Mitchell's Musings 10-20-14: Are We There Yet?

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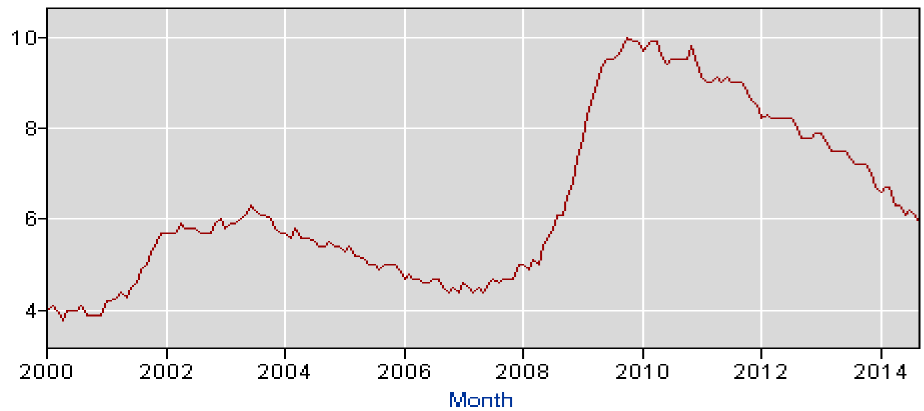
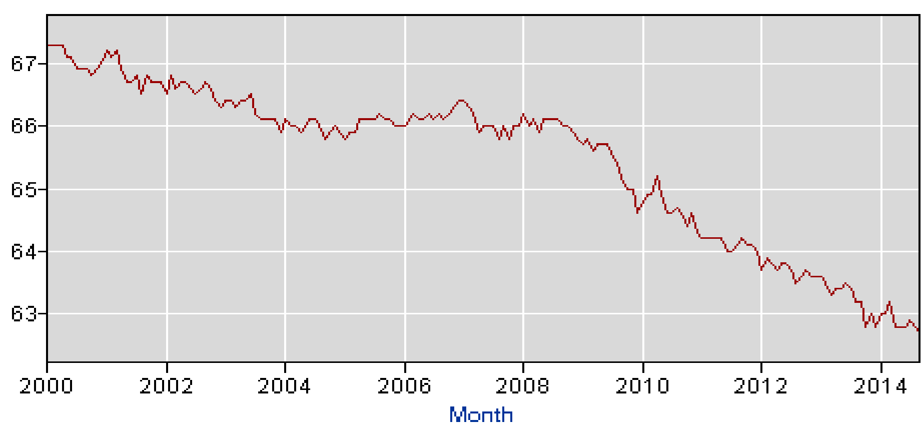
Is the labor market finally recovering? It depends on what measure you use. The most widely used index of the temperature of the labor market is the unemployment rate. By that measure, we are not back to the level achieved just before the Great Recession. But we are headed in that direction, as the chart below shows:

Unemployment Rate, seasonally adjusted (percent)



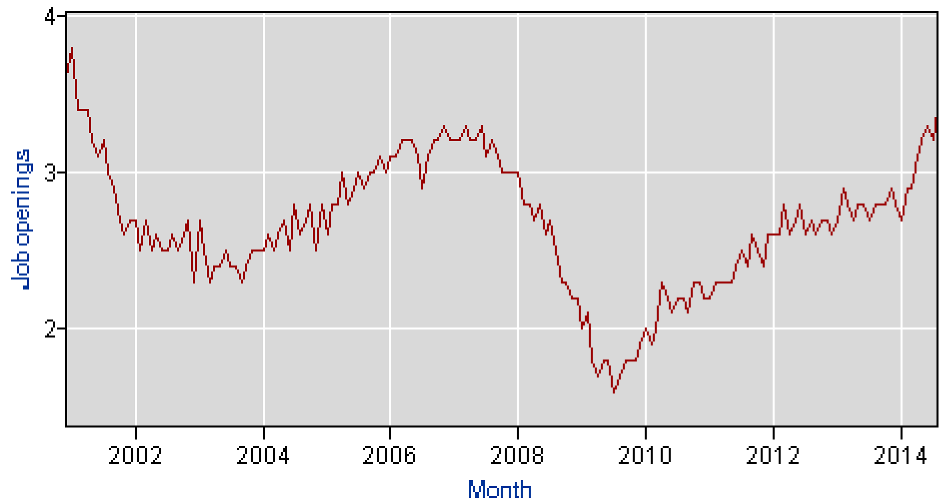
On the other hand, the civilian participation rate has been falling in what seems to be partly a secular trend but one which the Great Recession accelerated and which shows no sign of reversing.

