



EMBARGOED UNTIL FRIDAY, SEPTEMBER 5, 2014 AT 3:50 P.M. EASTERN TIME OR UPON DELIVERY

# *Observations on Labor Markets*

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[bostonfed.org](http://bostonfed.org)



## Labor Markets are Improving

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- ▶ 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
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## August Employment Report

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- ▶ 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
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## Implications for “Forward Guidance”

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- ▶ 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
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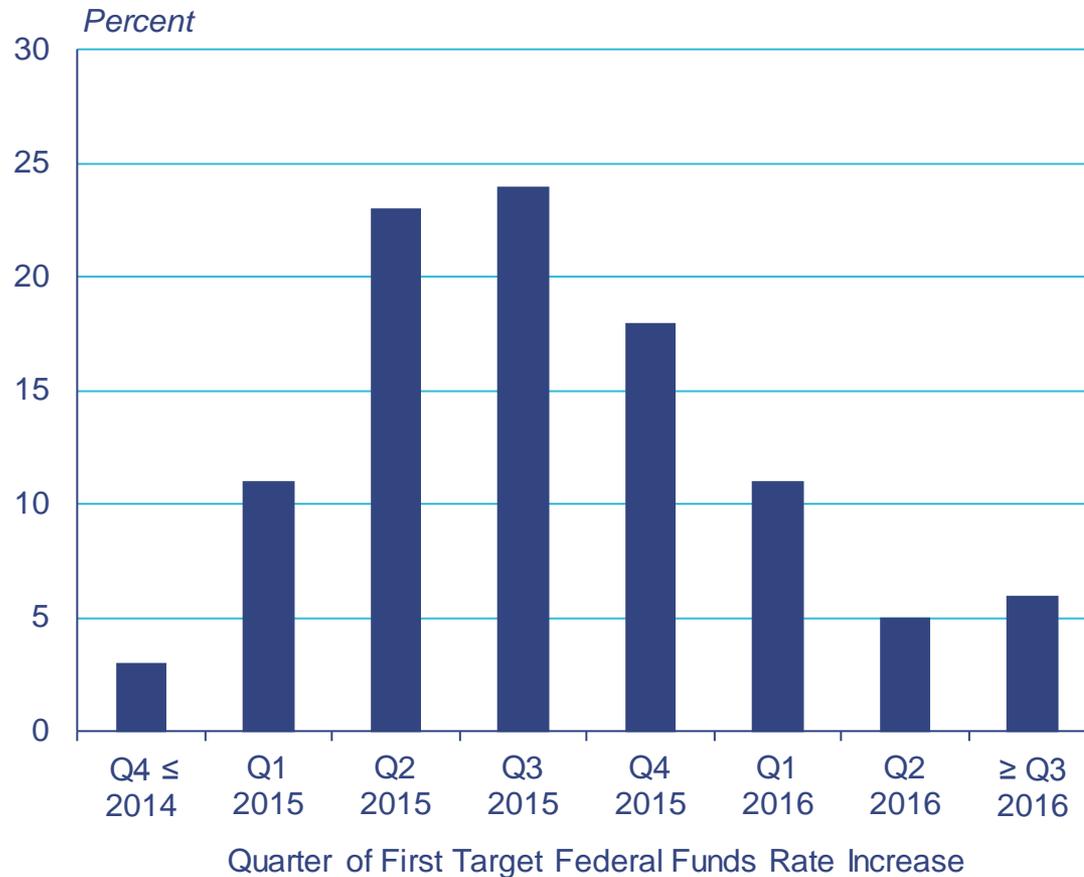
## Recent Experience

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- ▶ 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”
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# Figure 1: Primary Dealers Survey Results: Average Distribution of Probabilities for the Timing of First Target Federal Funds Rate Increase

