

The Outlook for Employment and Unemployment



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***The views expressed are solely my own and are in no way attributable to the Federal Reserve Bank of San Francisco or the Board of Governors of the Federal Reserve System.**

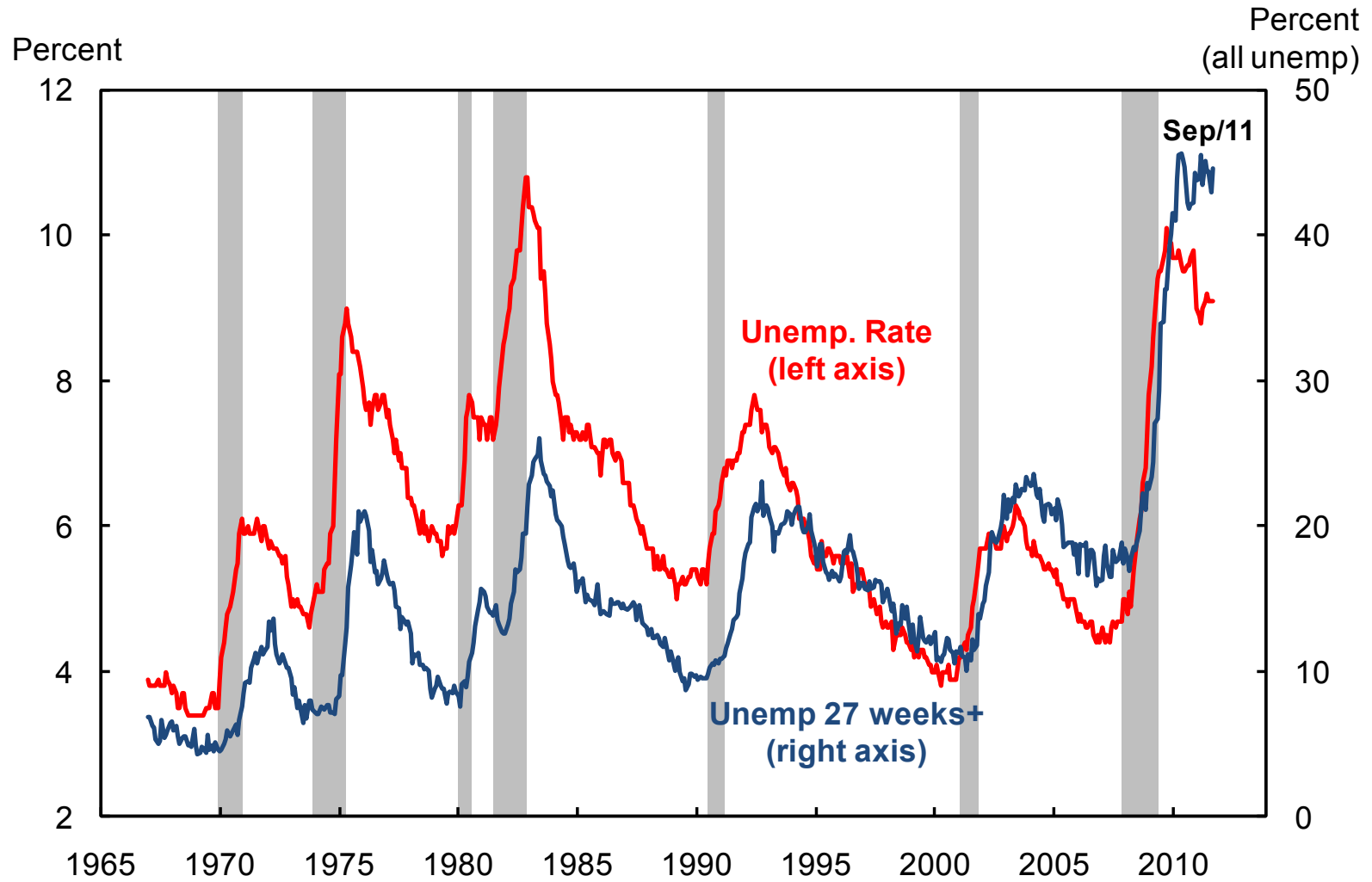
I thank Katherine Kuang for outstanding research assistance.

Overview

- Long-term unemployment: is it structural?
- Recent pickup in job loss
- Look for modest job growth ahead

