

# The U.S. Economy and Labor Market: Current Outlook and the Role of UI in Recessions

Rob Valletta

Group VP, Research Communications  
Federal Reserve Bank of San Francisco

38th Annual UWC National UI Issues Conference  
June 26, 2019

The views expressed here are solely those of the presenter and do not necessarily reflect those of anyone else in the Federal Reserve System.

# Where we stand today: near record expansion

- **A strong economy:**
  - Sustained solid GDP and employment growth
  - Labor market has achieved full employment
- **Some areas of concern:**
  - Inflation recently has drifted below Fed's 2% target
  - Expansion slowing, perceived recession risks up
- **What is the role of UI in the next downturn?**
  - Lessons: Impact of extended UI benefits in Great Recession

# **Outline of the talk**

**I. Current economy**

**II. Recession risks and monetary policy**

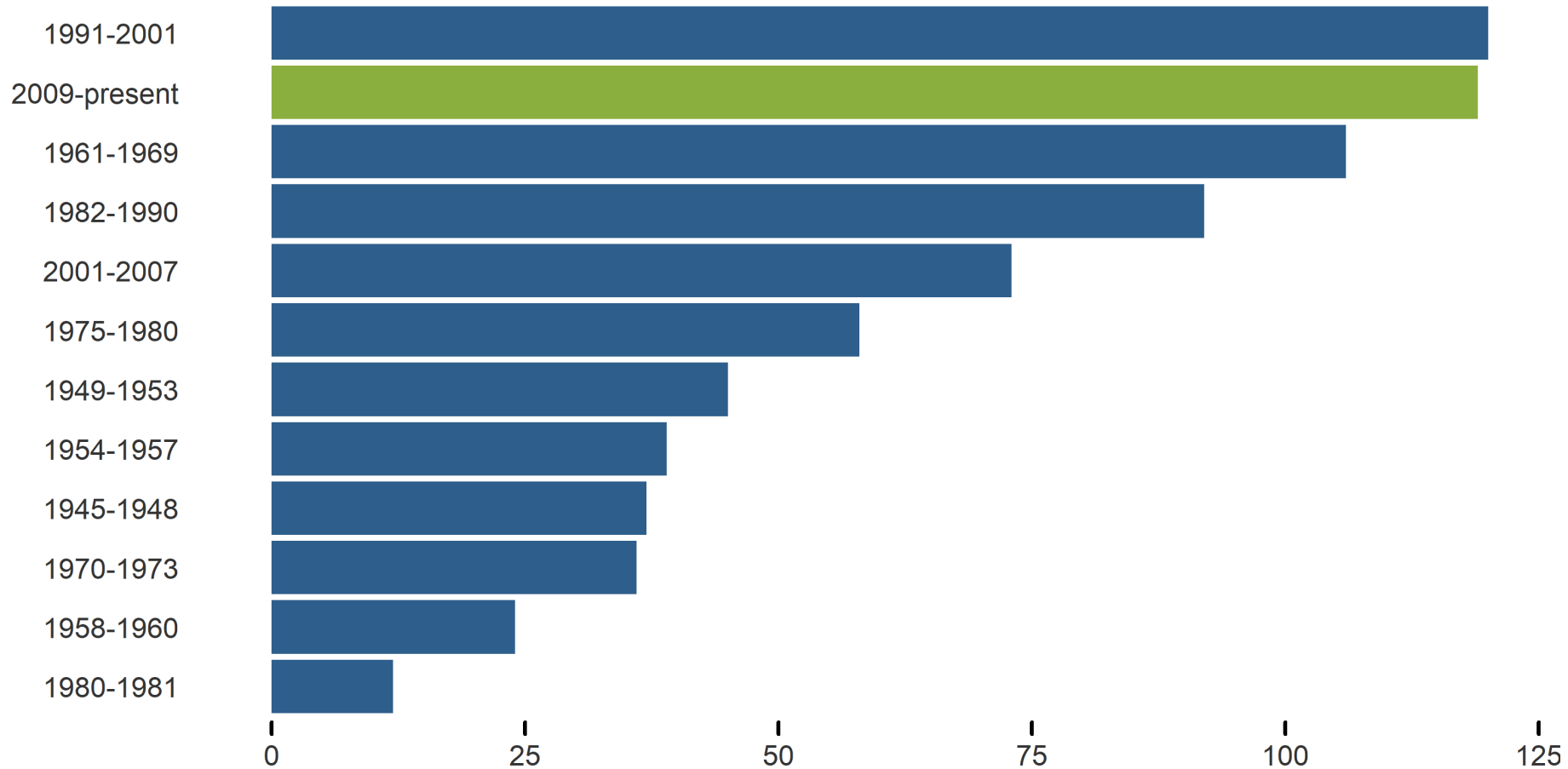
**III. The evolving role of UI**

**IV. Bottom lines**

# Current economy

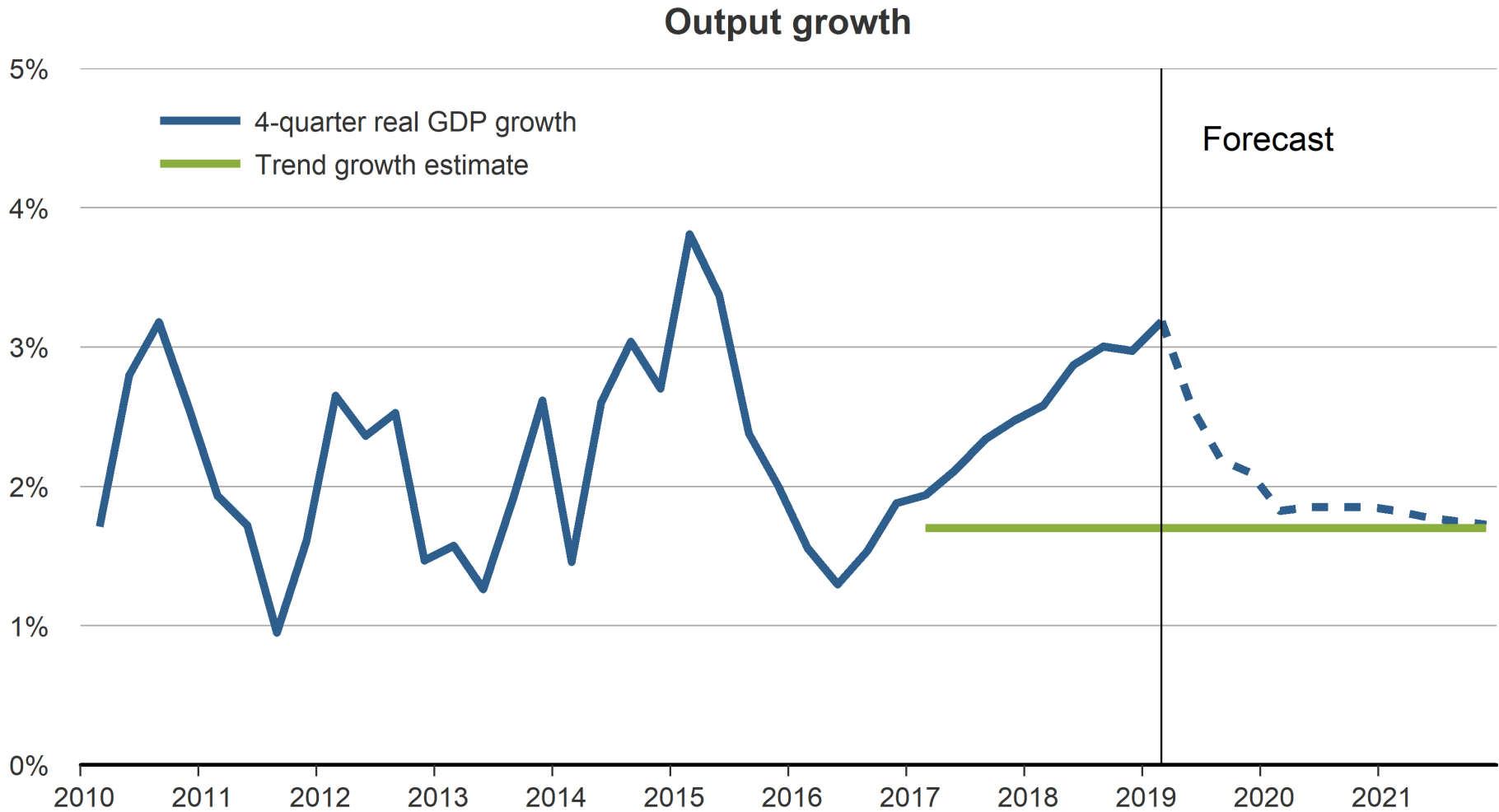
# Likely longest expansion in U.S. history