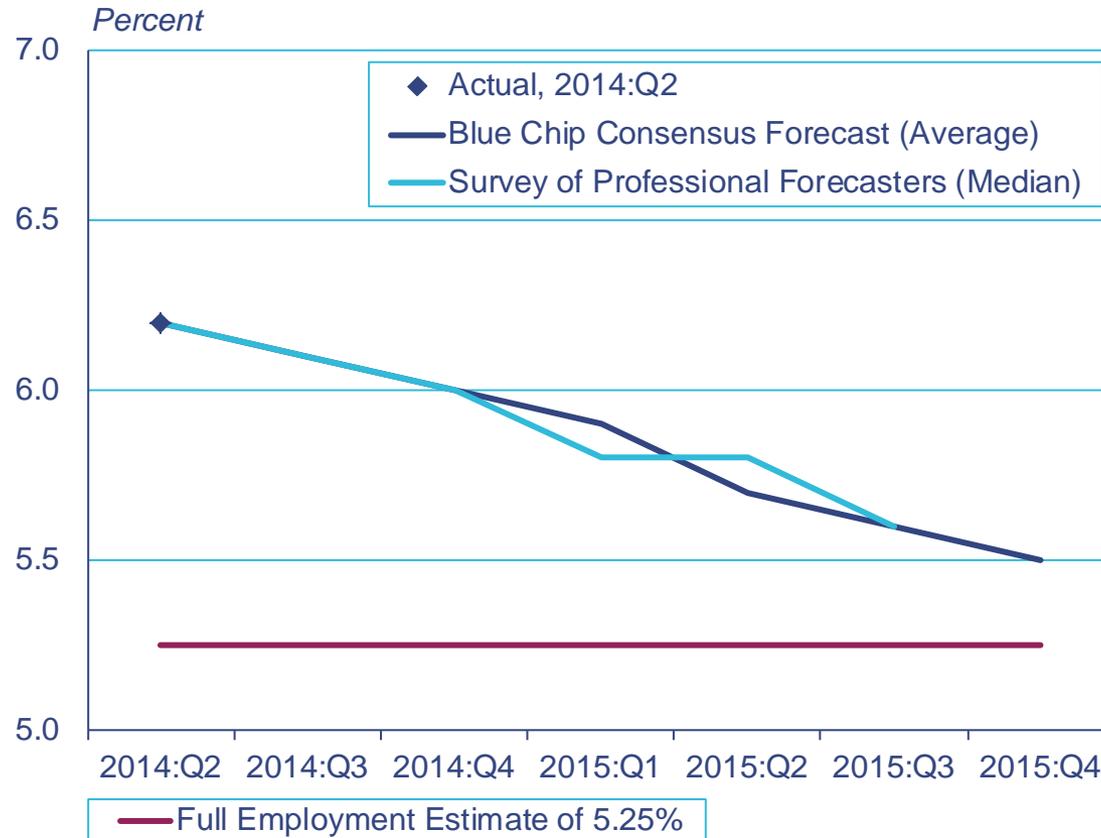
Survey Results as of July 21, 2014





## Figure 2: Private Sector Forecasts for the U.S. Unemployment Rate

