What’s Happening to Unemployment in the Current Recession?

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Unemployment Dynamics

Year 1 of 2008-09 recession looked much like previous recessions, especially deep ones:

• A spike in job destruction, layoffs and unemployment inflows

• Contemporaneous or slightly lagged, and more persistent, drop in unemployment exit rates

But 2009 saw a further decline in unemployment exit rates to historically low levels, even as layoffs and unemployment inflows subsided.

Recent Peak: 0.51% of Employment in Week Ended March 28, 2009

New UI Claims in 2007: 0.22% to 0.25% of Employment
Unemployment Flows with 2 States

- Steady-state approximation:

Unemp. Rate $\equiv u_t \approx \frac{S_t}{S_t + f_t} \Rightarrow$

$$d \log u_t \approx (1 - u_t)[d \log s_t - d \log f_t]$$

where $s = E \rightarrow U$ hazard, and $f = U \rightarrow E$ hazard

- Following Elsby, Michaels & Solon (AEJ-Macro, 2009), plot $s$ and $f$ contributions to log change in unemployment rate in each postwar recession.
Decomposition of log unemployment rate rises in postwar U.S. recessions

Courtesy of Mike Elsby.
With corrections for time aggregation.
Decomposition of log unemployment rate rises in postwar U.S. recessions

\[ d\log(f) \quad d\log(s) \]

- \(2008Q4\)
- \(2009Q3\)

- Lowest Exit Rate in Any Previous Recession: 34%
- Unemployment Exit Rate of 19.5%
Two Measures of (Inverse) Market Tightness

January 2001 to November 2009

Using JOLTS Statistics for the nonfarm economy
+ CPS measure of the civilian unemployment rate

\[ h = \mu \left( \frac{u}{v} \right)^{\alpha} \]

Hires Per Vacancy
Transformed U-V Ratio, \((U/V)^{(0.4)}\)
Beveridge Curve
January 2001 to November 2009

United States, December 2000–October 2009

2008-2009 data in red

Beveridge Curve, reproduced from Rob Shimer's web site
Is Now a Good Time to Find A Quality Job? (Gallup)
Other Noteworthy Facts about the Current Recession

• Gross job creation rate is lowest in 20 years (BED) – in 50+ years based on other data (LRD, LBD, LTS)
• Gross hires rate has plummeted much more than can be accounted for by declines in gross job creation. (JOLTS)
• Quit rates are very low (JOLTS)
• Households are extraordinarily pessimistic about labor market prospects (Gallup, Michigan Survey), helping to depress consumer spending (Michigan Survey)
• Business investment remains very weak (NIPA)
• Small business investment & hiring plans remain very weak (NFIB)
Summarizing

1. Unusually low unemployment exit rates, conditional on level of vacancies
2. Very low levels of vacancies, new job creation, business investment
Economic Uncertainty, Investment and Job Creation

Uncertainty depresses/delays investment and job creation, slowing reductions in unemployment

- Financial Crisis
- Policy-Related Uncertainty

Uncertainty can also undermine the effectiveness of stabilization policy (Bloom, 2009 Econometrica)
Policy-Related Uncertainty

1. Health insurance “reform”
2. Energy and environment: cap & trade, etc.
3. Big future tax hikes
4. Government stance toward collective bargaining
5. Newly aggressive stance on competition policy
6. Direct government intervention in auto industry
7. Pay regulation for financial institutions
8. New regulation of consumer financial services
9. Future inflation and interest rates as Fed unwinds
Policy-Induced Uncertainty

But the other major concern is the level of uncertainty being created by government, the usually source of uncertainty for the economy. The “turbulence” created when Congress is in session is often debilitating, this year being one of the worst. Themes including “tax more,” “tax the rich even more,” “VAT taxes,” higher energy costs due to Cap and Trade, mandates and taxes for health care, threats of “stimulus II,” incomprehensible deficits, and a huge pool of liquidity created by the Federal Reserve Bank that threatens price stability and higher interest rates. The list goes on and on. There is not much to look forward to here and good reason to “keep your powder dry.” Uncertainty is the enemy of the real economy as well as financial markets.

But there are still many uncertainties ahead (most in Congress) that need to be resolved and plenty of “income redistribution” yet to come as we continue to clean up our financial system - all which creates major headwinds for the economy.

Excerpt from the “Commentary” in NFIB Small Business Economic Trends, December 2009
Additional Slides
Aggregate Worker and Job Flows  
(Quarterly)

- Hires and vacancies (JOLTS) tend to move with job creation (BED).
- Greater volatility of hires reflects in part volatility of quits.
Percent of Households Planning to Postpone Purchases Due to Job and Income Uncertainty

Source: Michigan Survey of Consumers
# Worried U.S. Workers (Gallup)

<table>
<thead>
<tr>
<th>Percent of Employed Adults Who Worry that They Will Experience the Following in the Near Future:</th>
<th>Hours Cut</th>
<th>Wage Cut</th>
<th>Benefit Cut</th>
<th>Lay Off</th>
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</thead>
<tbody>
<tr>
<td>August 1997</td>
<td>15</td>
<td>17</td>
<td>34</td>
<td>20</td>
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<tr>
<td>August 2003</td>
<td>15</td>
<td>17</td>
<td>31</td>
<td>19</td>
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<tr>
<td>August 2004</td>
<td>14</td>
<td>17</td>
<td>28</td>
<td>20</td>
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<tr>
<td>August 2005</td>
<td>13</td>
<td>14</td>
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<tr>
<td>August 2006</td>
<td>16</td>
<td>19</td>
<td>30</td>
<td>17</td>
</tr>
<tr>
<td>August 2007</td>
<td>12</td>
<td>14</td>
<td>29</td>
<td>14</td>
</tr>
<tr>
<td>August 2008</td>
<td>14</td>
<td>16</td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td>August 2009</td>
<td>27</td>
<td>32</td>
<td>46</td>
<td>31^19</td>
</tr>
</tbody>
</table>
Consumers’ Assessments of Their Overall Financial Circumstances

U.S. Households

Source: Michigan Survey of Consumers
Number of Mass Layoff Events


Events

3,500
3,000
2,500
2,000
1,500
1,000
500
0

2005  2006  2007  2008  2009

Total
Private nonfarm
Manufacturing
UI Claims in Mass Layoff Events

JOLTS Layoff Rates, Manufacturing

Not Seasonally Adjusted Data from 2000 - 2009

- Durable goods manufacturing
- Nondurable goods manufacturing
JOLTS Layoff Rates, Const. & Mfg.

Not Seasonally Adjusted Data from 2000 - 2009

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[Graph showing JOLTS layoff rates for construction and manufacturing from 2000 to 2009. The graph compares the percent of total employment affected by layoffs in construction and manufacturing.]
JOLTS Layoff Rates, Finance & RE

Not Seasonally Adjusted  Data from 2000 - 2009

— Finance and Insurance

— Real estate and rental and leasing
Small Business Optimism

OPTIMISM INDEX

Based on Ten Survey Indicators
(Seasonally Adjusted 1986=100)

Index Value (1986=100)

YEAR

NFIB Small Business Economic Trends, December 2009
Small Business Capital Expenditures

Actual Last Six Months and Planned Next Three Months

January 1986 to November 2009
(Seasonally Adjusted)

Percent

Year

NFIB Small Business Economic Trends, December 2009
Business Investment Remains Weak

Real Nonresidential Investment: Equipment & Software, 3 Decimal (NRIIPDC96)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

(Percent Change from Year Ago)


2009 research.stlouisfed.org