Reasons and Economic Slack

- Debate over whether workers marginally attached to the labor force will return to the workforce
- Slack from workers part time for economic reasons is different
  - Employers have hired them (they have the necessary skills)
  - They are clearly willing to work
  - But economic conditions have been insufficient to convert part-time to full-time work
- Slack in labor markets may be better measured by U-6 than U-3 unemployment rate
Figure 10: Inflation Projections of Federal Reserve Governors and Bank Presidents for 2013

November 2, 2011 and December 12, 2012 Projections, December 2013 Actual

High, Low and Midpoint of Central Tendency for PCE Inflation

Percent Change, 2012:Q4 - 2013:Q4

Note: Central tendency excludes the three highest and three lowest projections for each variable in each year. *The 1.1% figure for 2013 is the percent change from December 2012 - December 2013.

Source: FOMC, Summary of Economic Projections
Figure 11: Employment Cost Indices for Civilian Workers
1994:Q1 - 2013:Q4

Source: BLS, NBER, Haver Analytics
Figure 12: Employment Cost Index for Total Compensation for Private Industry Workers by Occupational Group

2003:Q1 - 2013:Q4

Source: BLS, NBER, Haver Analytics
Concluding Observations

- Evaluating current labor market slack is important for setting monetary policy

- Evidence of significant slack even as we approach the 6.5 percent threshold
  - Elevated number of workers who are part time for economic reasons
  - Unemployment rate is still high
  - Inflation is very low – well below target

- This calls for a patient approach to removing monetary policy accommodation