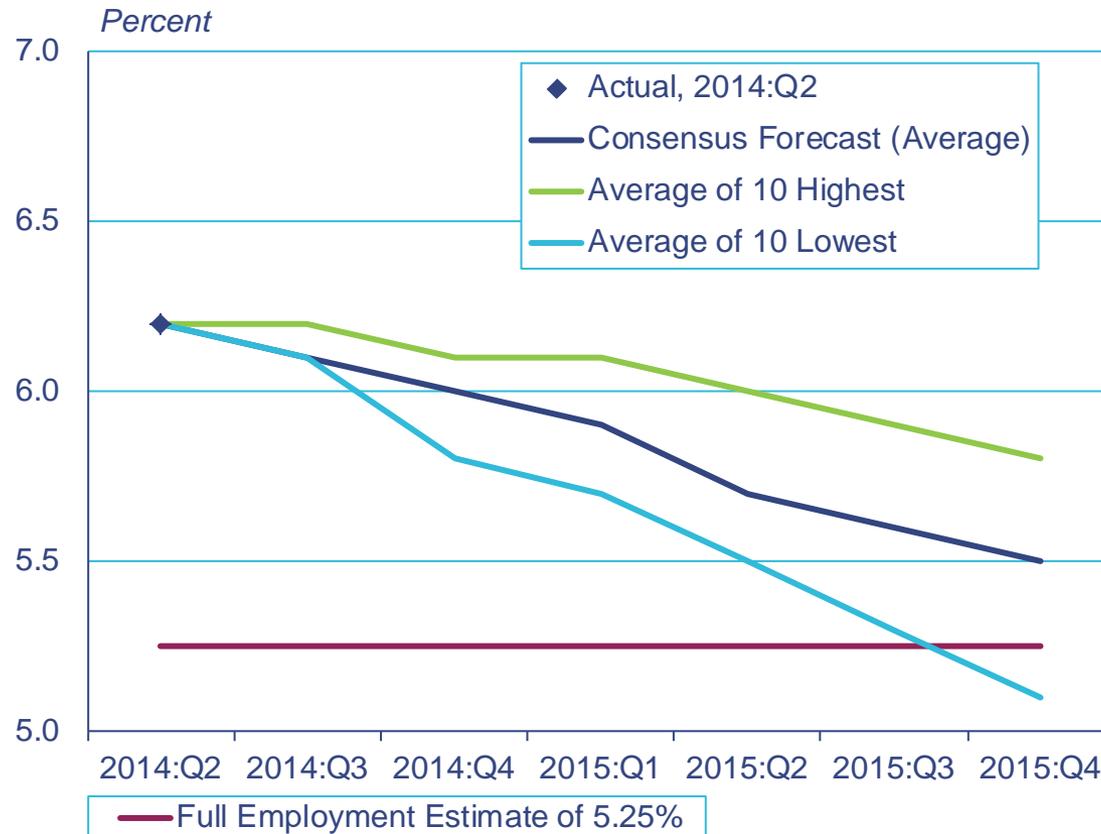
Forecasts as of August 2014





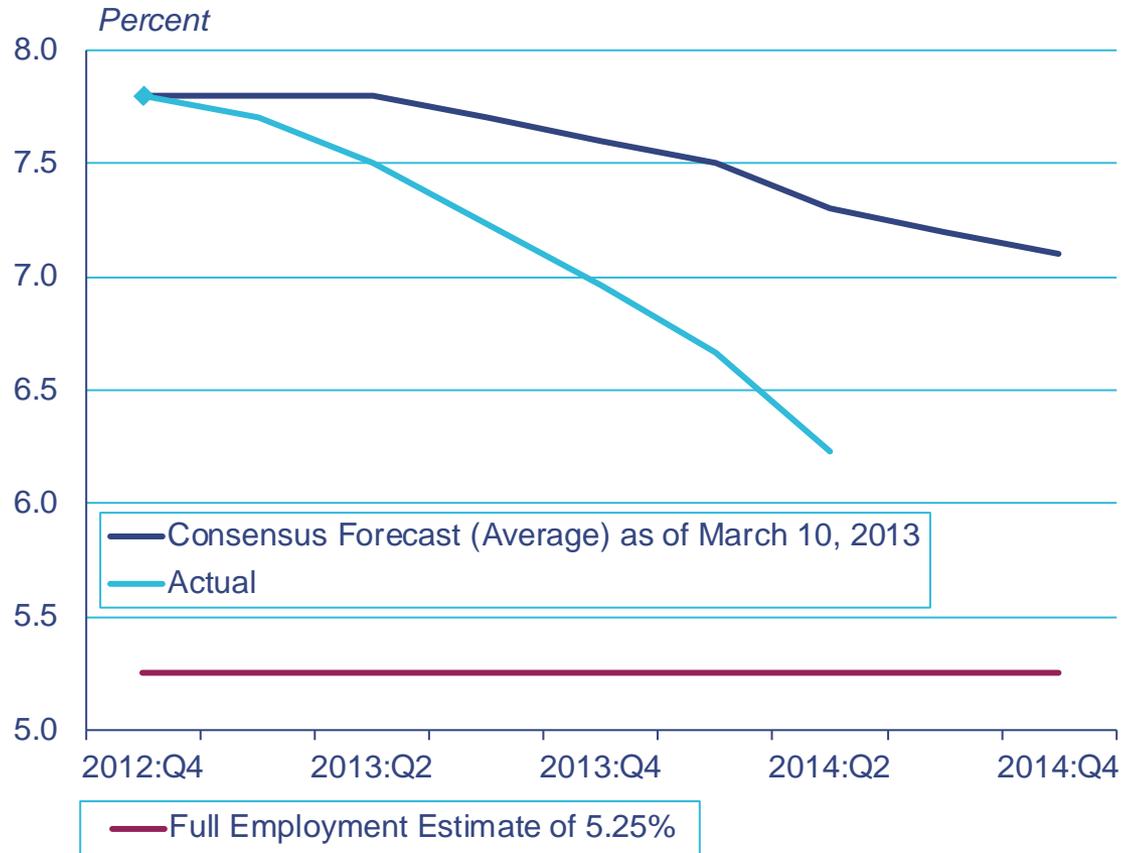
## Figure 3: Blue Chip Forecast for the U.S. Unemployment Rate

