CRS Insights

Employment Growth and Progress Toward Full Employment
Marc Labonte, Specialist in Macroeconomic Policy (mlabonte@crs.loc.gov, 7-0640)
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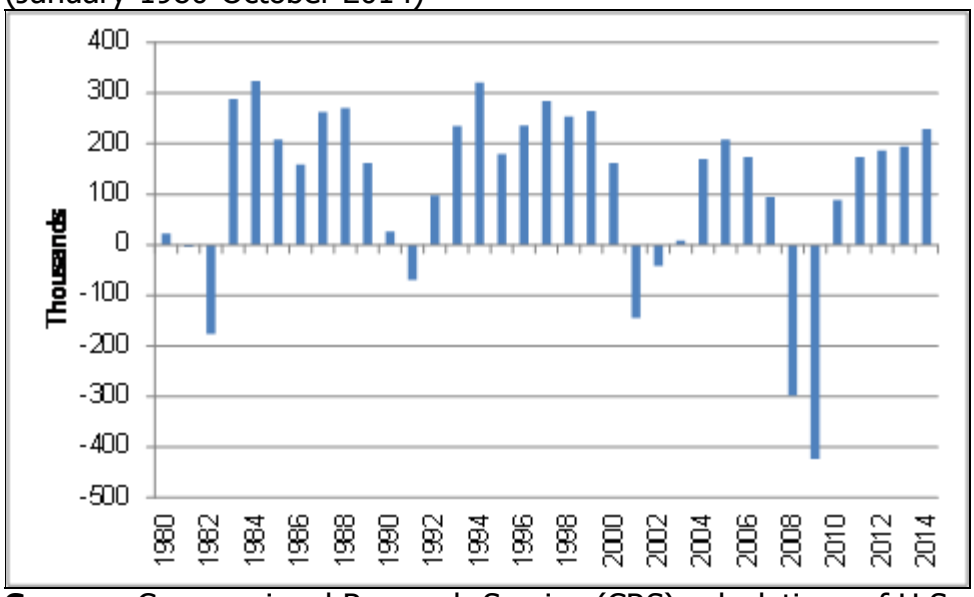
Job growth was slow to pick up following the recession that ended in June 2009. The economy did not begin to consistently add jobs each month until October 2010, more than a year into the expansion. For the next two years, employment growth was inconsistent from month to month. Since the second half of 2012, the economy has added an average of 205,000 jobs per month. More than 200,000 jobs have been added each month since February 2014.

Figure 1 illustrates that the increase in employment since October 2010 compares favorably with the previous expansion but falls short of the pace set during expansions in the 1980s and 1990s. This comparison would make the current recovery look somewhat less favorable if expressed instead as a percentage of the labor force because the labor force has grown since these expansions occurred.

Figure 1. Average Monthly Employment Growth

(January 1980-October 2014)



Source: Congressional Research Service (CRS) calculations of U.S. Bureau of Labor Statistics (BLS) data.

Note: 2014 data illustrate the monthly average for the first 10 months of the calendar year.

The economy lost 8.7 million jobs as a result of the 2007-2009 recession—more than in any other recession since the Great Depression. The economy did not surpass the level of employment attained at the peak of the previous expansion until May 2014. Thus, most of the employment growth during this expansion has only made up lost ground. Economists had hoped that an above-trend rate of employment growth would be temporarily obtainable during a "catch-up" phase. Nevertheless, after the loss of so many jobs, the economy's return to a normal rate of job creation has been welcome.

Now that the recession's lost jobs have been recovered, the focus has shifted to returning to full employment. Full employment can be understood as the unemployment rate associated with an economy in which all resources are engaged on a sustainable basis. But how many more jobs are needed to reach full employment? Typically, full employment is measured in terms of the unemployment rate. As recently as January 2013, the unemployment rate was 7.9%—far from full