Long-term unemployment at historic high

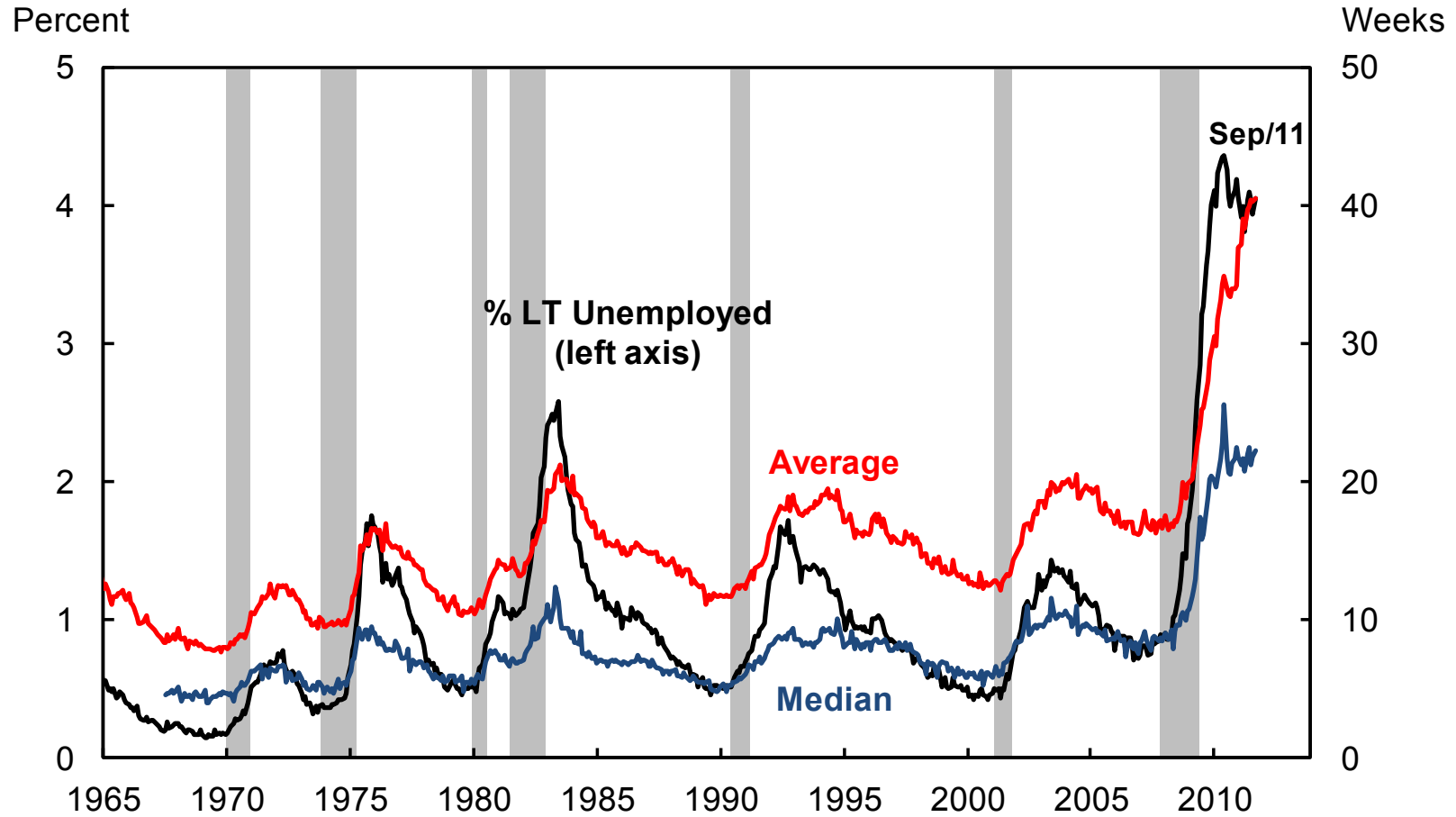
Unemployment Rate and Duration



Source: Bureau of Labor Statistics

Average duration still rising

Measures of unemployment duration



Source: BLS and FRBSF calculations. Percent of long-term unemployed is the number unemployed for >6 months as a share of the labor force.

Is it “Structural?”

Multiple variations on “**structural unemployment**”

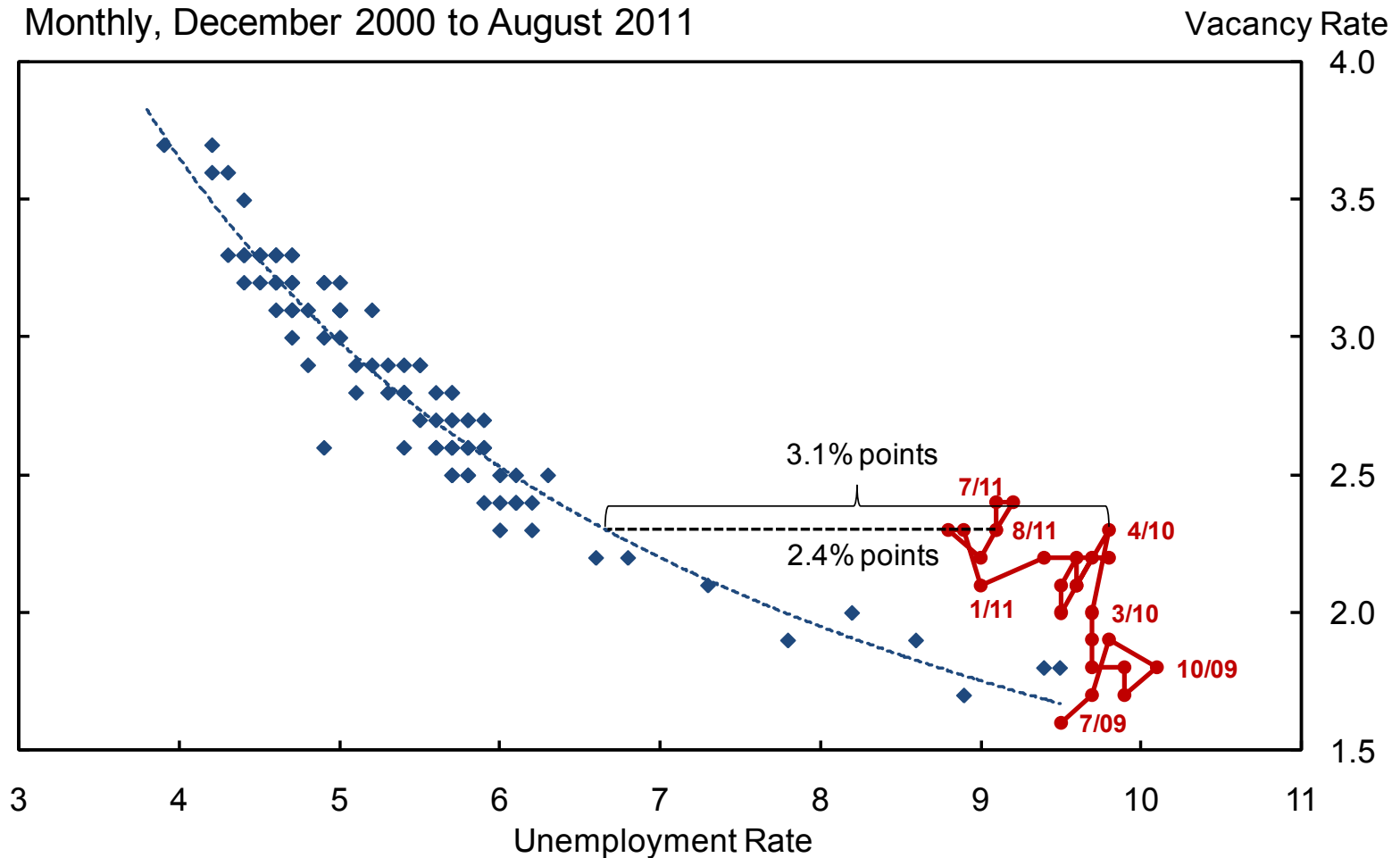
- (1) Often equated with **persistent** (long-term) unemployment; but this **can be cyclical** (disappears as economy recovers)
- (2) **mismatch** between skills/location of workers and jobs (common definition)
- (3) sources of unemployment (other than “frictional”) that contribute to a higher equilibrium “natural rate of unemployment” or **NAIRU** (“non-accelerating inflation rate of unemployment”).