Forecast as of August 2014



# Figure 4: Blue Chip Forecast for the U.S. Unemployment Rate and Actual Unemployment Rate

Forecast as of March 2013





## Errors in Unemployment Forecasts (Overestimating Unemployment Rates) – Are They Likely to Persist?

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- ▶ 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
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## Alternative Measures of Labor Market Slack

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- ▶ 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
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# Figure 5: Alternative Measures of Labor Market Slack

January 1994 - August 2014

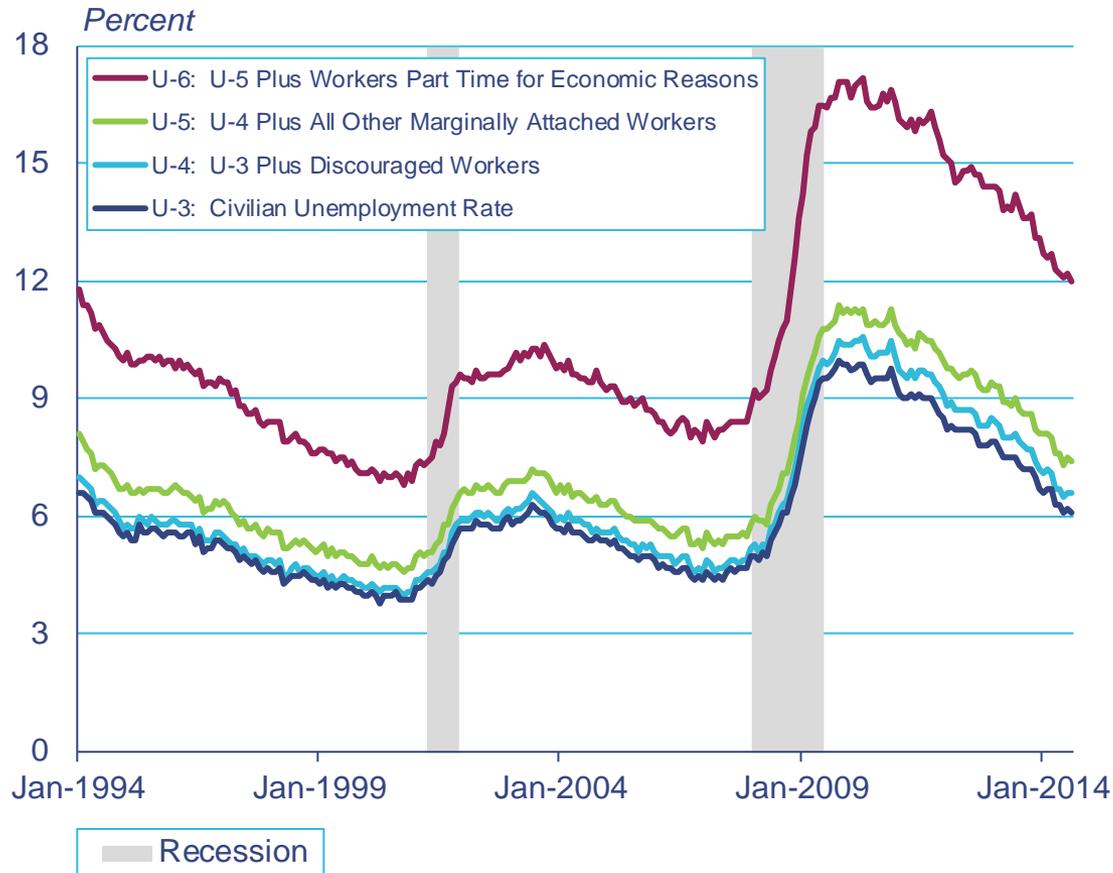




Figure 6: U-3 and Workers Part Time for Economic Reasons: 2014:Q2 Difference from Pre-Recession Average (2005 - 2007)