Duration of postwar expansions in months

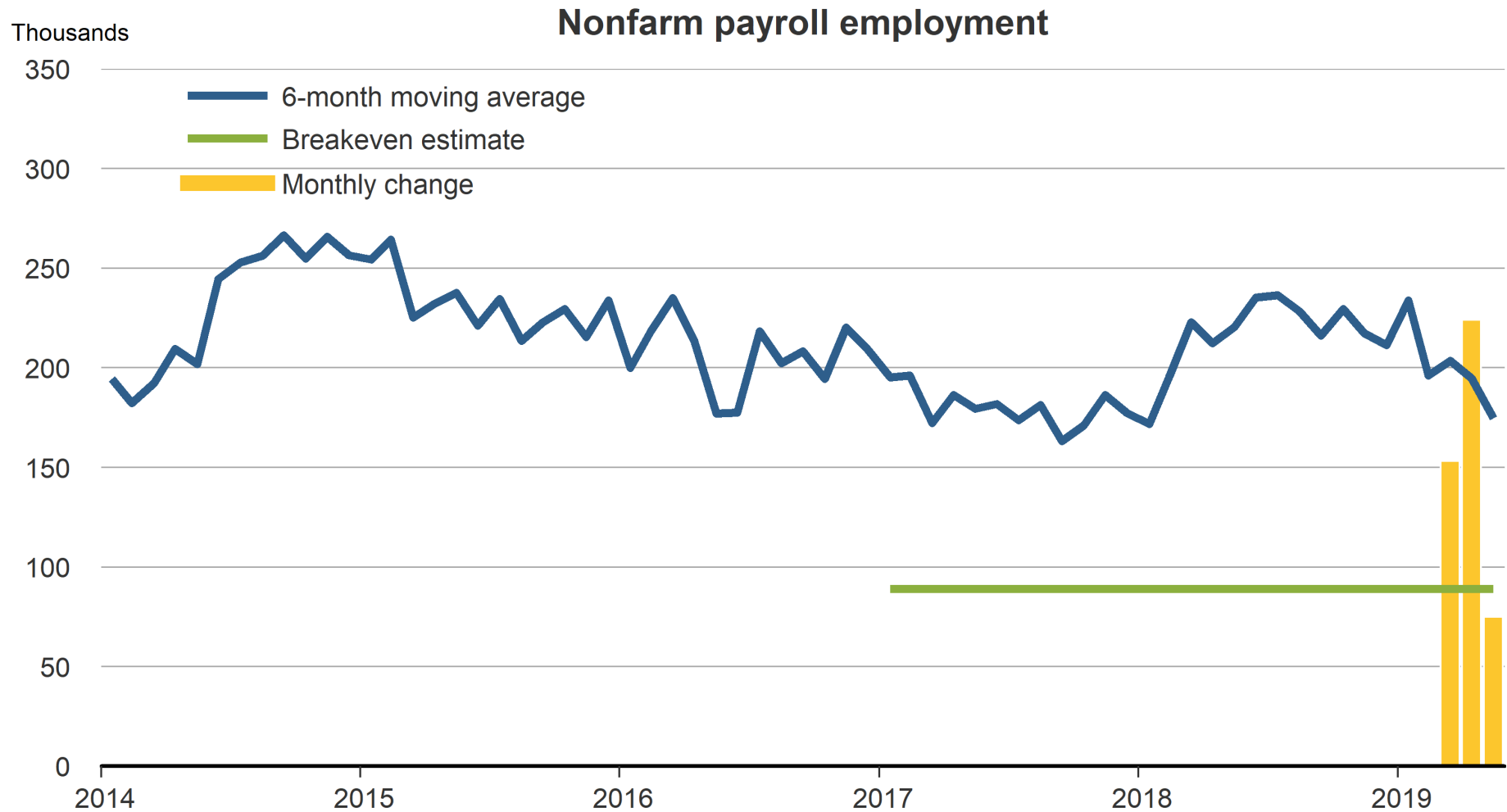


Source: National Bureau of Economic Research and FRSBF staff

# GDP growth projected to slow



# Job gains likely easing