

## DALLAS FED RESOURCES

### Economic Updates

**Regional**—"Regional Economy Moderates"

**National**—"Labor Market Improves While Inflation Slumps"

**International**—"Monetary Policy Moves May Revise Listless Global Growth"

### Publications

**Community Banking Connections**

**Dallas Beige Book**  
March 4, 2015 Summary

**Economic Letter**  
"Current Account Surplus May Damp the Effects of China's Credit Boom"

**Southwest Economy**  
"Texas Feels Energy Drain"

### Surveys & Indicators

**Agricultural Survey**

**Texas Business Outlook Surveys**—Manufacturing, Service Sector, Retail

**Texas Economic Indicators**

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## Help Wanted: Looking Beyond the Headline Unemployment Rate

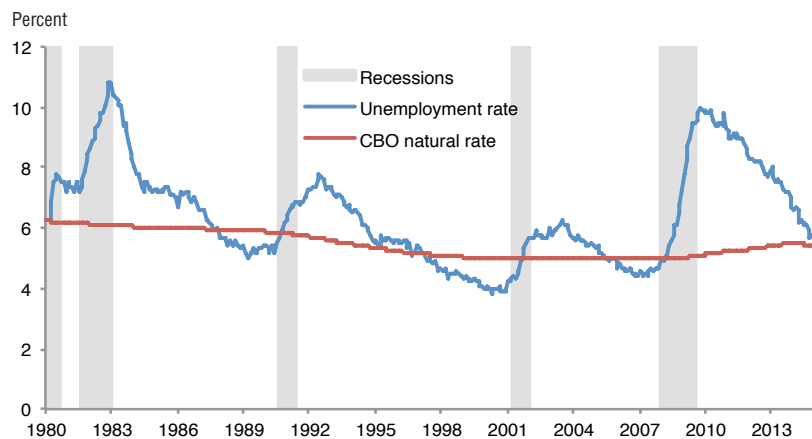
by Thomas F. Siems

During the economic recovery following the 2008–09 Great Recession, the official, or headline, U.S. unemployment rate has fallen steadily. The unemployment rate peaked at 10.0 percent in October 2009 and is now, thankfully, very close to the "natural" rate of unemployment as inferred by the Congressional Budget Office (*Chart 1*). The CBO's natural rate of unemployment is the unemployment rate that corresponds with full employment, meaning no cyclical unemployment and stable wage pressures.<sup>1</sup> The CBO's natural rate of unemployment has ranged between 5 and 6 percent since 1986 and currently stands at 5.4 percent.

The decline in the headline unemployment rate to a level very near the CBO's natural rate is certainly welcome news. But to get a more complete picture of the current U.S. employment situation, one needs to examine additional metrics contained in the Bureau of Labor Statistics' monthly Current Population Survey, also known as the household survey.

According to the BLS, "persons are classified as unemployed if they do not have a job, have actively looked for work the prior four weeks and are currently available for work." Whether an unemployed worker receives unemployment insurance benefits has no bearing on his or her unemployment classification. And because it is too costly and time-consuming to count every unemployed person each month, the unemployment rate is calculated based on monthly telephone surveys to about 60,000 eligible households. The sample is selected so that it is representative of the U.S. population in terms of demographics, income, geography, etc.

**Chart 1** | Headline Unemployment Rate Has Moved Close to the 'Natural' Rate of Unemployment



SOURCES: Bureau of Labor Statistics; Congressional Budget Office.