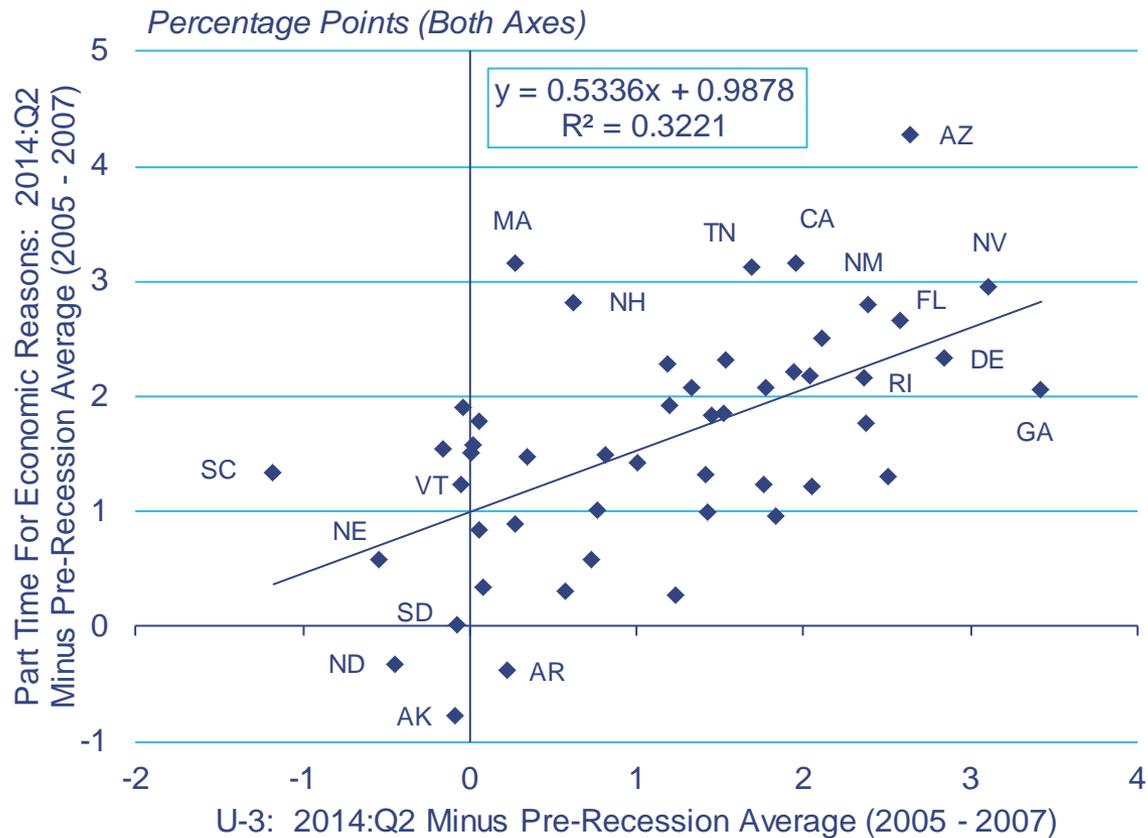
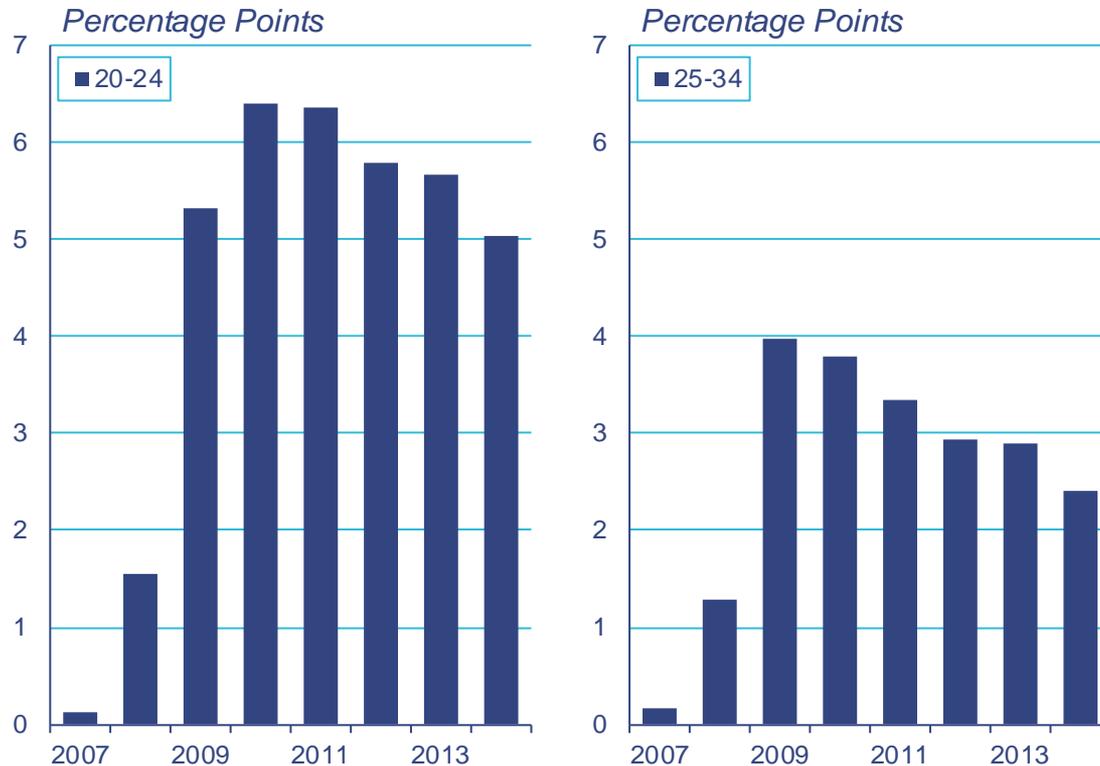