Civilian Participation Rate, seasonally adjusted (percent)



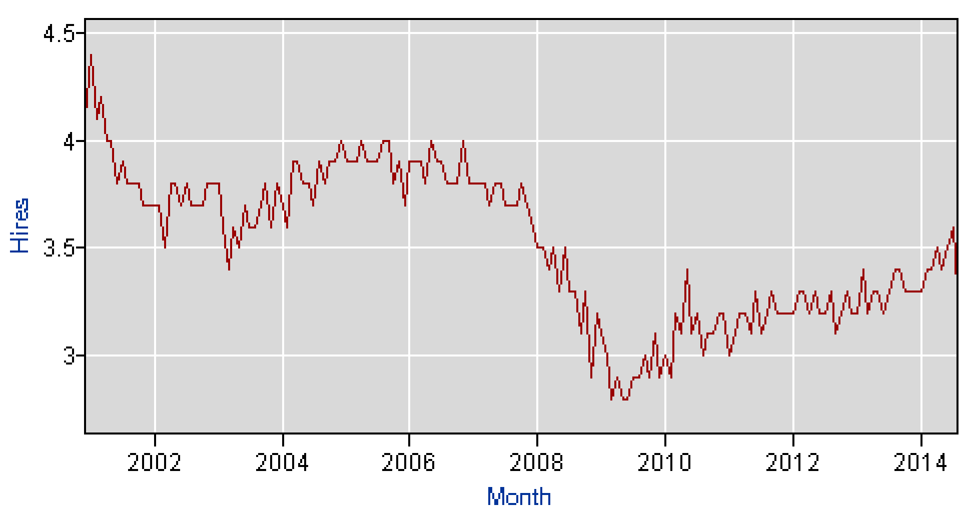
The falling participation rate – and certainly the drop triggered by the Great Recession – suggests that there is a significant amount of discouraged unemployment based on a sense that jobs are hard to obtain. So the question is whether there is anything on the horizon that would suggest change is coming, even if not yet seen. The U.S. Bureau of Labor Statistics (BLS), the source of the two charts on the previous page produces a job vacancy rate (termed the "job openings rate"), a kind of analog on the other side of the labor market to the unemployment rate.

Job Openings Rate, nonfarm sector, seasonally adjusted (percent)



As can be seen on the chart above, employers are at least claiming they have vacant jobs at a rate comparable to the peak seen before the Great Recession. Are these just claims or are employers back to hiring as they did before the Great Recession? The answer, as shown below, seems to be "not quite."

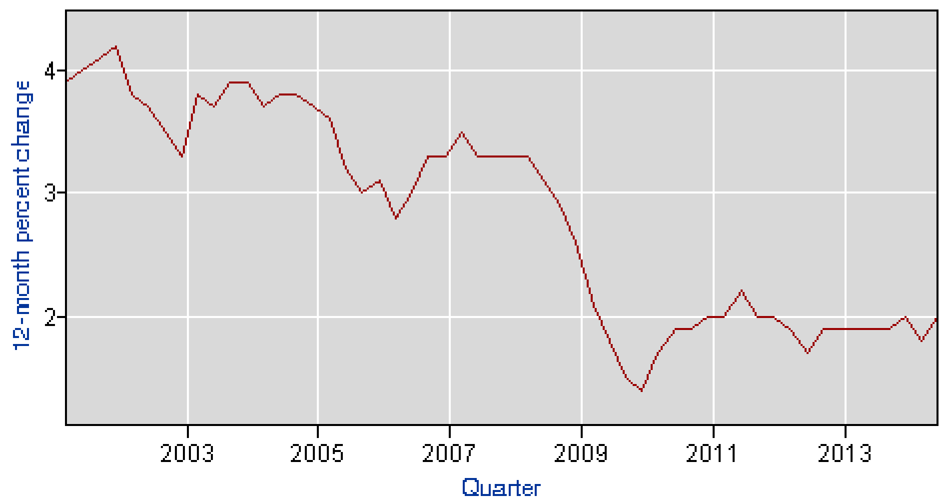
Hires Rate, nonfarm sector, seasonally adjusted (percent)