My view: moderate amount of type 3 (currently about 1 percentage point), will largely dissipate (see Daly-Hobijn-Valletta 2011; FRBSF WP 2011-05)

Beveridge Curve suggests mismatch

U.S. Beveridge Curve

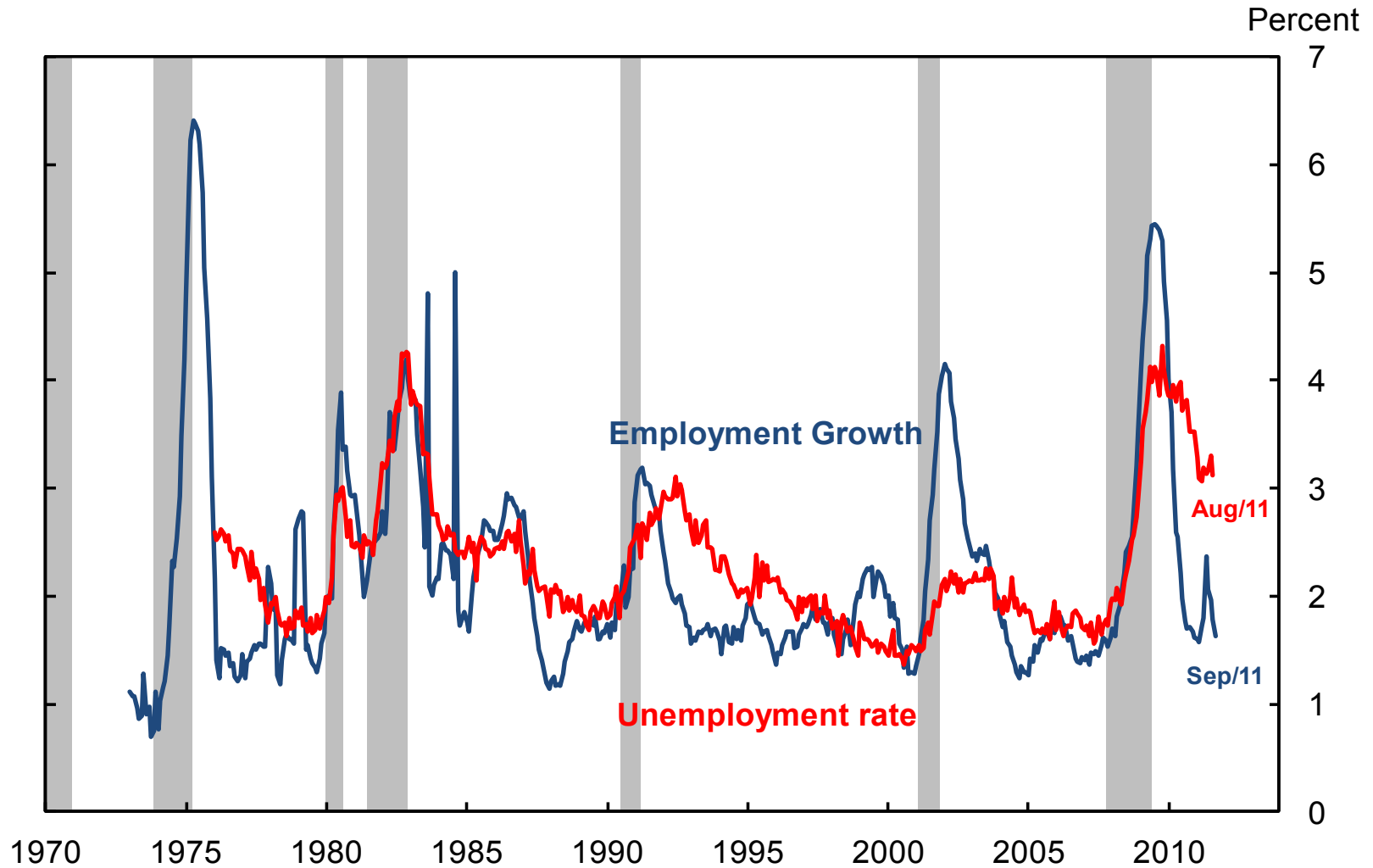
Monthly, December 2000 to August 2011



Source: BLS, JOLTS, and CPS data. Dotted blue series indicates fit of values from December 2000 to June 2009.

