

Yellen Cites 19-Measure Labor Market Index: Jackson Hole Journal

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Janet Yellen, chair of the U.S. Federal Reserve. Photographer: Andrew Harrer/Bloomberg

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Aug. 22 (Bloomberg) -- Federal Reserve Chair Janet Yellen turned to a recently developed tool -- an index of 19 labor market indicators created by Fed staffers -- to help sum up her message on how monetary policy can respond to the state of the American worker: It's complicated.

The so-called Labor Market Conditions Index is a recently developed model that includes several of the gauges Yellen has cited in speeches that predate her chairmanship, including measures on the rates of hiring and quits in the Labor Department's Job Openings and Labor Turnover Survey. There are two indicators of the length of the workweek. Three calculate employment levels (private, government, and temporary help payrolls). And there's a cluster of survey data, including the Conference Board's index of jobs plentiful versus hard-to-get index and employer hiring plans from the National Federation of Independent Business.

The takeaway from the index's reading after its release in May mirrors Yellen's mantra that we're not there yet -- or, in her words this morning: "Five years after the end of the recession, the labor market has yet to fully recover."

The study, published three months ago and using data through April, has not since been updated, Fed spokesman Eric Kollig said. The snapshot at the time showed a workforce that had scored a 290-point increase in the LMCI since the start of the expansion in July

2009 and still had a ways to go to recover the lost ground of 370 points during the 18-month contraction.

Since then, payrolls growth has gained some traction and job openings have shown some more life, while two of Yellen's oft-cited measures are still laggards -- wage growth and those with part-time jobs who want full-time work.

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Yellen kicked off the first full day of the conference by saying that slack remains in the labor market even after gains made in the economic recovery.

"The economy has made considerable progress in recovering from the largest and most sustained loss of employment" since the Great Depression, Yellen said in her keynote speech.

Peter Tchir, head of macro strategy at Brean Capital LLC in New York, told clients the speech suggests that although Yellen seems more willing to "accept that labor market slack and wages are more permanent than she indicated before," the Fed is still unlikely to raise its benchmark rate until March.

At Maria Fiorini Ramirez Inc. in New York, economist Joshua Shapiro said there is "nothing new here, and certainly nothing meaty for markets to chew on."

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In her address, Yellen warned that "pent-up wage deflation" may be obscuring signals on how much slack remains in the labor market.

Ethan Harris, co-head of global economics research at Bank of America Corp. in New York, explains how that works: Instead of creating morale problems by cutting wages during the recession and subsequent recovery, many employers just didn't give out raises.

For employers, said Harris, that means “you would like to have been giving them a 3 percent cut for the last three years” and “now their wages after three years are 9 percent higher than you’d like them to be. As the economy improves and the company’s prospects improve, you will wait a while before you start giving them raises.”

“If pent-up wage deflation is holding down wage growth, the current very moderate wage growth could be a misleading signal of the degree of remaining slack,” said Yellen. “Further, wages could begin to rise at a noticeably more rapid pace once pent-up wage deflation has been absorbed.”

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Divisions within the Fed over how long to keep easy monetary policy are already in evidence in Wyoming.

Fed Bank of St. Louis President James Bullard told Bloomberg Radio that the U.S. central bank may begin tightening monetary policy earlier than officials previously expected.

“The evidence is leading toward an earlier increase than would have been in the works earlier this year,” said Bullard. “Labor markets have improved quite a bit relative to what the committee was thinking.”

Bullard spoke after Kansas City Fed President Esther George told Bloomberg Television that broad-based employment gains suggest the U.S. economy is strong enough to withstand higher interest rates. Philadelphia Fed President Charles Plosser, who voted against the Fed’s policy statement last month, told CNBC he’s concerned about the Fed not adjusting policy appropriately.

By contrast, Atlanta Fed President Dennis Lockhart urged more patience, warning in a separate interview with Bloomberg Radio against “moving prematurely and snuffing out some progress.”

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Robots don't steal jobs, the U.S. labor market is less flexible than it was and workers haven't suffered unprecedented periods out of work.

Those are among the conclusions of papers being presented at the symposium. Here is a review of their contents, which can be read in full on the Kansas City Fed's website.

Robots and computers don't steal as many jobs as some believe, and automation actually benefits many workers, Massachusetts Institute of Technology Professor David Autor said in his paper.

A key reason humans aren't obsolete yet is that simple tasks such as visually identifying a chair, which any child can do, aren't so easy for engineers to teach to computers, Autor said.

