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CBPP STATEMENT

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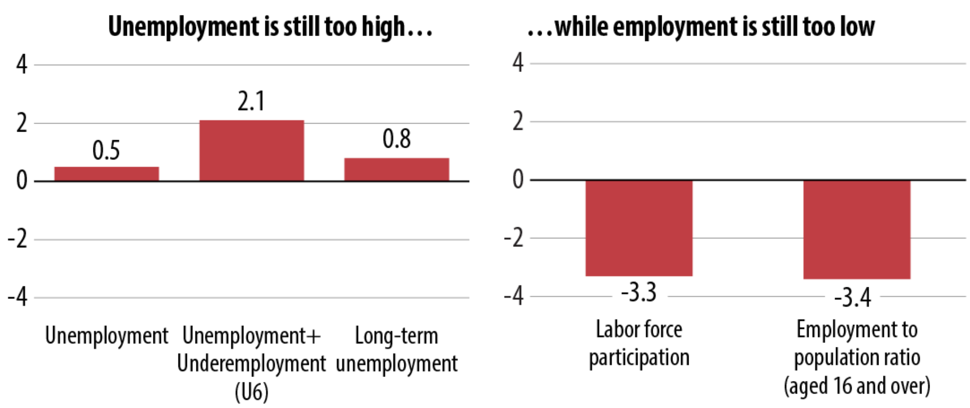
Statement by Chad Stone, Chief Economist, on the March Employment Report

Today's lackluster employment report shows that despite substantial job market improvements over the last year or so, the Federal Reserve should not yet start raising interest rates to prevent the economy from overheating and producing unacceptable inflation. There's still too much labor market "slack" (too many people who want to work, or to work more hours) for the Fed to shift its chief concern to the risk of too much inflation (see chart).

FIGURE 1

Labor Market Slack* Persists Long After Recession's End

Difference between December 2007 start of recession and March 2015 values of selected labor market measures (percentage points)



*Labor market slack refers to a situation in which an abnormally large number of people who would like to work aren't working or people with a job are not working as many hours as they would like.

Notes: Employment-Population Ratio and Labor Force Participation Rate are for people aged 16 and over. The Bureau of Labor Statistics defines U6 as " 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: CBPP calculations from Bureau of Labor Statistics data.

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As experts increasingly recognize — and as former Fed Chairman Ben Bernanke reiterated at this week's CBPP Full Employment project event — reductions in the unemployment rate do not fully reflect how close we're getting to full employment.

The unemployment rate does not, for example, account for hidden unemployment that arises when people who want to be working and likely would be working in a full-employment economy have stopped looking and thus dropped out of the labor force. Nor does it account for underemployment that arises when people want to work full-time job but can only find part-time work. The labor department's "U6" measure of unemployment and underemployment in the chart includes some of the hidden unemployed — those who say they want work and are available for work but haven't looked recently enough to be counted as officially unemployed. But it doesn't include many more who might be lured back into the labor force by the higher wages and greater job opportunities that a full employment economy likely would generate.

Some of the decline in labor force participation since the December 2007 start of the Great Recession and the resulting decline in the share of the population with a job reflects demography, as baby boomers age into their retirement years and swell the non-working population. But it's hard to know how much a "high pressure" labor market like we last saw in the late 1990s — when jobs were plentiful and employers were competing for workers rather than workers competing against one another for jobs — would reverse the decline in the employment-to-population ratio.

The Fed has a dual mandate to pursue both maximum employment and stable prices, but, in today's environment, the large benefits from continuing to focus on achieving full employment outweigh any risks that uncontainable inflation will break out.

About the March Jobs Report

Employers reported only moderate payroll job growth in March. In the separate household survey, the unemployment rate remained at 5.5 percent, but labor force participation declined slightly.