Cross-industry dispersion has declined

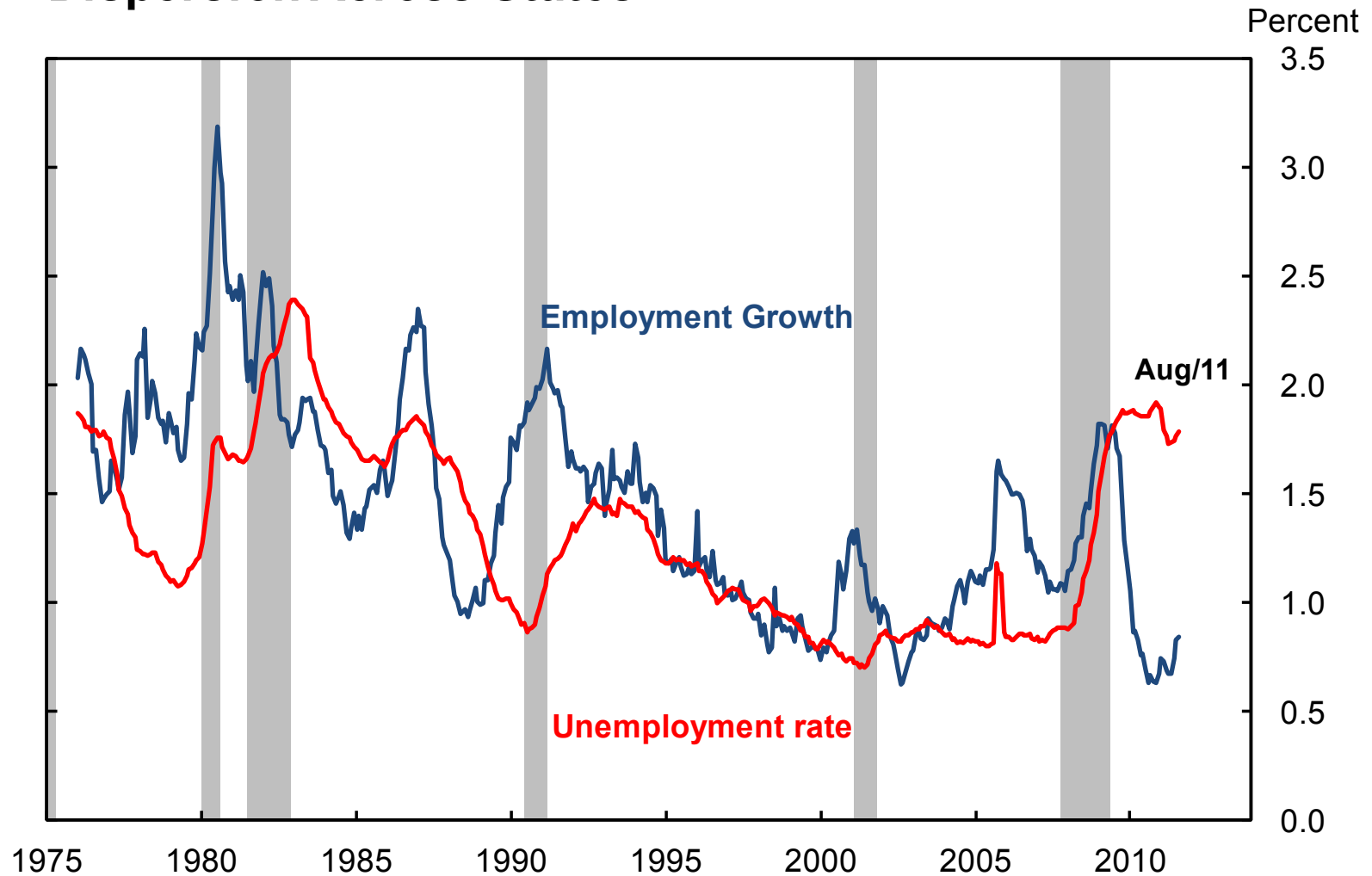
Dispersion Across 15 Major Industries



Source: Bureau of Labor Statistics and FRBSF calculations

Cross-state dispersion also down

Dispersion Across States

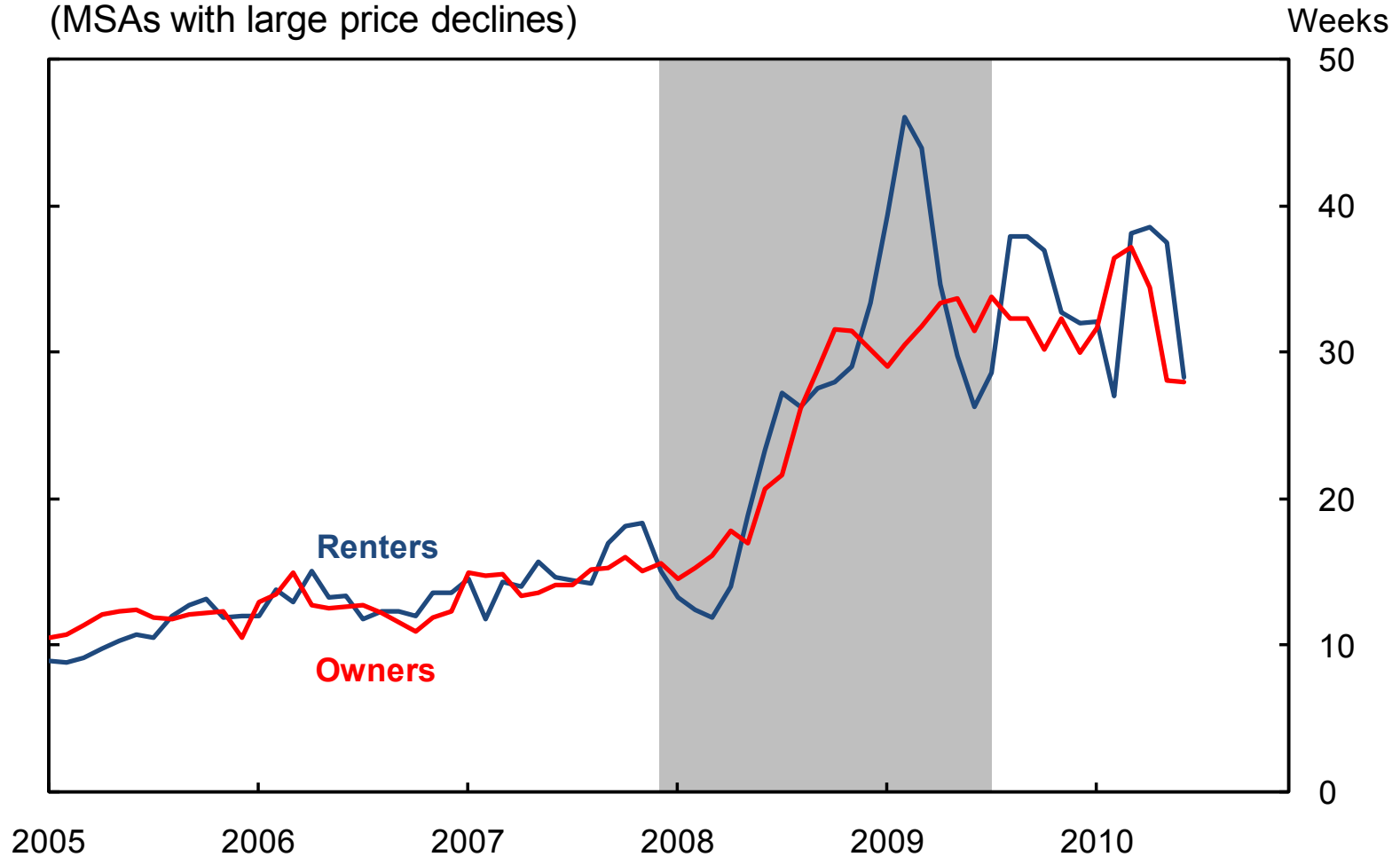


Source: Bureau of Labor Statistics and FRBSF calculations. Series include 50 states plus DC.

Little or no “house lock” effect

Unemp Duration by Home Ownership

(MSAs with large price declines)



