



# Take Five (with Bill Emmons)

“UNDERSTANDING THE UNEMPLOYMENT PICTURE”

Recorded on December 9, 2011

**William R. Emmons**

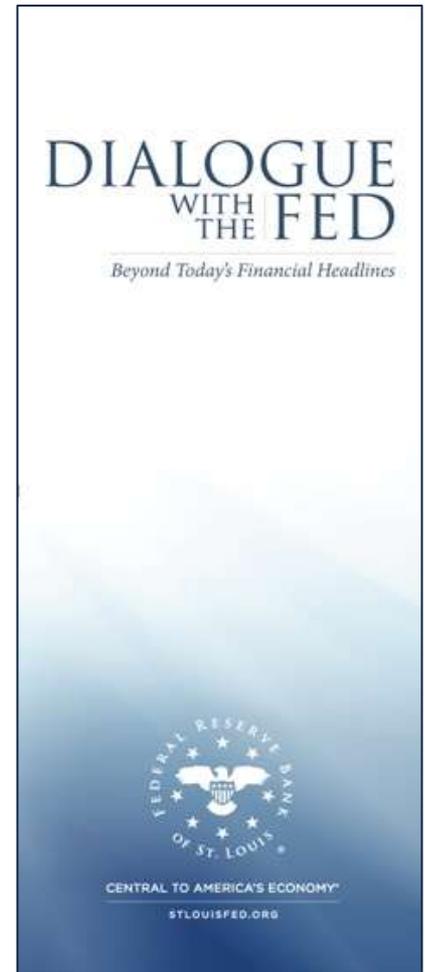
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# Fall 2011 Sessions

- Lessons Learned From the Financial Crisis
  - Julie L. Stackhouse, Senior Vice President
  - Sept. 12, 2011
- Bringing the Federal Deficit Under Control
  - William R. Emmons, Assistant Vice President
  - Oct. 18, 2011
- Understanding the Unemployment Picture
  - Christopher Waller, Senior Vice President
  - Nov. 21, 2011



# November 21: Understanding the Unemployment Picture, presented by Christopher Waller

**Part 1:** The current unemployment picture in the U.S.

**Part 2:** Why isn't unemployment coming down more quickly?

**Part 3:** What can policymakers do?

**Part 4:** Audience questions and comments



# The Current U.S. Unemployment Picture

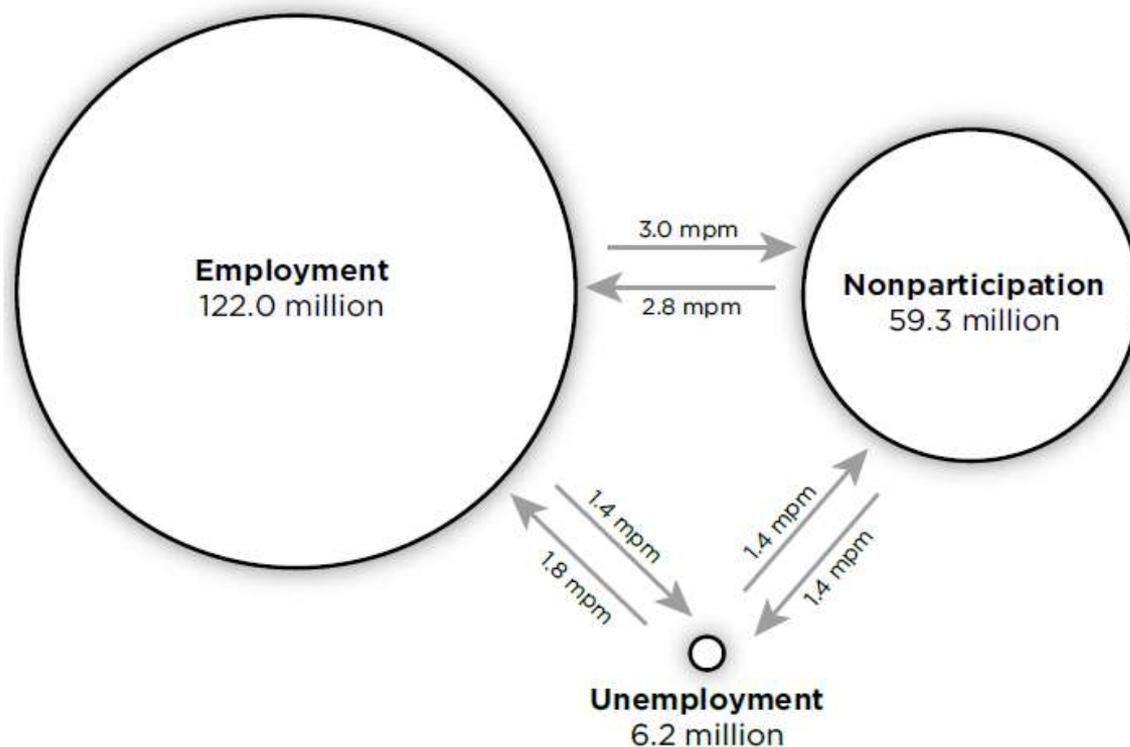
- Unemployment increased sharply between 2007 and 2009, from under 5 percent to over 10 percent.
- Unemployment remains close to 9 percent after two years of economic recovery.
- Hardest-hit groups:
  - Younger workers.
  - Less educated workers.
  - People employed in housing-related and financial sectors.
- High levels of long-term unemployment are a particular concern.