as well



Source: Bureau of Labor Statistics and FRBSF staff

# Labor market beyond full employment

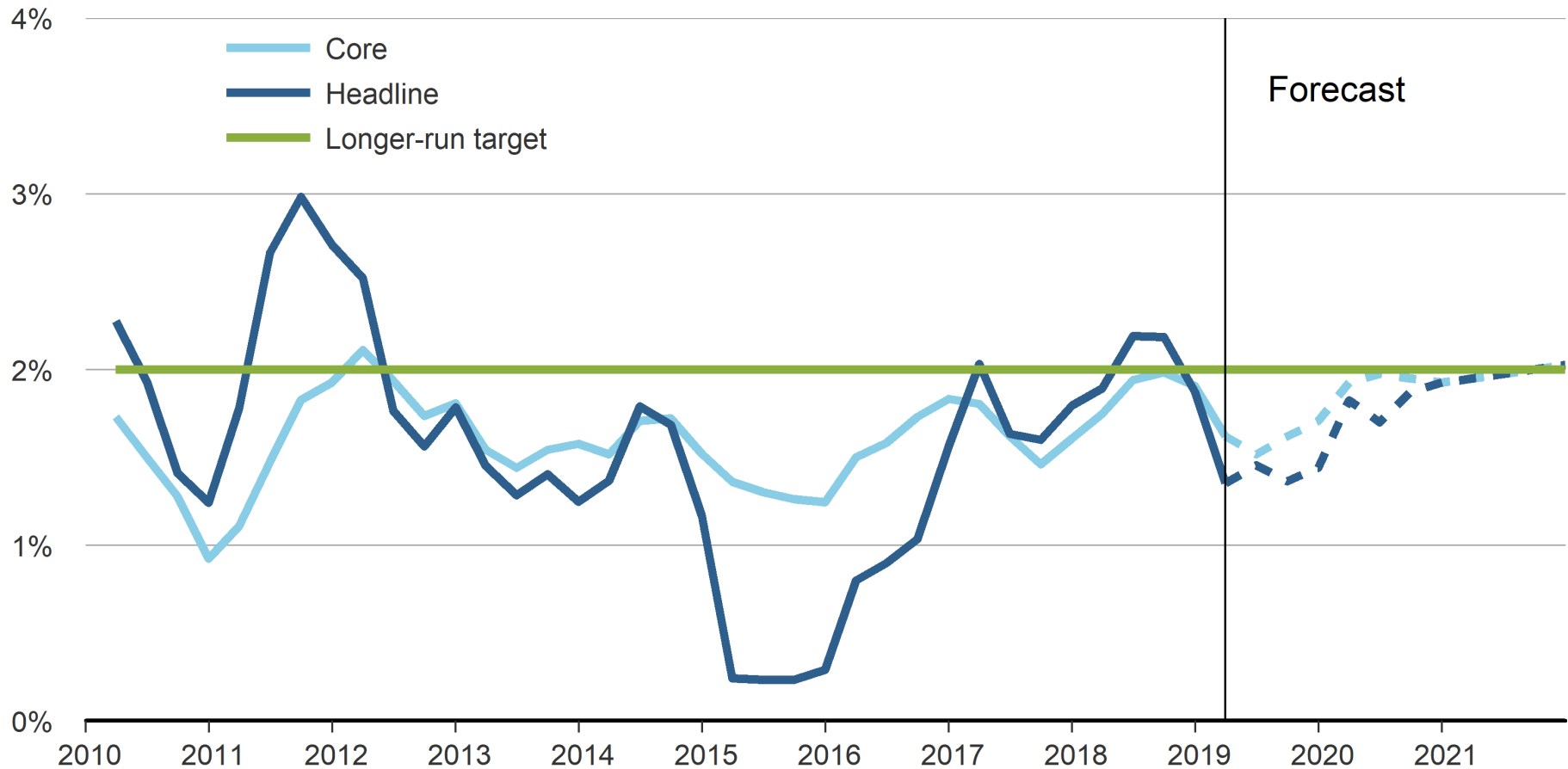


Source: Bureau of Labor Statistics and FRBSF staff