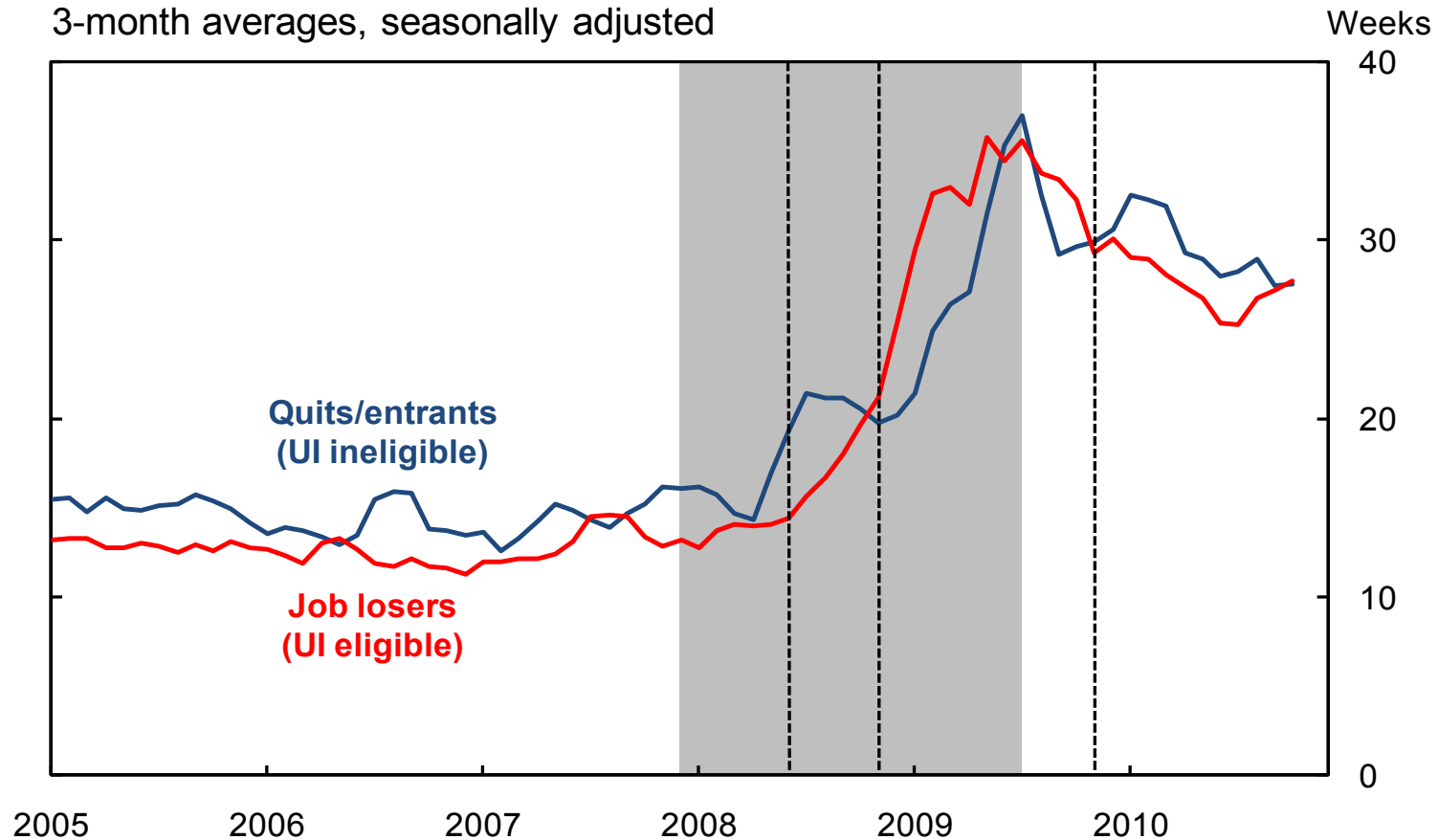
Note: FRBSF calculations from monthly CPS micro data. Duration measured in expected completed form. MSA house prices from FHFA, change measured over 2007-2010Q2.

Moderate effect of UI extensions

UI extended up to max of 99 weeks in Nov. 2009
(Effect on unemp duration and rate: maxed ~0.5-1.0 p.p.)

Unemployment Durations, by UI Eligibility

3-month averages, seasonally adjusted

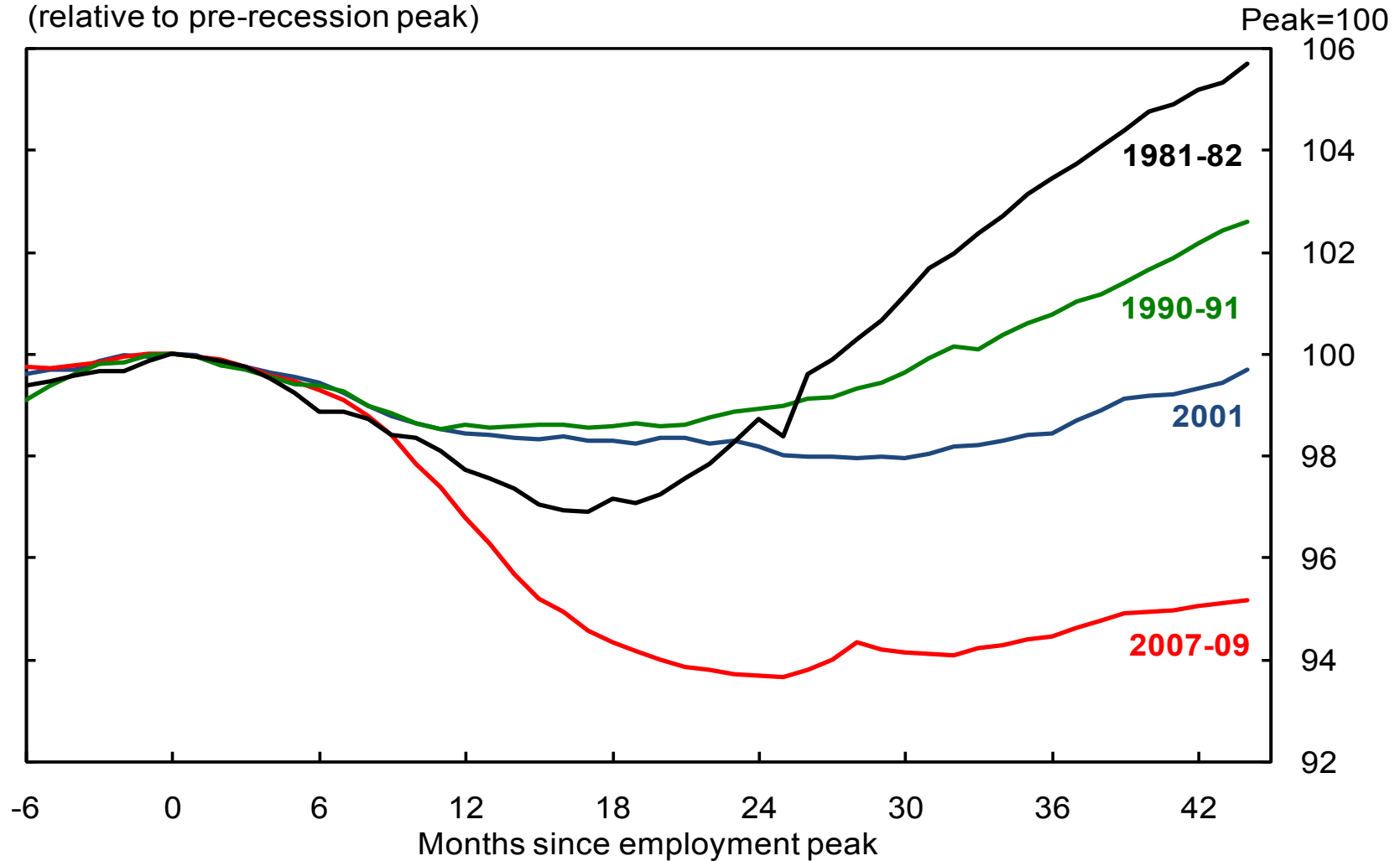


Note: FRBSF calculations of expected completed duration from CPS micro data.
Dashed vertical lines indicate effective dates for expansions of maximum UI duration under EUC08 and EB.

Main cause of LT unemp: huge job loss...