## CALENDAR OF EVENTS

### April 21

**Cornerstone Credit Union League—Dallas Chapter**  
Dallas, Texas

### April 22

**North Panhandle Bankers Association**  
Borger, Texas

### April 23

**Banker Roundtable**  
Amarillo, Texas

### April 28

**Banker Roundtable**  
Corsicana, Texas

### May 5

**Banker Roundtable**  
Sulphur Springs, Texas

### May 12

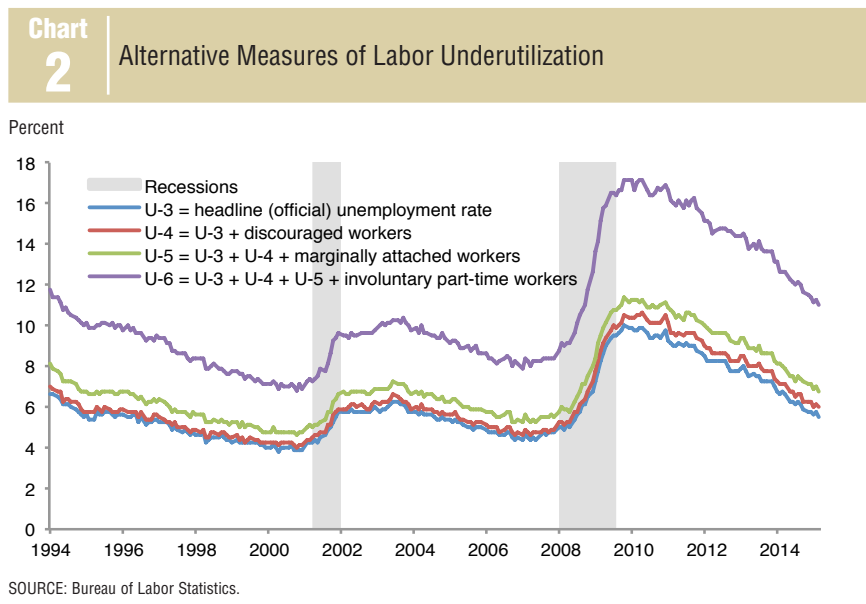
**Pineywoods Chapter of Credit Unions**  
Lufkin, Texas

### May 12

**Banker Roundtable**  
Lufkin, Texas

For more information about these events, email FIRM at [Dallas\\_Fed\\_Firm@dal.frb.org](mailto:Dallas_Fed_Firm@dal.frb.org).

Chart 2 shows several alternative measures of labor underutilization calculated by the BLS. These alternative unemployment rates can be used to shed additional light on the overall employment picture. For example, discouraged workers—individuals who had not looked for work in the prior four weeks because they believed no jobs were available to them—are included in the U-4 measure but not in the U-3 measure (the headline/official unemployment rate). Likewise, marginally attached workers—individuals who did not look for work in the past four weeks for whatever reason—are included along with discouraged workers in the U-5 measure. The U-6 measure adds to the discouraged workers and other marginally attached workers all involuntary part-time workers, that is, individuals who are working part-time for economic reasons but are available and willing to work more hours.



While these measures all move generally together through the business cycle, the gaps between the various measures can help explain the degree of would-be job-seeker discouragement or underemployment at different times, as well as reflecting policies that might benefit a group with a particular status. For example, the average difference between the U-3 and U-5 measures in the 10 years prior to the Great Recession was 0.9 percentage points (ranging from 0.7 to 1.1), whereas over the past year the gap has averaged 1.3 percentage points (ranging from 1.2 to 1.4). This increase suggests that the economy has more discouraged and marginally attached workers now than in the decade before the last recession.

Similarly, the difference between the U-3 and U-6 rates has risen from an average 3.6 percentage points (ranging from 2.9 to 4.3) in the 10 years before the Great Recession to an average 5.8 percentage points (ranging from 5.5 to 6.1) over the past year, meaning that underemployment, persons working part-time but desiring full-time work, is also more of an issue now than before the financial crisis. In fact, there are currently an estimated 6.6 million workers employed part-time for economic reasons. Taken together, the current level and percentage of marginally attached workers and underemployed workers may indicate that there is more room for improvement in the labor market than the headline unemployment rate might suggest.

It is also instructive to examine unemployed persons by duration of unemployment. Chart 3 shows that there was an unprecedented increase in the percentage of unemployed persons with very long durations of unemployment (individuals out of work 27 weeks or more). Certainly, extending jobless benefits during the Great Recession drove up the number of long-term