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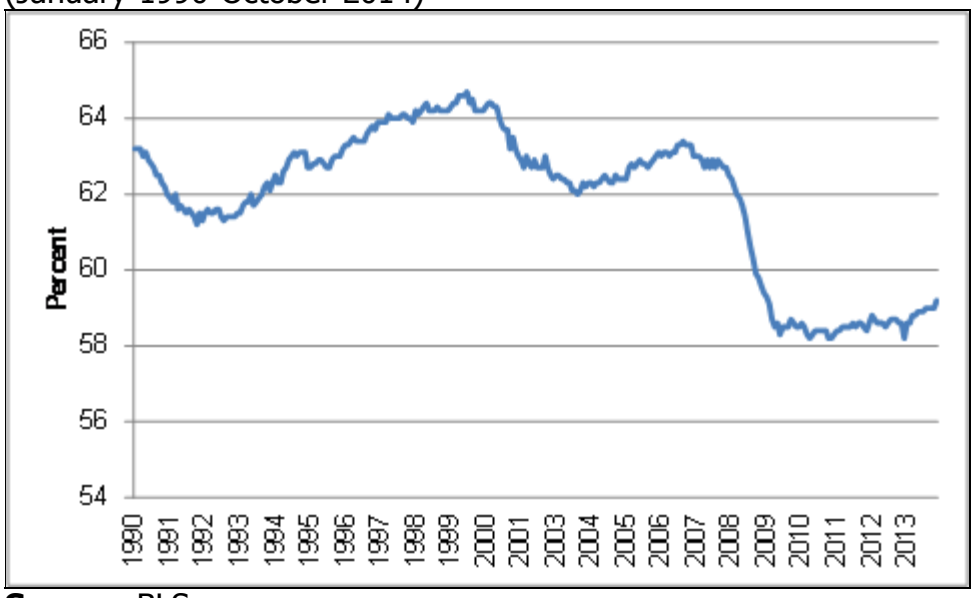
employment. After a rapid decline in 2013 and 2014, the unemployment rate reached 5.8% in October 2014, a more normal range for an economic expansion and potentially nearing full employment. The unemployment rate is not yet as low as it was during previous expansions, in which it typically fell to below 5%. However, the economy has not usually been able to maintain an unemployment rate below 5% for an extended period of time, so full employment may be above 5%.

Unusually, the unemployment rate may not currently be a good proxy for the overall state of the labor market or economy. Other labor force indicators do not show as much improvement as the unemployment rate, and they indicate that the economy might be further from full employment than the unemployment rate would suggest. For example, **Figure 2** shows that the employment-population ratio (the percentage of the population that is employed) fell from 63% before the recession to 58% after the recession. It remained flat from 2009 to 2011 (meaning employment was growing at the same rate as the population). Since 2011, it has risen to 59%, but it remains well below the levels prevalent during the previous two recessions. As discussed above, this suggests that most employment gains in the expansion to date have made up lost ground but have not been sufficient to close the gap between actual employment and full employment.

Figure 2. Employment-Population Ratio

(January 1990-October 2014)



Source: BLS.