Nonfarm Payroll Employment: 4 Recessions

(relative to pre-recession peak)

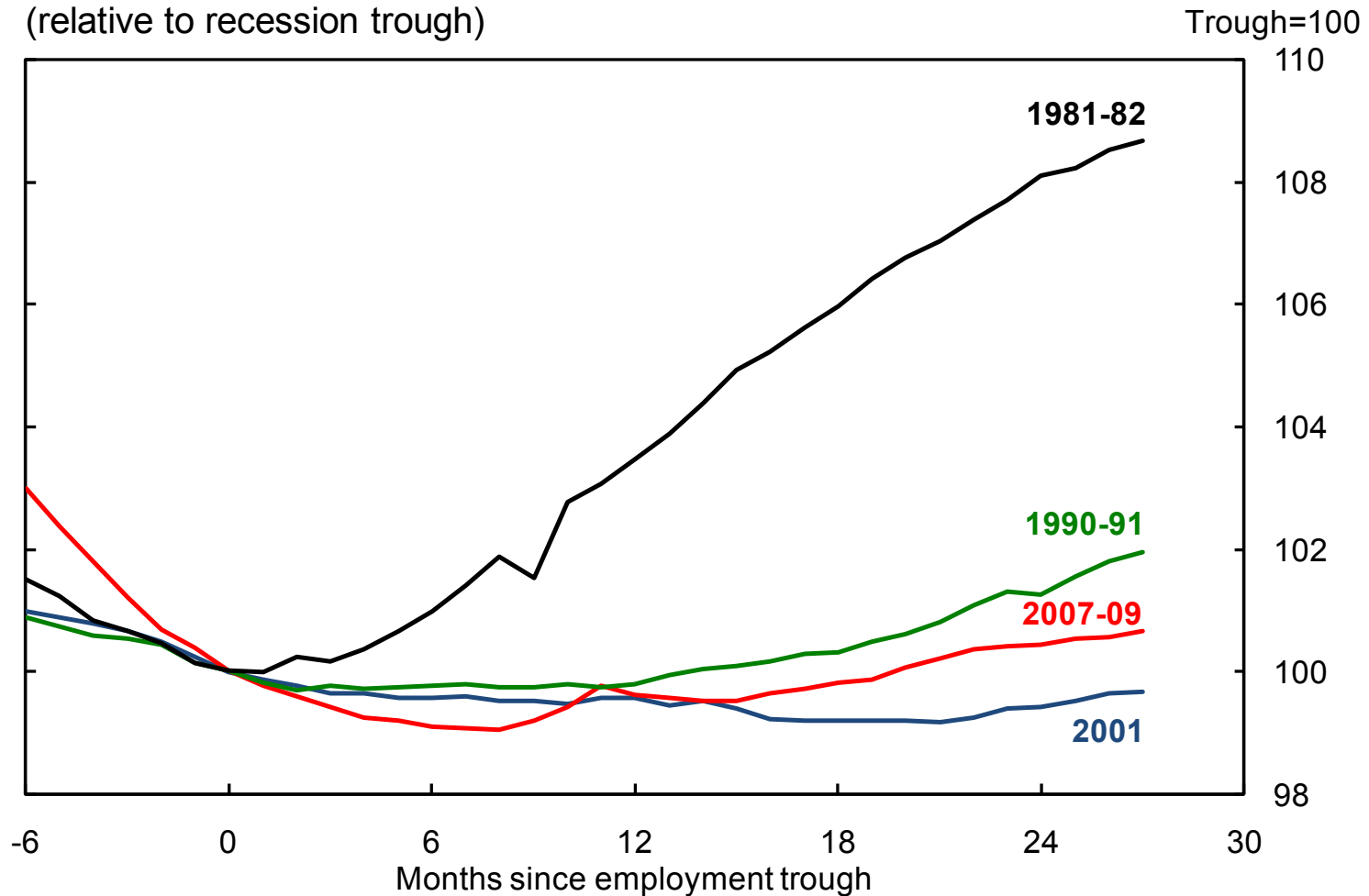


Source: Bureau of Labor Statistics

....followed by jobless recovery

Nonfarm Payroll Employment: 4 Recessions

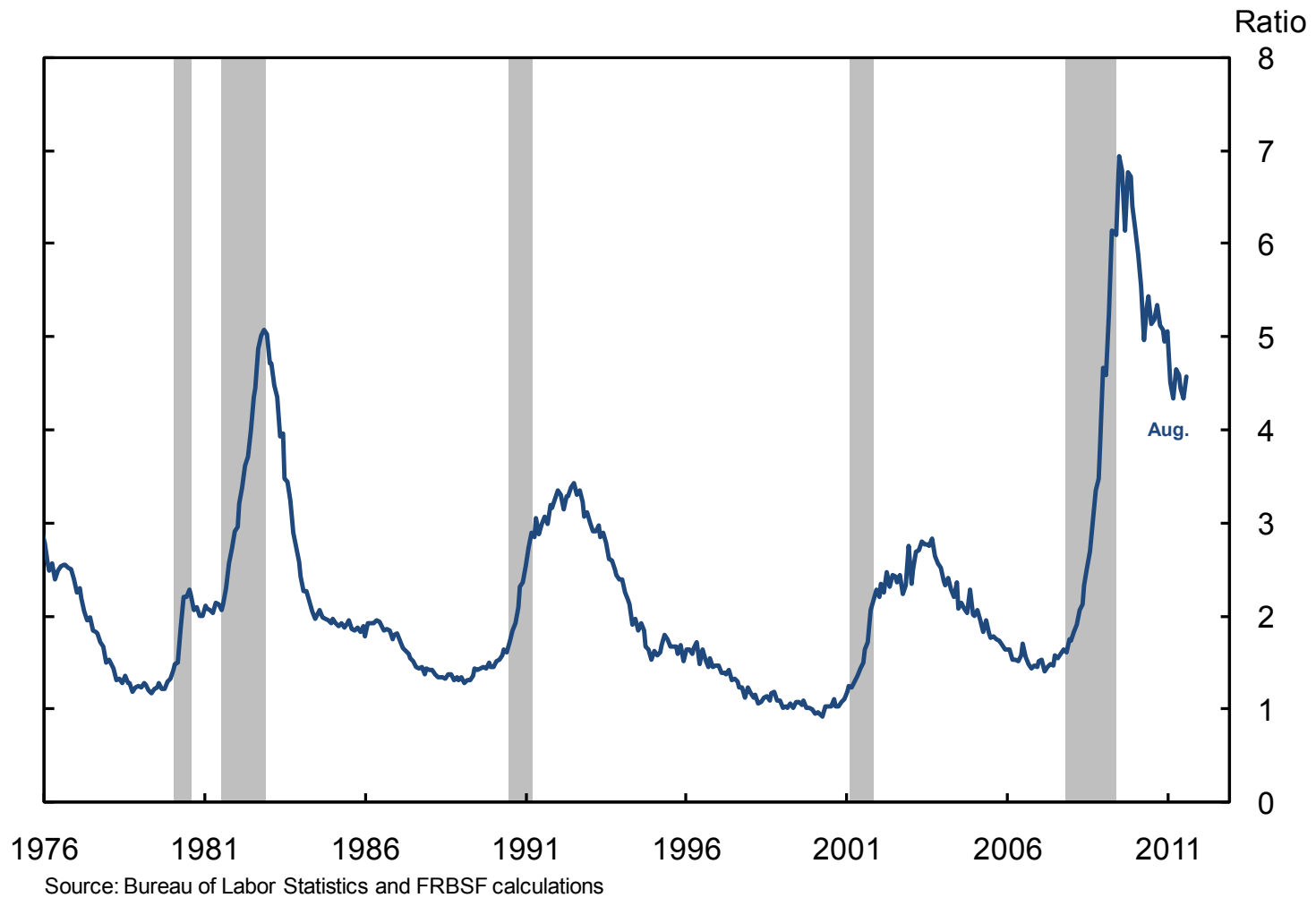
(relative to recession trough)