# The Labor Market Is Like a Mighty River: Average Monthly Worker Flows Are Huge, but the Surface Moves Little

## Average Worker Flows 1996-2003

mpm = millions per month



SOURCE: Adapted from Davis, Faberman and Haltiwanger (2006) Figure 1.

# During A Typical Month, 23.6 Million People Moved Between Categories; Net Change Was Only 0.4 Million

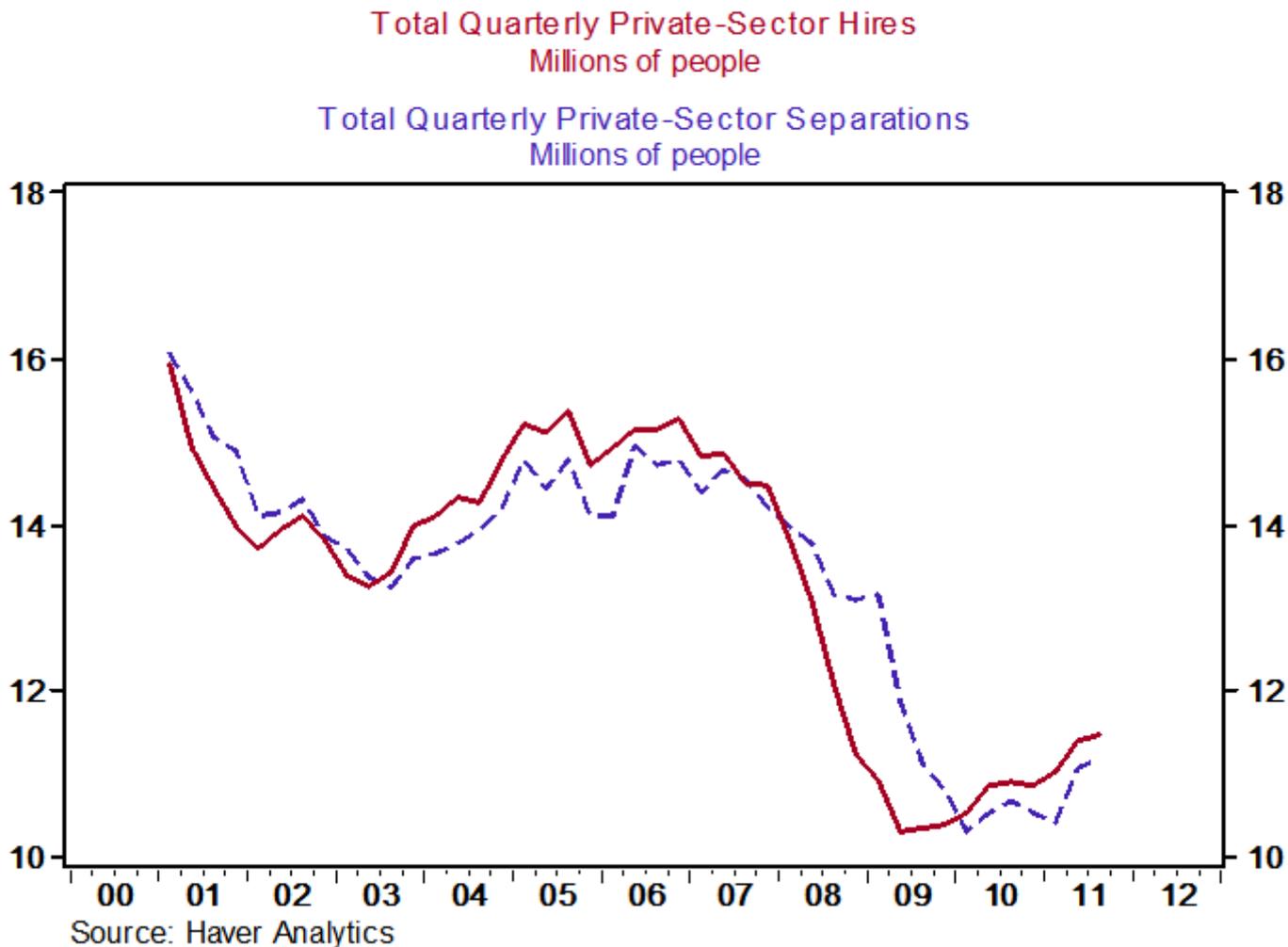
	Levels at the beginning of the month	Number of workers moving into this category during month	Number of workers moving out of this category during month	Levels at the end of the month
	<b>In millions of people</b>			
<b>Employed</b>	121.8	4.6	4.4	122
<b>+ Unemployed</b>	6.6	2.8	3.2	6.2
<b>= Labor force</b>	128.4			128.2
<b>+ Non-participants</b>	59.1	4.4	4.2	59.3
<b>= Population</b>	187.5			187.5
	<b>In percent</b>			
<b>Unemployment rate</b>	5.14			4.84
<b>Employment-to-population ratio</b>	64.96			65.07