# Inflation expected to return to target

Personal consumption expenditures (PCE) price inflation

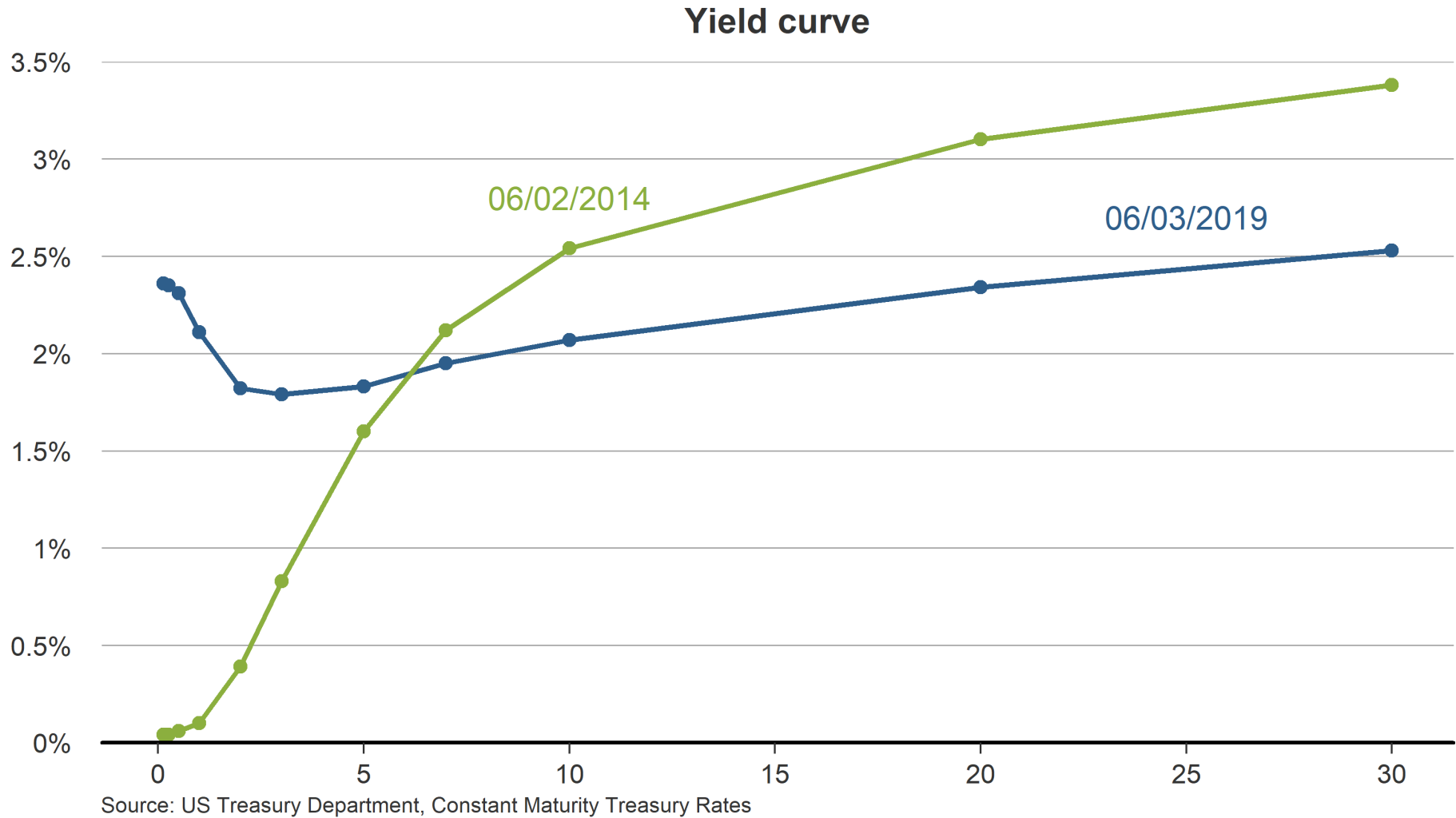


Note: 4-quarter change in personal consumption expenditures price index.