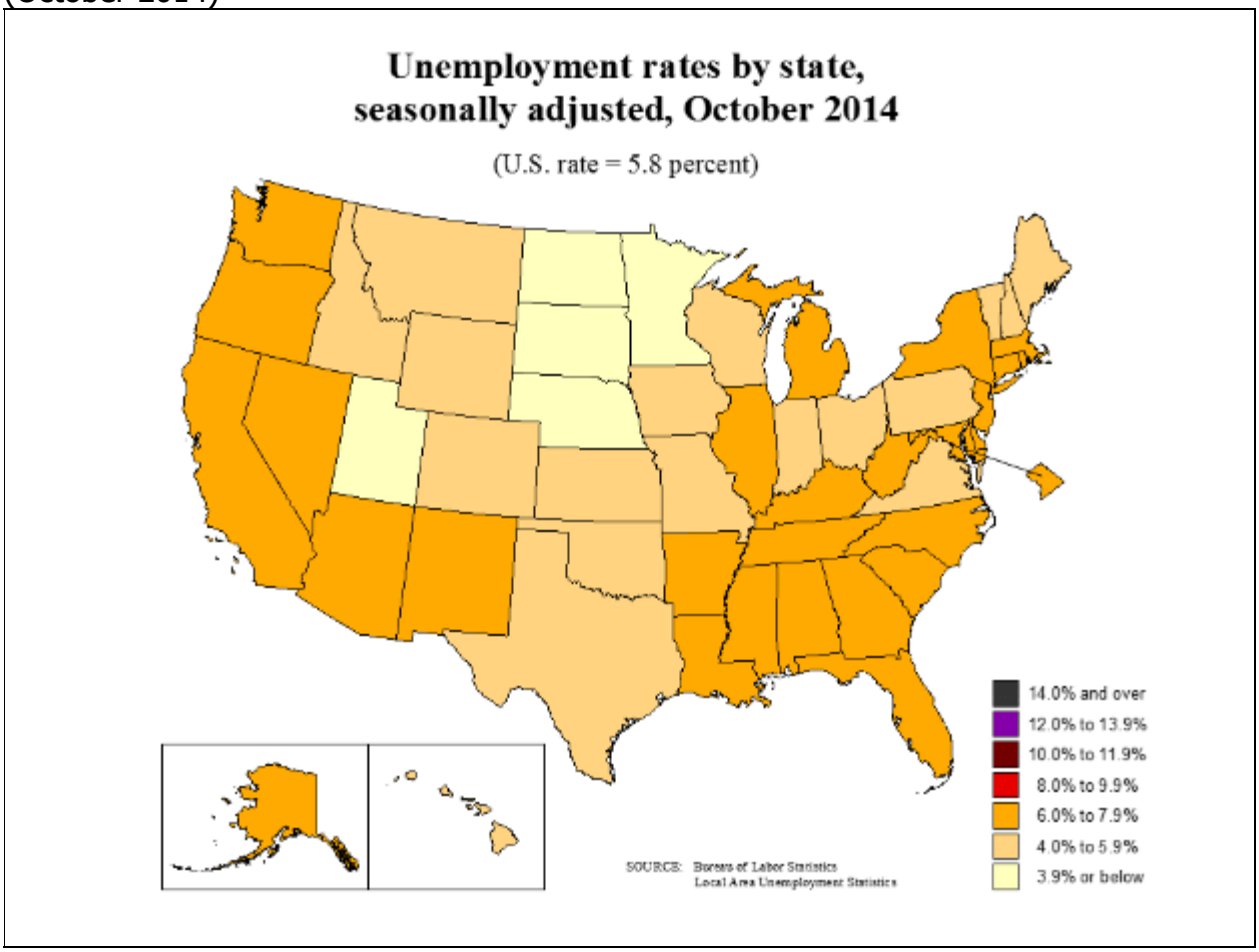
As a rough calculation to illustrate the implications of the different signals sent by the unemployment rate and the employment-population ratio, one can compare how far the economy is from full employment under those two measures. If one assumes that the economy would reach full employment at an unemployment rate of 5% (higher than the rate prevailing before the recession), employment would need to rise by almost 1.2 million workers to reach full employment today. To place that number in perspective, note that it is fewer jobs than the economy has added in 2014. But if one assumes that the economy would reach full employment when the employment-population ratio returned to 63% (the rate prevailing before the recession), employment would need to rise by almost 9.4 million workers.

The employment-population ratio has not risen as much as the unemployment rate has fallen because many workers have dropped out of the labor force since the recession began. Workers are officially counted as being out of the labor force, as opposed to unemployed, if they are not actively seeking work. Some of these workers are unlikely to reenter the labor force for reasons such as age or illness. Others, however, are likely to reenter the labor force if conditions improve sufficiently. Estimates vary as to how many workers are likely to eventually reenter the labor force. Thus, policy makers face considerable uncertainty as to how far the economy is from full employment and how fast the gap is closing. This uncertainty has implications for monetary, fiscal, and labor market policies.

The national unemployment rate masks regional differences in unemployment. The decline in the unemployment rate has been widespread, but it has been faster in some regions than in others. **Figure 3** illustrates that the unemployment rate is generally above average in the West, the Southwest, and the South, as well as in parts of the Midwest and the Northeast. Unemployment is generally below average in the plains and mountain states. This divergence reflects differences in the pace of economic recovery between the regions as well as differences that, in some states, predate the recession.

Figure 3. Unemployment Rates by State

(October 2014)



Source: BLS.

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