



Excess slack exists in today's labor market

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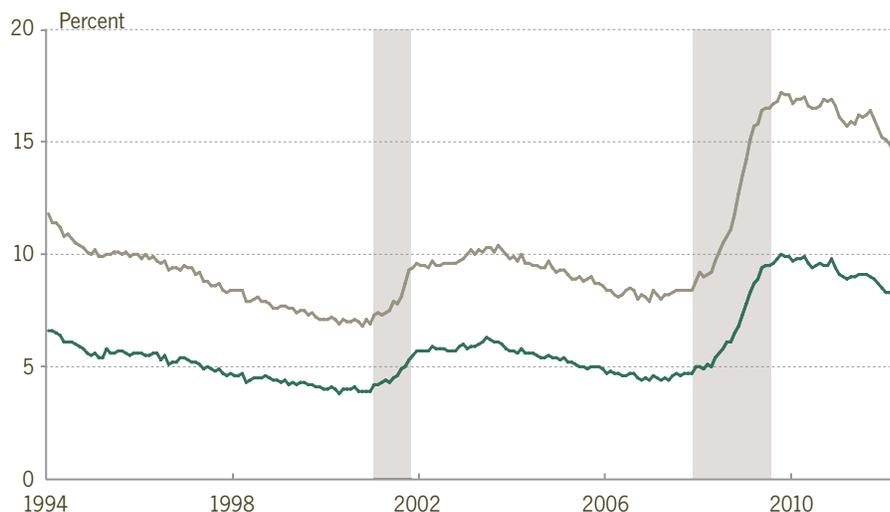
To really understand what's happening in the labor market, you need to look at more than the official unemployment rate. A number of broader measures of labor utilization describe labor market conditions more fully. What these alternative measures tell us is that there is a lot of slack in the labor market.

While economists use the unemployment rate as a standard gauge of the labor market's health, it is not a perfect measure. It does not tell us if we are fully tapping the country's pool of available labor.

First, the standard definition of unemployed workers excludes people who would like to work but have not actively searched for a job over the prior four weeks. They are considered out of

the labor force and are sometimes referred to as discouraged or marginally attached workers. However, it is important to recognize that many people who become newly employed in a month were not actually out of the labor force in the prior month. So there is a significant amount of available labor in the pool of individuals not in the labor force that could and would enter the labor market if conditions improved.

Unemployment Rate

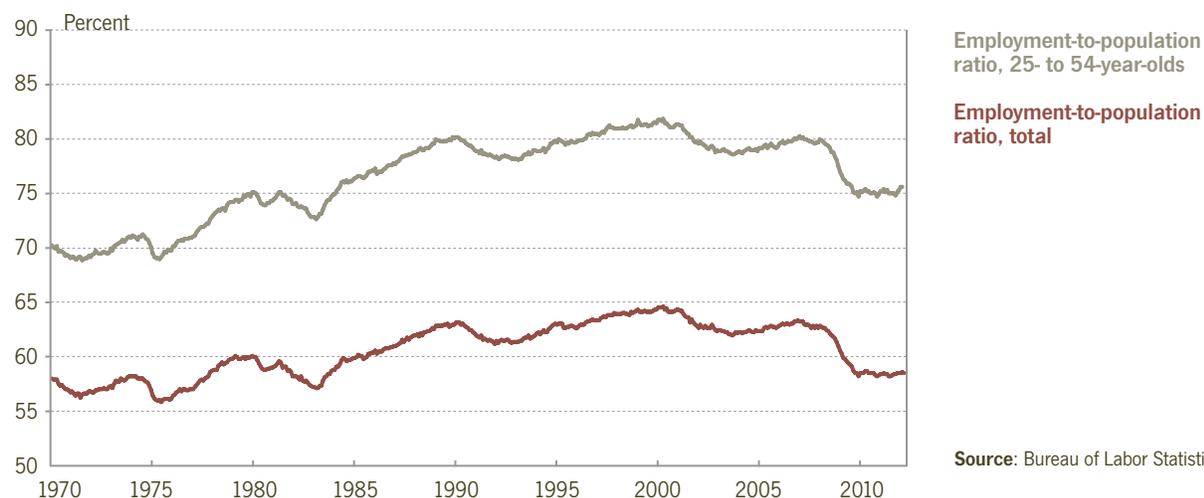


U-6, the broadest measure of labor underutilization
U-3, the official unemployment rate

Note: Shaded bars indicate recessions.

Source: Bureau of Labor Statistics.

Employment-to-Population Ratio



Second, people in part-time jobs who would like to work full time are not captured in the standard definition. These people are effectively underemployed, although not unemployed. While the Bureau of Labor Statistics does not make adjustments to its official unemployment rate to incorporate these situations, it does produce several alternative measures of labor utilization that do incorporate them.

The unemployment rate known as U-6 (really!) is the broadest measure of labor underutilization. It includes those workers who would like a job but are no longer actively searching for one, as well as people who are working part time but would rather be working full time. This broad measure of labor underutilization rose from 8.2 percent in 2007 to 17 percent at its peak in 2009, and has since fallen to 14.5 percent.

This means that right now, roughly 22.7 million Americans want a job and do not have one *or* have a part-time job and would like a full-time position. A comparatively low 12.5 million individuals are included in the official (U-3) unemployment rate.

A look inside these numbers reveals that most of the difference between the official unemployment rate and this alternative definition is attributable to the part-time-worker category. There are 7.8 million part-time workers who would prefer and are available to work full time. Another 2.4 million people are out of the labor force and would like a job but have not searched in the prior four weeks.

The employment-to-population ratio is another useful measure for describing labor market conditions. This ratio measures total employment relative to the adult population. Since the start of the Great Recession, we have seen a large decline in this ratio, falling by almost 5 percentage points. We are now in territory last seen in the late 1970s and early 1980s, when women's labor force participation rates were much lower.

The employment-to-population ratio hasn't budged much from 58.5 percent since 2009. What this means is that the recent employment growth has only kept up with the growth in the adult population—holding the ratio roughly constant.

Although we should not expect the employment-to-population ratio to fully recover to its pre-Great Recession level because of our aging workforce, we should expect some cyclical rebound. The same patterns hold when looking at the employment-to-population ratio for prime age workers (ages 25 to 54)—little to no recovery.

The overarching conclusion is that all of these alternative measures of labor utilization show high amounts of labor slack in the economy. This sends a strong signal that we still have a relatively long way to go before the labor market recovers.