Source: Bureau of Economic Analysis and FRBSF staff

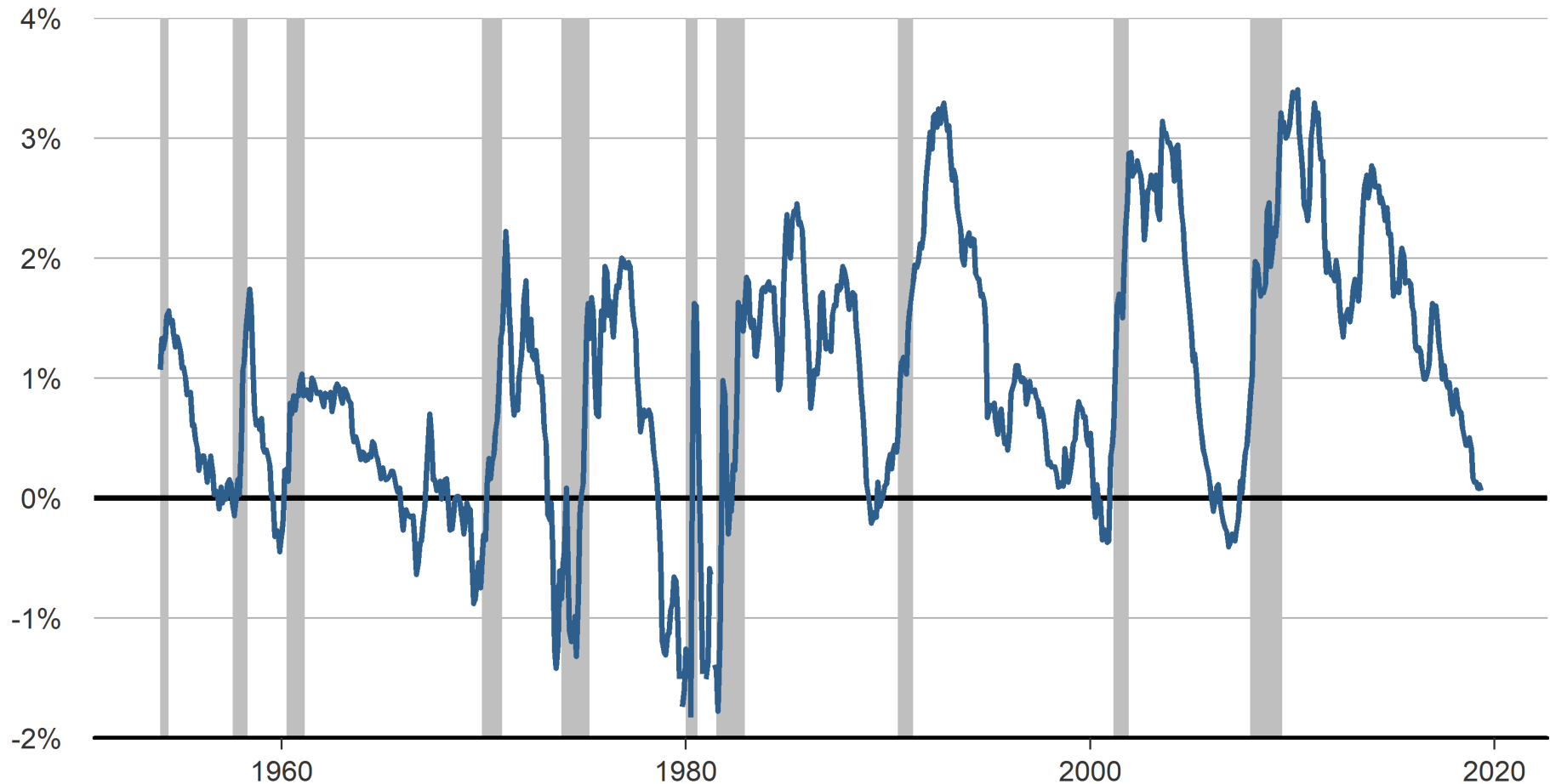
# **Recession risks and monetary policy**