Source: Bureau of Labor Statistics

Net labor demand still weak

Ratio of Unemployment to Vacancies



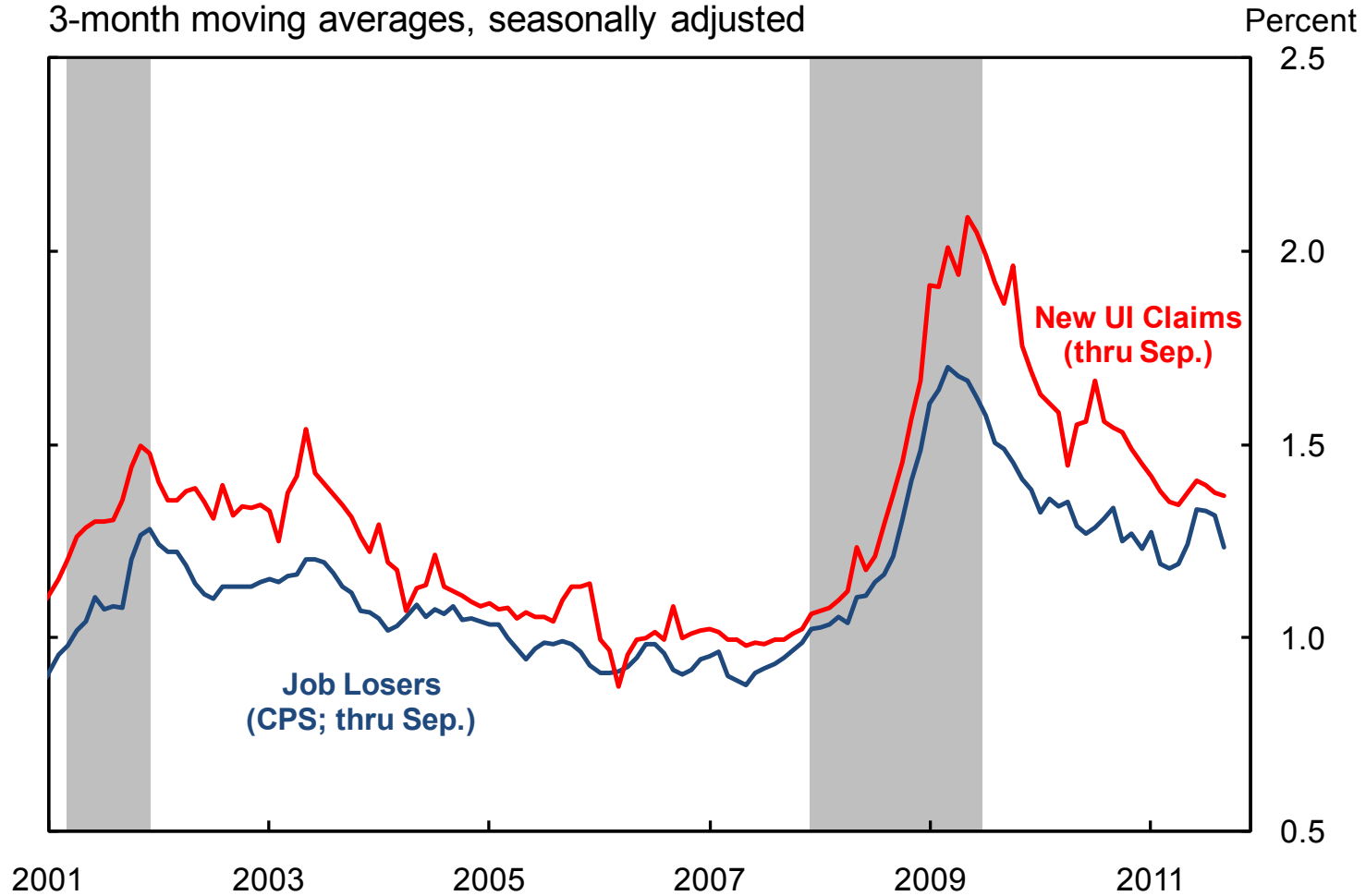
Bottom line re structural: should be able to re-attain 5-6% unemployment

How about recent developments?

Recent increase in job loss

Monthly Layoff Rates (% of payroll employment)