Figure 7: U-3 and Workers Part Time for Economic Reasons: 2014:Q2 Difference from Pre-Recession Average (2005 - 2007)

	Part Time for Economic Reasons	Unemployment Rate (U-3)
Measured in Percentage Points	Number of States	Number of States
Below Pre-Recession Average	3	8
Close to Pre-Recession Average (0 - 0.5 Percentage Points Above)	4	9
Just Above Pre-Recession Average (0.5 - 1.0 Percentage Points Above)	6	5
Below or 0 - 1 Percentage Points Above Pre-Recession Average	13	22
1 - 2 Percentage Points Above Pre-Recession Average	19	16
2 - 3 Percentage Points Above Pre-Recession Average	14	10
3 - 4 Percentage Points Above Pre-Recession Average	3	2
4 or More Percentage Points Above Pre-Recession Average	1	0



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

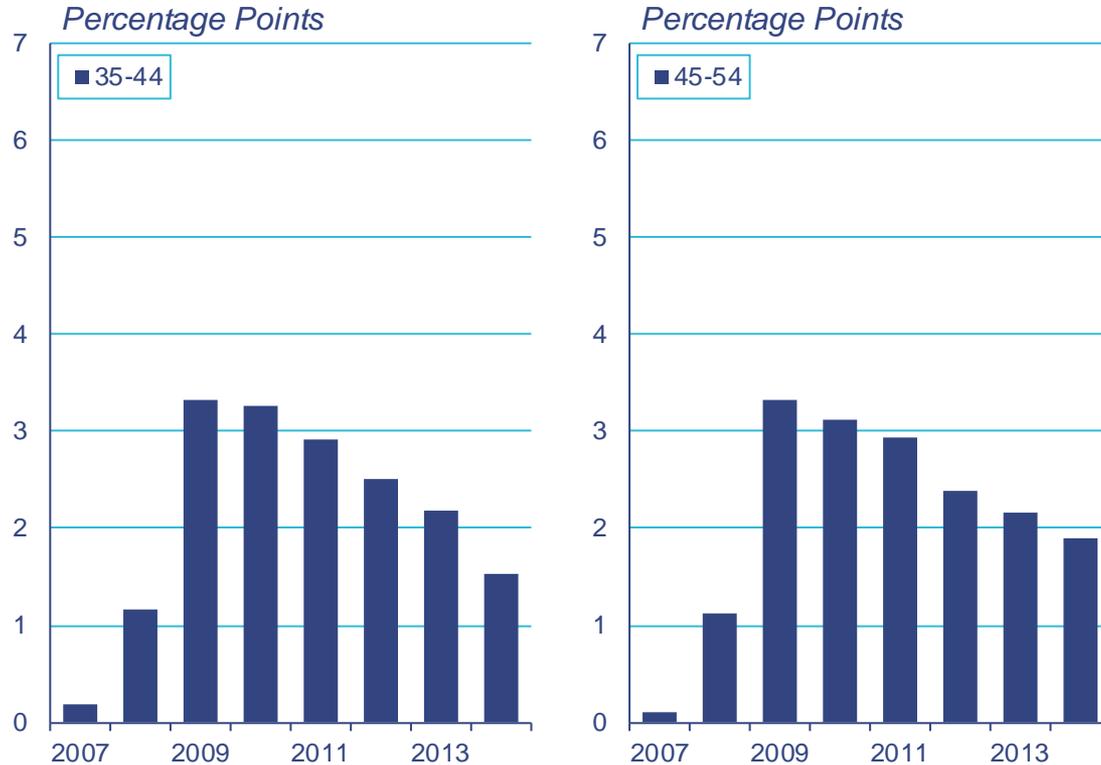


Note: Figures for 2014 are through August.

