Observations on Labor Markets

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Labor Markets are Improving

- Labor markets continue to gradually improve
  - Vermont unemployment – 3.7 percent
  - New Hampshire unemployment – 4.4 percent
- Both are lower than the national unemployment rate of 6.1 percent
- How much labor market slack remains nationally is an important determinant of the path of monetary policy
August Employment Report

- Today’s employment report is somewhat disappointing
  - Payroll employment increased by 142,000 jobs, below market expectations
  - Unemployment declined slightly to 6.1 percent, but once again in part because 64,000 Americans left the labor force
  - 7.3 million Americans remain part-time for economic reasons
- Significant labor market slack remains, so monetary policy needs to be patient in removing stimulus
Implications for “Forward Guidance”

- Forward guidance is appropriate when Fed is far from our goals and short-term rates are close to zero.
- As we approach full employment my own view is that we should no longer issue guidance on approximate timing of policy changes.
  - “Liftoff” from near-zero short-term rates is going to be tied to the current and expected path of inflation and employment, which is shaped by incoming data.
  - Uncertainty around forecast makes reference to calendar dates as we approach targets potentially inaccurate.
Recent Experience

- Economic variables have surprised forecasters
  - Real GDP over the past two years has been weaker than most forecasters expected
  - Unemployment has fallen faster than expected (particularly given the disappointment in real GDP)
  - Many forecasters expected the inflation rate to reach the Federal Reserve’s target of 2 percent more quickly
- Primary Dealers Survey provides a wide distribution of possible dates for “liftoff”
Figure 1: Primary Dealers Survey Results: Average Distribution of Probabilities for the Timing of First Target Federal Funds Rate Increase

Survey Results as of July 21, 2014

Source: Federal Reserve Bank of New York, Survey of Primary Dealers, July 2014
Figure 2: Private Sector Forecasts for the U.S. Unemployment Rate

Forecasts as of August 2014

Source: Blue Chip Economic Indicators, Federal Reserve Bank of Philadelphia, BLS, Haver Analytics
Figure 3: Blue Chip Forecast for the U.S. Unemployment Rate
Forecast as of August 2014

Source: Blue Chip Economic Indicators, August 10, 2014, BLS, Haver Analytics
Figure 4: Blue Chip Forecast for the U.S. Unemployment Rate and Actual Unemployment Rate

Forecast as of March 2013

Source: Blue Chip Economic Indicators, BLS, Haver Analytics
Errors in Unemployment Forecasts (Overestimating Unemployment Rates) – Are They Likely to Persist?

▶ Not necessarily

▶ Workers may reenter labor force as labor markets tighten

▶ The number of people moving from *out of the labor force* into employment is considerably larger than the number moving from being *unemployed (but in the labor force)* to employed

▶ The unemployment rate may decline more slowly than its recent trend and may not, by itself, give a full picture of labor market conditions
Alternative Measures of Labor Market Slack

- The U-4 measure includes the unemployed workers counted in the widely reported U-3, plus so-called “discouraged workers”
- The U-5 measure includes U-4 workers and all others marginally attached to the workforce
- And the broadest measure, U-6, includes unemployed workers, discouraged workers, all others marginally attached to the workforce, and workers who are part time for economic reasons
Figure 5: Alternative Measures of Labor Market Slack
January 1994 - August 2014

Source: BLS, NBER, Haver Analytics
Figure 6: U-3 and Workers Part Time for Economic Reasons: 2014:Q2 Difference from Pre-Recession Average (2005 - 2007)

\[ y = 0.5336x + 0.9878 \]

\[ R^2 = 0.3221 \]

Source: BLS, CPS
Figure 7: U-3 and Workers Part Time for Economic Reasons: 2014:Q2 Difference from Pre-Recession Average (2005 - 2007)

<table>
<thead>
<tr>
<th>Measured in Percentage Points</th>
<th>Part Time for Economic Reasons</th>
<th>Unemployment Rate (U-3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Pre-Recession Average</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Close to Pre-Recession Average (0 - 0.5 Percentage Points Above)</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Just Above Pre-Recession Average (0.5 - 1.0 Percentage Points Above)</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Below or 0 - 1 Percentage Points Above Pre-Recession Average</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td>1 - 2 Percentage Points Above Pre-Recession Average</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>2 - 3 Percentage Points Above Pre-Recession Average</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>3 - 4 Percentage Points Above Pre-Recession Average</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>4 or More Percentage Points Above Pre-Recession Average</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: BLS, CPS
Figure 8: Change in Workers Part Time for Economic Reasons as a Share of Total Employment by Age Group: Percentage Point Difference from 2006

Note: Figures for 2014 are through August.
Source: BLS, CPS, Haver Analytics
Figure 9: Change in Workers Part Time for Economic Reasons as a Share of Total Employment by Age Group: Percentage Point Difference from 2006

Note: Figures for 2014 are through August.
Source: BLS, CPS, Haver Analytics
Figure 10: Workers Part Time for Economic Reasons as a Share of Total Employment by Age Group

2006 and 2014

Note: Figures for 2014 are through August.

Source: BLS, CPS, Haver Analytics
Figure 11: Employment Cost Indices for Civilian Workers
1994:Q1 - 2014:Q2

Source: BLS, NBER, Haver Analytics
Concluding Observations

- While we have approached full employment more rapidly than many expected, substantial slack remains.
- PCE inflation remains at only 1.6 percent, with no sign of significant wage pressures from labor markets.
- The lack of wage pressures suggests that we are not yet near full employment, and that there is no upward pressure on inflation coming from wages.
- So it seems appropriate for monetary policy to continue to be patient, in the interest of ensuring that the economy reaches full employment and the 2 percent inflation target as quickly as possible.