# Yield curve has flattened substantially



# Yield curve: inversion precedes recessions

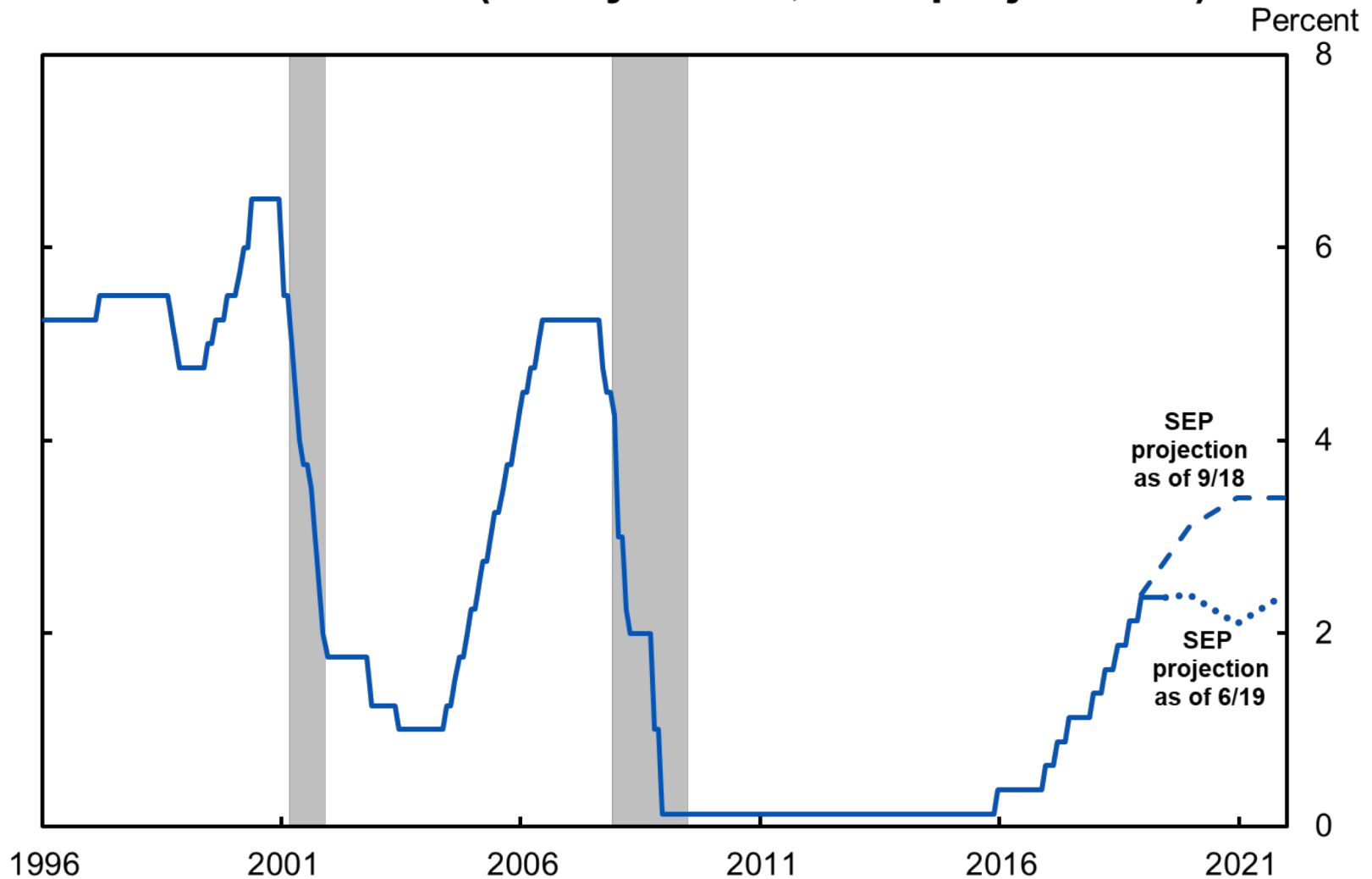
Monthly Term Spread: 10-Year and 1-Year Treasuries



Source: FRED, Board of Governors of the Federal Reserve System

# Interest rates: likely to remain low

## Federal funds rate (set by FOMC; with projections)



Source: Federal Reserve Board. Dashed and dotted line segments indicate the median of rate projections from the FOMC's "Summary of Economic Projections" in September 2018 and June 2019.