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

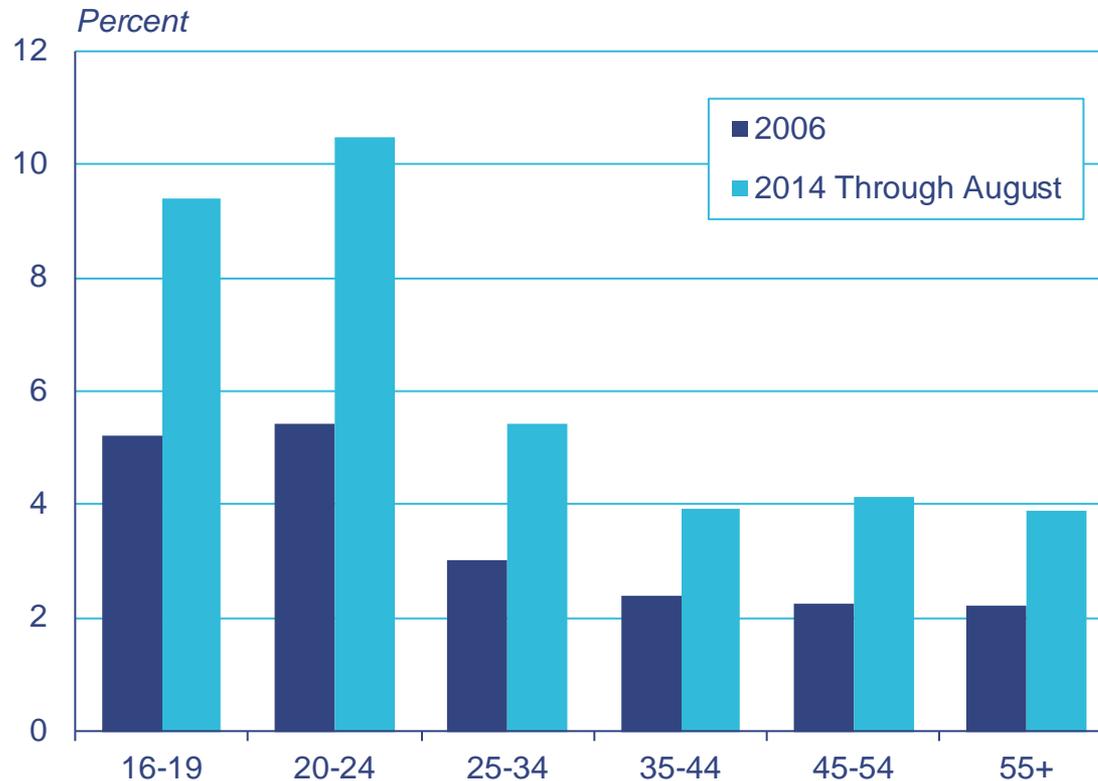


Note: Figures for 2014 are through August.

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

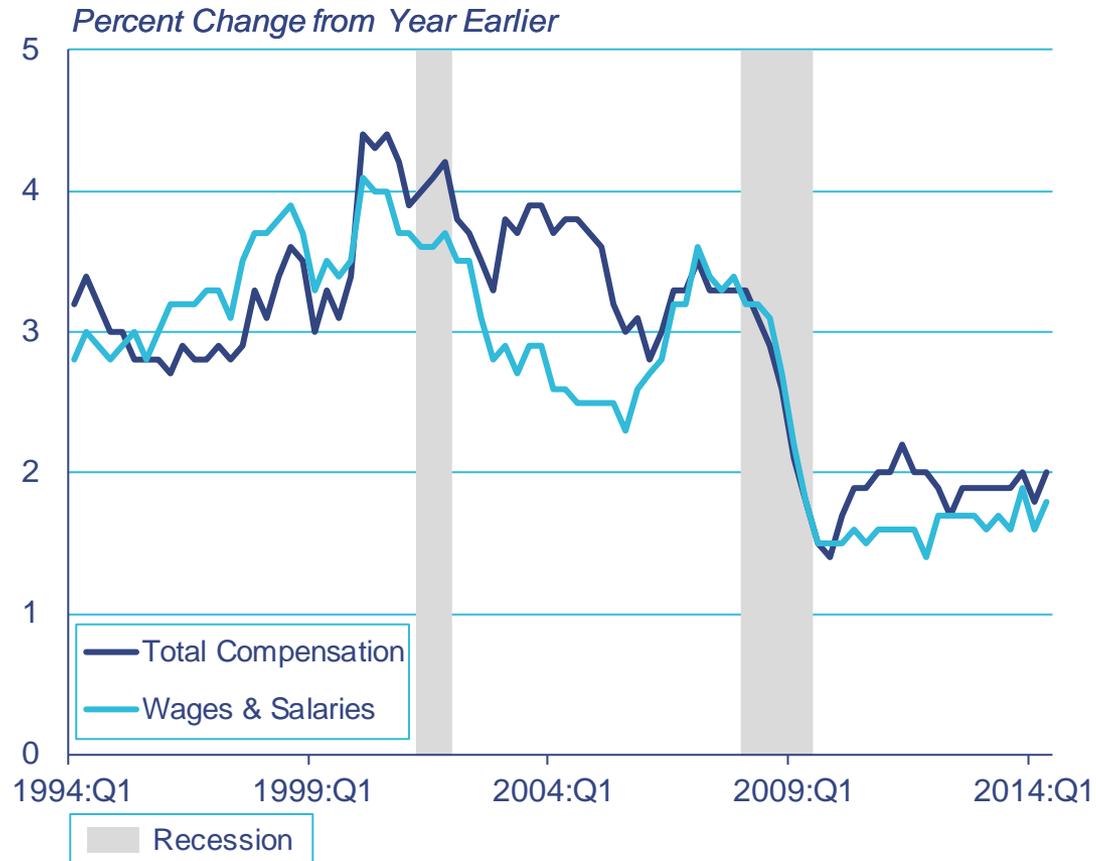


Note: Figures for 2014 are through August.

Source: BLS, CPS, Haver Analytics

# Figure 11: Employment Cost Indices for Civilian Workers

1994:Q1 - 2014:Q2





## Concluding Observations

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- ▶ 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
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