# Why Isn't Unemployment Coming Down More Quickly?

- Layoffs and quits (together termed “job separations”) are at low levels.
- But the rate of hiring also remains very low.
- The net result is very little change in the number of unemployed people.



# Separations Are Very Low, Hires Also Remain Low



# The Unemployment Rate Has Declined From a High of 10.1% in Oct. 2009, to 8.6% in Nov. 2011— at Least That’s Good News, Right?

- Not entirely; one reason the unemployment rate has declined is that the number of people looking for work also has declined.
- Between Oct. 2009 and Nov. 2011:
  - 2.3 million fewer people were unemployed.
  - 2.2 million more people were employed.
  - But 4.0 million fewer people were in the labor force (working or looking for work).



# The Employment-to-Population Ratio Is a Better Measure, and it Has Not Improved

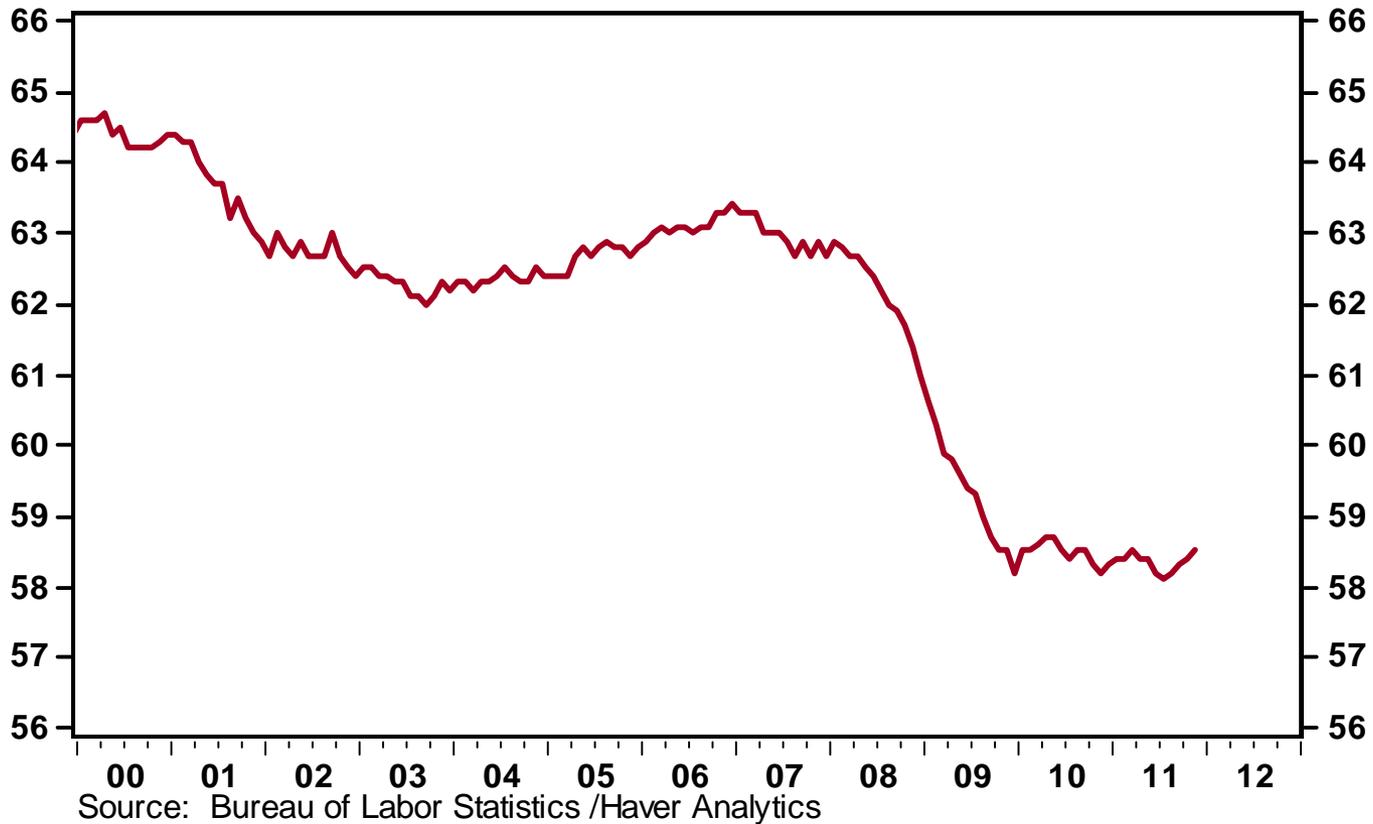
- A better way to track how well the labor market is performing is the employment-to-population (E/P) ratio.
- The E/P ratio was 58.5 percent in both Oct. 2009 and Nov. 2011—that is, on this measure no progress has been made.



# Employment-to-Population Ratio Hasn't Improved

Civilian Employment/Population Ratio of All Persons 16 Years or Older

Percent



# Possible Explanations For the Poor Job Market

- The process of matching workers to jobs isn't working as well as it used to.
- This could be due to skill or geographic mismatches.
- The collapse of the housing bubble could be part of the story.
  - Employment in housing and housing-related sectors has plunged. These workers may not be able to find new jobs in which their skills and experience are valued.
  - House prices fell a lot, reducing consumers' wealth and spending power.
  - Homeowners with mortgages and negative homeowners' equity may be locked into their underwater houses, unable to move for a new job.

# More Explanations For the Poor Job Market

- Weak economic growth, due to household deleveraging and uncertainties about the future, imply that firms are not eager to hire many workers.
- Fast productivity growth allows firms to produce more with fewer workers.
- The existence of unemployment insurance—especially benefits that extend almost two years—may slow down the job-search process for some people.
- Could we be seeing signs of European-style labor-market rigidities that could keep unemployment high for years?



# What Can Policymakers Do?

- The Fed has conducted a very stimulative monetary policy since late 2007.
- Federal budget deficits have run over \$1 trillion for three straight years.
- If the problems are at the level of the individual job-matching process or labor-market rigidities, rather than simply the weakness of the overall economy, then there is little more the Fed or the Federal Government can or should do with monetary or fiscal policy.



# Dialogue With the Fed Sessions

- To view past Dialogue sessions:

<http://stlouisfed.org/dialogue>