3-month moving averages, seasonally adjusted

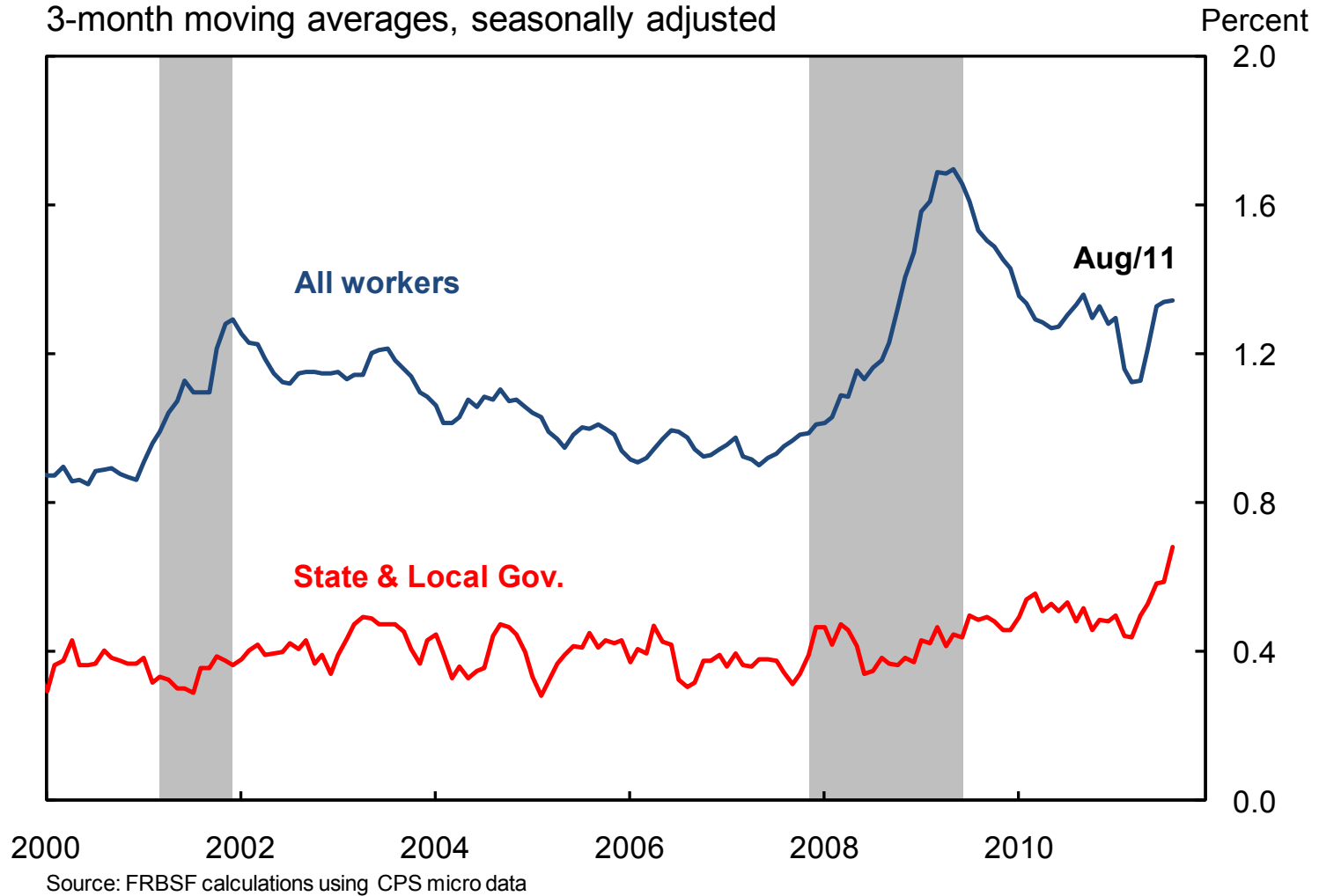


Source: Department of Labor, Bureau of Labor Statistics, and FRBSF calculations

S&L government layoffs up recently

CPS Layoff Rates

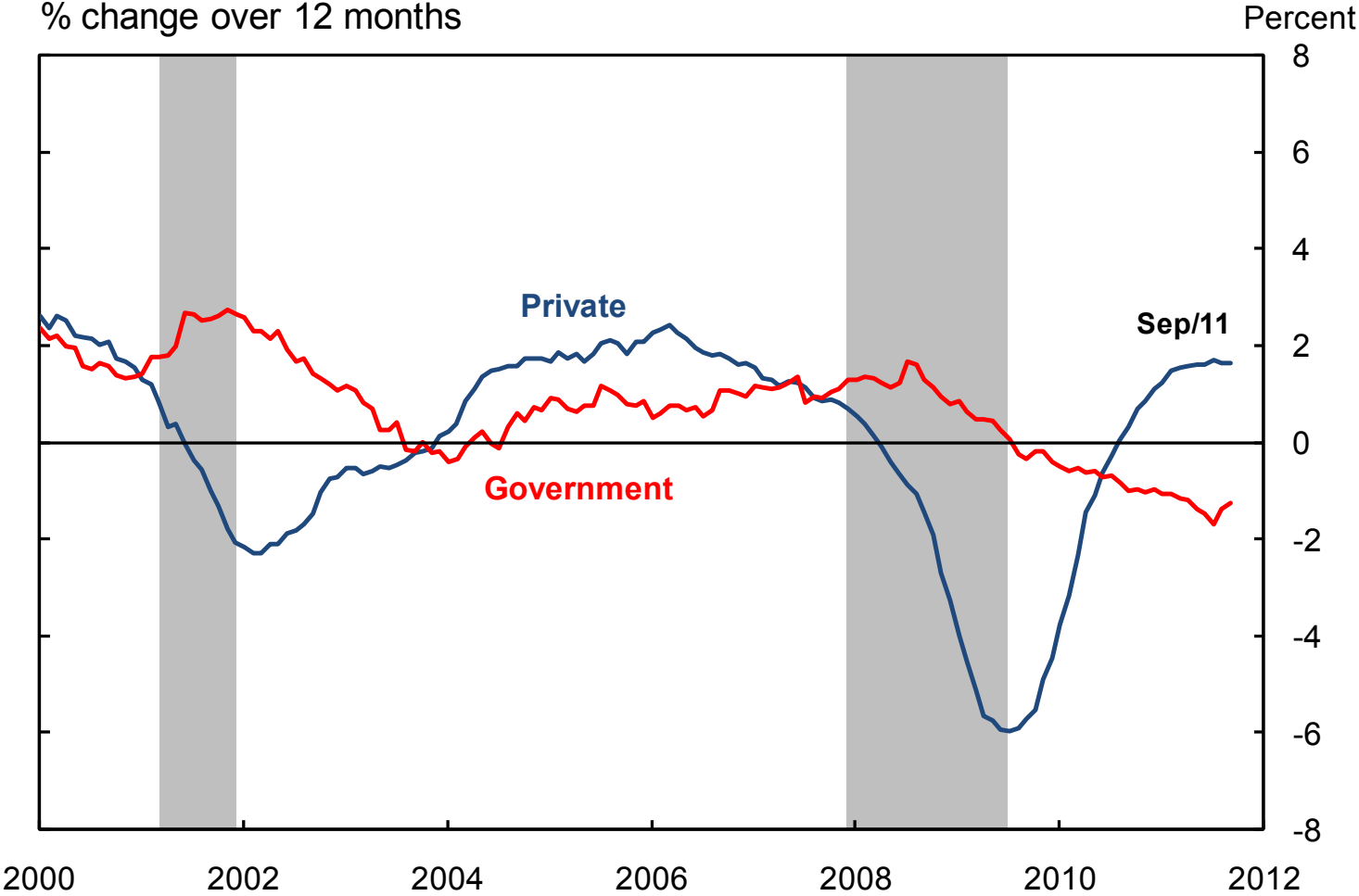
3-month moving averages, seasonally adjusted



Modest net job growth

Payroll Employment

% change over 12 months



Source: Bureau of Labor Statistics. Government excludes temporary Census employees.

Conclusions

- Elevated long-term unemployment largely due to weak aggregate demand
- Short-term employment outlook eased, but moderate growth in private sector jobs expected
 - Offset by government job losses