The U.S. Labor Market Recovery

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Paper presented at the 13th Jacques Polak Annual Research Conference
Hosted by the International Monetary Fund
Washington, DC—November 8–9, 2012

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November 2012
The economy has been growing for 13 quarters.

Real GDP, Consumption, and Investment, quarterly percent change
Seasonally Adjusted, 2006-2012

Source: Bureau of Economic Analysis
Office of the Chief Economist
We’ve seen 32 straight months of private sector job growth adding over 5.4 Million jobs
For the private sector, the current recovery is faster than the previous recovery.
Government employment declined in this recovery.

Recovery comparison: government job growth
40 months after official end of the recession

Industries during the recession

Employment in Major Industries
During Employment Downturn, Jan 2008 - Feb 2010
(jobs in thousands)

- Manufacturing: -2261
- Construction: -1952
- Professional and Business Services: -1509
- Retail Trade: -1177
- Leisure and Hospitality: -636
- Wholesale Trade: -583
- Financial Activities: -559
- Transportation and Warehousing: -407
- Information: -290
- Other Services: -205
- Mining and Logging: -71
- Utilities: -2
- Government: 95
- Education and Health Services: 788

Industries during the recovery

Employment in Major Industries
Since Employment Trough, Feb 2010 - October 2012
(jobs in thousands)

Professional and Business Services: 1465
Education and Health Services: 1047
Leisure and Hospitality: 810
Manufacturing: 504
Retail Trade: 438
Transportation and Warehousing: 256
Wholesale Trade: 205
Mining and Logging: 150
Financial Activities: 103
Other Services: 80
Utilities: 11
Construction: 10
Information: -108
Government: -460

Unemployment has fallen by 2.1 percentage points
Gross job gains and losses trending down

Gross job gains and gross job losses, 1992 to 2011

Source: Bureau of Labor Statistics, Business Employment Dynamics program
Layoffs are back to 2007 levels

JOLTS Layoffs and Discharges, and MLS UI Claims, Seasonally Adjusted, 2006-2012

- Layoffs and Discharges (in thousands)
- Initial claims in mass layoffs (in thousands)
- Recession
- JOLTS layoffs (left)
- Mass layoffs total initial claimants (right)
Inflows and outflows from unemployment

Flows into and out of unemployment, 1990 to 2012

Office of the Chief Economist
U-to-V ratio is substantially down

Number of unemployed per job opening,
Seasonally Adjusted, 2006-2012

The Beveridge Curve

The Beveridge Curve (job openings rate vs. unemployment rate)
Seasonally adjusted

Job Openings Rate

Unemployment Rate

Dec '00
Mar '01
Dec '07
Nov '01
Sep '12
June '09

Dec '00-Feb '01
Mar '01-Nov '01 (Recession)
Dec '01-Nov '07
Dec '07-Jun '09
Jul '09-Sep '12

Office of the Chief Economist
How much of the unemployment is cyclical and how much structural?

- Substantial drop in U-to-V, but remains above pre-recession levels.

1. Okun’s law estimates show that 63% of the rise in unemployment during the recession could be explained by the drop in GDP and 57% of the drop in unemployment during the recovery could be explained by a rise in GDP and the rest by other factors.

2. Estevao and Tsounta (2011) show that much of the change in state unemployment rates can be explained by changes in GSP and only about 0.5 percentage point of the increase in NAIRU due to skills gaps.
How much of the unemployment is cyclical and how much structural?

3. Sahin et al. (2011) estimate matching functions and find that mismatches account for between 0.8 and 1.4 p.p. of the recent rise in unemployment.

4. In 2012, 17% of businesses reported they were unable to fill up a job opening compared to 26% in 2007 and 41% report not finding qualified applicants in 2012 compared to 43% in 2007.

5. If there were substantial mismatches in certain sectors, then we should find that sectors with increases in their u-to-v ratios should face upward pressures on wages. However, I find little evidence that a relationship between changes in u-to-v and wage growth.
Long-term unemployment

Incidence of Long Term Unemployed

Oct 2012 - Long term Unemployed
5.0 million people
40.6% of unemployed population

In this recession, older workers are out of work longer

The duration of unemployment has increased the most for older workers with middle levels of education and has changed the least among younger workers with more education.

Median duration of unemployment in weeks, by age and education 2007 and 2011

Red 16-24 years old; Green workers 25-54 years old; Blue workers ages 55 and over.

Darker shades represent higher education.

Long-term unemployed return to employment

Flows from unemployment to employment,
12-month moving averages, 1995 to 2012

- 2001 recession period
- 2008-2009 recession period

1995: 23.1% 1 to 26 weeks
2012: 10.6% 1 to 26 weeks
2001: 10.6% 27 weeks or more
2012: 2.9% 27 weeks or more

Office of the Chief Economist
Extensions of emergency unemployment compensation and emergency benefits for the long-term unemployed have benefitted over 17 million unemployed. Why important:

1. Income support important to keep these families afloat (loss of up to 2 and half years of income for displaced over 20 year period), but also multipliers of UI are large ($2 ripple through economy for every $1).

2. Keeps unemployed attached to the labor force and out of disability insurance.
Reforms to the unemployment insurance system to speed up return to work

1. **Eligibility Assessments and Reemployment Assistance**: provides in-person check ins in UI office and provides skills assessments and job search plan – RCT shows reduction in UI spell by 4 weeks.

2. **Self-employment Assistance**: allows unemployed to continue using UI benefits to set up their own business while providing entrepreneurship training.

3. **Short-time Compensation**: employers can reduce hours in lieu of layoffs while allowing workers to claim UI.

4. **UI Demonstrations**: allows the unemployed to claim UI while returning to short-term employment.