"Journalists and expert commentators overstate the extent of machine substitution for human labor and ignore the strong complementarities that increase productivity, raise earnings, and augment demand for skilled labor," he wrote. "Challenges to substituting machines for workers in tasks requiring flexibility, judgment, and common sense remain immense."

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The U.S. labor market became less fluid in recent decades partly because of an aging workforce, a shift to older businesses, and the spread of occupational licensing and certification, economists Steven J. Davis and John Haltiwanger wrote in their paper.

The economists define labor market fluidity as "flows of jobs and workers across employers." The paper found the U.S. "underwent a large, broad-based decline in the pace of labor market flows in recent decades."

"An aging workforce is a factor behind the slowdown of worker reallocation," the paper said.

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U.S. workers in the aftermath of the 2007-2009 recession haven't experienced unprecedentedly long bouts of non-employment, according to a paper by economists Jae Song and Till von Wachter.

Their findings "suggest that the potential for hysteresis in the aftermath of the Great Recession is moderate," the paper said. Hysteresis posits that people out of work for too long have a harder time finding work, leading to a persistent decline in the employment-to-population rate

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Policy makers would benefit from a better understanding of labor markets, economist Giuseppe Bertola argued in a paper that weighed the impact of rules making those markets rigid or flexible.

Rules that protect workers from job losses and provide more generous unemployment benefits can soften and smooth shocks to the economy, said Bertola.

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George opened the symposium late yesterday by putting the presenters on the spot.

The last conference devoted to labor markets was 20 years ago, George told the group of almost 200 as they ate steak and salmon dinners beneath elk antler chandeliers.

The presenters and discussants back then included five future Nobel Prize winners and two academics who would go on to be central bankers: Bank of England Deputy Governor Charles Bean and Stanley Fischer, the Bank of Israel governor who became Fed vice chairman in June. Fischer sat at one of the front tables last night.

"So for those of you that will be on the program," George said to laughter, "We're either
getting someone from Bloomberg on stage."

setting you up for a blessing or a curse.

This year's topic is "Re-Inventing Labor Market Dynamics." In 1994 it was "Reducing Unemployment: Current Issues and Policy Options."

George said she went through the 1994 proceedings only to find central bankers and economists are still grappling with some of the same basic issues today.

"I saw that the discussion included things like the decline in demand for low-skilled workers due to technology and the challenge of the long-term unemployment," George said. "And questions were raised by that symposium, as they are today, about the usefulness of the unemployment rate as a measure of economic slack."

It reads like a list of the most vexing issues the Fed faces now and will be attempting to tackle today and tomorrow.

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Yellen arrived at the dinner to be greeted by about 10 people wearing bright green T-shirts emblazoned with "What Recovery?" and carrying placards with labor market data.

The protesters had traveled to Wyoming to highlight the plight of "struggling workers from around the country" who want the Fed to pursue "full employment that reduces poverty and expands the middle class," according to the Center for Popular Democracy, a Brooklyn-based organization. The backs of their T-shirts had a graph comparing the performance of wage growth among the top 1 percent and the rest.

Ady Barkan, a staff attorney with the group, spoke briefly with Yellen at the door of the lodge's Explorers Room. "She said she understands the issues we're talking about and is doing everything they can," he said, after she had entered the room.

Yellen has regularly cited weak labor markets as a scourge of the economy she's trying to boost with easy monetary policy.

Shemethia Butler, who works part time at a McDonald's Corp. restaurant in Washington, was one of those to make the trip. The 34-year-old said that while she isn't up on monetary policy, she wants policy makers to know she fears higher interest rates for her and her community. She said she works 25 to 35 hours a week for \$9.50 an hour at a job she's had for just over a year. Before that she was unemployed for two years.

"There's no recovery," Butler said. "The economy is broken because there aren't enough jobs for people like me."

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Yellen's speech will be followed by the presentation of the paper by Davis and Haltiwanger.

Autor will then discuss job polarization before a panel on demographics featuring Karen Eggleston of Stanford University, David Lam of the University of Michigan and Ronald Lee of the University of California, Berkeley.

European Central Bank President Mario Draghi will deliver the keynote luncheon speech.

Tomorrow, Von Wachter and then Bertola will present their papers.

The final panel will provide an overview of labor markets and monetary policy. It will include Bank of England Deputy Governor Ben Broadbent, Bank of Japan Governor Haruhiko Kuroda and Brazilian central bank chief Alexandre Tombini.

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