Unemployment and Job Vacancies

The U.S. labor market is characterized by tremendous churning, with approximately 7 million people entering or leaving in a single month. In addition to people moving between jobs, substantial numbers of jobs are created or destroyed each month. Both kinds of changes occur during cyclical upswings as well as downturns. This suggests that at any given time, unemployed workers coexist with unfilled job vacancies.

The relationship between unemployment and job vacancies is shown in the Beveridge curve, which is useful for understanding how well the labor market matches unemployed workers with openings. The curve for the U.S. reveals several downward-sloping, counterclockwise loops. Evidently, these loops trace out a business cycle whose nadir roughly corresponds to the most southeasterly points. Since 1992, we have been moving northwest, and the past three years suggest that we may have reached the peak of the cycle.

Notice also that there seem to be many different Beveridge curves, shifting out and right until the mid-to-late 1980s and then shifting back toward the origin. As the curve shifts to the right, the unemployment rate is higher for any given level of vacancies. This may reflect a worsening job-matching process, slow adjustments to a changing mix of industries, or possibly an increase in unemployment insurance benefits. The opposite would be true of shifts toward the origin.