- Private and government payrolls combined rose by 126,000 jobs in March, while job growth in the previous two months was revised down by 69,000. Private employers added 129,000 jobs in March, while overall government employment fell by 3,000. Federal government employment fell by 2,000, state government fell by 4,000, and local government rose by 3,000.

- This is the 61st straight month of private-sector job creation, with payrolls growing by 12.1 million jobs (a pace of 199,000 jobs a month) since February 2010; total nonfarm employment (private plus government jobs) has grown by 11.5 million jobs over the same period, or 189,000 a month. Total government jobs fell by 578,000 over this period, dominated by a loss of 361,000 local government jobs.

- The job losses incurred in the Great Recession have been erased. There are now 3.3 million more jobs on private payrolls and 2.8 million more jobs on total payrolls than at the start of the recession in December 2007. Because the working-age population has grown since then, the number of jobs remains well short of what is needed to restore full employment. But growth must pick up from March's pace to something like 200,000 or more a month to close the gap in a reasonable period of time.

- Average hourly earnings on private nonfarm payrolls rose by 7 cents in March to $24.86. Over the last 12 months they have risen by 2.1 percent. For production and non-supervisory workers, average hourly earnings rose by 4 cents to $20.86 —1.8 percent higher than a year earlier.

- The unemployment rate remained 5.5 percent in March — still 0.5 percentage points higher than it was at the start of the recession — and 8.6 million people were unemployed. The unemployment rate was 4.7 percent for whites (0.3 percentage points higher than at the start of the recession), 10.1 percent for

African Americans (1.1 percentage points higher than at the start of the recession), and 6.8 percent for Hispanics or Latinos (0.5 percentage points higher than at the start of the recession).

- The recession drove many people out of the labor force, and the ongoing lack of job opportunities kept many potential jobseekers on the sidelines and not counted in the official unemployment rate. That pattern is evident in today's data. While the number of unemployed shrank by 130,000 in March, the number of people with a job rose by only 34,000. In other words, on net, a large share of the drop in unemployment took the form of a decline in the labor force of 96,000 rather than a rise in employment. (The data on household employment and unemployment come from a different survey than those on payroll employment and show considerably more month-to-month variability.)

- The labor force participation rate (the share of the population aged 16 and over in the labor force) edged down to 62.7 percent in March, 3.3 percentage points lower than it was at the start of the recession. The sharp decline in labor force participation during much of the recovery appears over, but prior to recent years, the labor force participation rate hasn't been this low since the 1970s and growth in participation will be needed to restore normal labor market health.

- The share of the population with a job, which plummeted in the recession from 62.7 percent in December 2007 to levels last seen in the mid-1980s and has remained below 60 percent since early 2009, remained at 59.3 percent in March. It was 59.0 percent a year ago.

- The Labor Department's most comprehensive alternative unemployment rate measure — which includes people who want to work but are discouraged from looking (those marginally attached to the labor force) and people working part time because they can't find full-time jobs — was 10.9 percent in March. That's well down from its all-time high of 17.1 percent in April 2010 (in data that go back to 1994) but still 2.1 percentage points higher than at the start of the recession. By that measure, about 17.3 million people are unemployed or underemployed.

- Long-term unemployment remains a significant concern. Almost three in ten (29.8 percent) of the 8.6 million people who are unemployed — 2.6 million people — have been looking for work for 27 weeks or longer. These long-term unemployed represent 1.6 percent of the labor force. Long-term unemployment reached much higher levels and has persisted much longer in the Great Recession and subsequent jobs slump than in any previous period in data that go back to the late 1940s. The worst previous episode was in the early 1980s, when the long-term unemployment share peaked at 26.0 percent (compared with 45.5 percent this time) and the long-term unemployment *rate* peaked at 2.6 percent (compared with 4.4 percent this time). Moreover, in the earlier episode, a year after peaking at 2.6 percent, the long-term unemployment rate had dropped to 1.4 percent, compared with the current rate of 1.6 percent more than five and a half years after the end of the Great Recession.

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