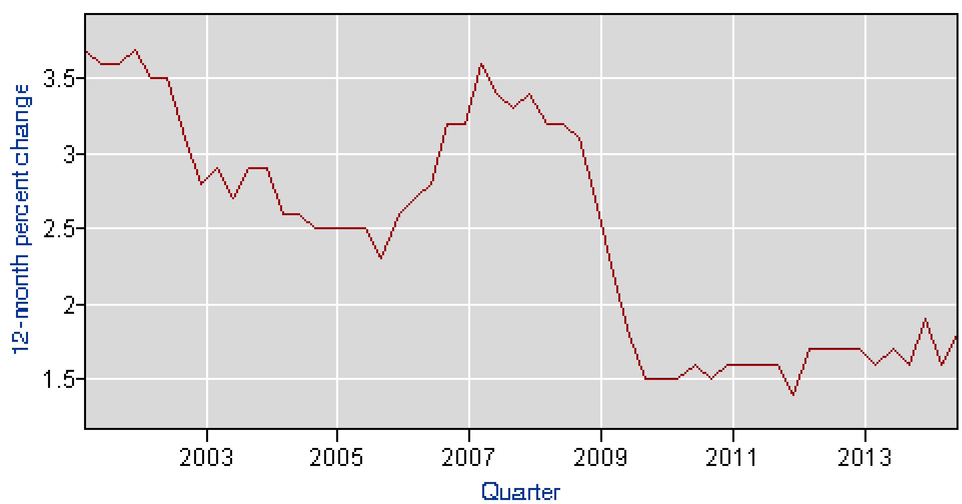
There could be a "structural" story here with employers unable to find workers with the right qualifications. In this story, vacancies are available, but somehow unfillable by the current labor supply. Potential workers, realizing they don't have the right skills, are discouraged and not participating. But there is a problem with that interpretation.

If there is truly a lack of qualified workers but plenty of jobs if only more qualified workers were available, we should see wages being bid up as employers compete for the scarce labor.

12-Month Percent Change, Employment Cost Index for Wages and Benefits, Civilian Workers



12-Month Percent Change, Employment Cost Index for Wages, Civilian Workers



It's hard to see any bidding up of pay from the two charts on the prior page. Thus, unless you believe that employers will just sit with vacancies unfilled and not take steps to try to hire the limited supply of qualified workers, the structural story has problems. What other hypothesis might square with the available data?

The labor market and its participants are not like the instantly-responding stock market. Employers tend to follow the leader – often termed "benchmarking" – when it comes to pay or other workplace practices. It is certainly the case that the recovery since the Great Recession has been slow – arguably slower than it had to be. But it is a relatively steady recovery. Unless there is an economic reversal – not impossible when one looks at trouble spots such as the Middle East – the pressure to fill unfilled vacancies will grow.

At some point, employers will be faced with two options. You can raise pay and bid for those workers you think are qualified. Or you can lower your qualification standards and – perhaps with some added training – bring in some workers who might not have been your first choice. Perhaps you might do a combination of the two. Anecdotal reports suggest that employers are beginning to move.[1] So when we say "at some point," and when we look at the charts in this Musing, we are talking about something coming relatively soon.

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[1]See, for example, https://www.insidehighered.com/quicktakes/2014/10/14/job-prospects-are-new-graduates.