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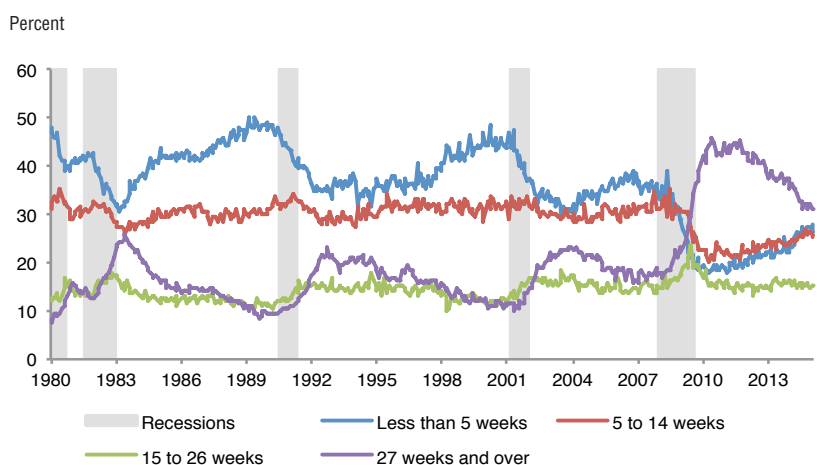
*Financial Insights* is published periodically by FIRM – Financial Institution Relationship Management – to share timely economic topics of interest to financial institutions.

FIRM was organized in 2007 by the Federal Reserve Bank of Dallas as an outreach function to maintain mutually beneficial relationships with all financial institutions throughout the Eleventh Federal Reserve District. FIRM’s primary purpose is to improve information sharing with district financial institutions so that the Dallas Fed is better able to accomplish its mission. FIRM also maintains the Dallas Fed’s institutional knowledge of payments, engaging with the industry to understand market dynamics and advances in payment processing.

FIRM outreach includes hosting economic roundtable briefings, moderating CEO forums hosted by Dallas Fed senior management, leading the Dallas Fed’s Community Depository Institutions Advisory Council (CDIAC) and Corporate Payments Council (CPC), as well as creating relevant webcast presentations and this publication. In addition, the group supports its constituents by remaining active with financial trade associations and through individual meetings with financial institutions.

unemployed and aggravated this problem. But this cohort is still the largest group by duration of unemployment, with roughly 2.7 million individuals and representing more than 30 percent of the total unemployed population. In an economy that demands increasingly higher levels of education and skills, the long-term unemployed are likely to have even greater difficulty finding work as their skills diminish further relative to the job requirements of prospective employers.

**Chart 3** The Long-Term Unemployment Problem Persists but Is Improving



SOURCE: Bureau of Labor Statistics.

The BLS collects and computes many other employment-related measures, such as the labor force participation rate, the employment-population ratio, and unemployment rates by gender, ethnicity, age group and educational attainment, which all help provide a more complete picture in assessing the current employment situation. Indeed, looking beyond the headline unemployment rate at these various measures yields greater insights to economists and policymakers regarding labor market dynamics and the prospects for economic growth.

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NOTE  
<sup>1</sup> The natural rate of unemployment is the rate of unemployment that would naturally occur from frictional unemployment as new jobs are created, as workers move between jobs, as existing jobs are eliminated, and as new workers enter (or reenter) the labor force, and from structural unemployment as mismatches exist between the skills of available workers and the competences required to fill vacant positions.

## Noteworthy Items

### **Federal Reserve Vice Chairman Stanley Fischer speaks at the Economic Club of New York about monetary policy lessons and looking forward (March 23, 2015)**

Fischer discusses the lessons learned from having the federal funds rate at its effective lower bound since 2008. He also speaks about monetary policy since the crisis, approaching policy normalization, and the discussion surrounding the timing and pace of the first increase in the federal funds rate.

### **Federal Reserve releases FOMC statement (March 18, 2015)**

### **Federal Reserve Chair Janet Yellen speaks in New York about improving the oversight of large financial institutions (March 3, 2015)**

Yellen explains the process of how the Federal Reserve oversees the largest financial institutions and how that oversight has improved since the financial crisis through regulatory reform and enhanced supervision.

### **Richard Fisher's final speech as Federal Reserve Bank president (March 9, 2015)**

President Fisher gave his last speech as a Federal Reserve official to the Baker Institute's Founding Director's Lecture Series. Fisher addressed the improving economy, the U.S. approaching any sensible measure of full employment and the inflation outlook. After a decade of service, Richard Fisher retired as president and chief executive officer of the Dallas Fed on March 19.

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