# **The evolving role of UI: the Great Recession and beyond**

# UI benefit duration: large changes

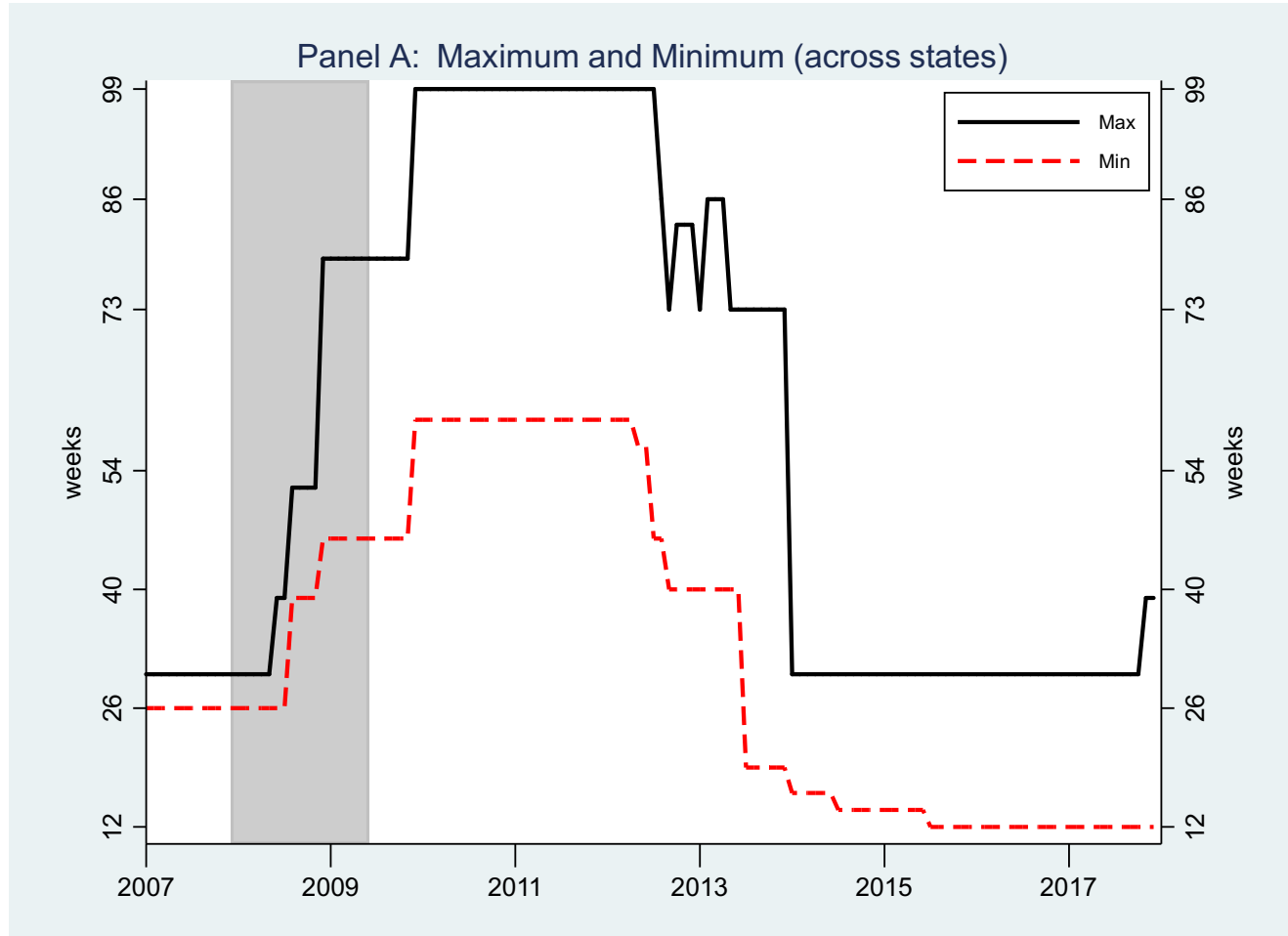
Extensions: combination of perm EB and temp EUC programs

**Table 1: Timeline of Extended UI Programs around the Great Recession**  
(available weeks and state triggers)

<u>Program</u>	<u>Effective Dates (plus sub-programs)</u>	<u>Maximum Available Weeks (and state triggers)<sup>1</sup></u>
Extended Benefits (EB) <sup>2</sup>	1970 - Mar. 1993 Mar. 1993 - forward	13 (IUR $\geq$ 5%) 13 (IUR $\geq$ 5% or 6% or TUR $\geq$ 6.5%) 20 (TUR $\geq$ 8%)
Emergency Unemployment Compensation (EUC)	Jul. 6, 2008 - Nov. 22, 2008 Nov. 23, 2008 - Nov. 7, 2009 Tier I Tier II Combined total Nov. 8, 2009 - May 26, 2012 Tier I Tier II Tier III Tier IV Combined total May 27, 2012 - Sep. 1, 2012 Tier I Tier II Tier III Tier IV Combined total Sep. 2, 2012 - Dec. 28, 2013 Tier I Tier II Tier III Tier IV Combined total	13 (all states) 20 (all states) 13 (IUR $\geq$ 6% or TUR $\geq$ 8%) 33 20 (all states) 14 (all states) 13 (TUR $\geq$ 6% or IUR $\geq$ 4%) 6 (TUR $\geq$ 8.5% or IUR $\geq$ 6%) <sup>3</sup> 53 20 (all states) 14 (TUR $\geq$ 6%) 13 (TUR $\geq$ 7% or IUR $\geq$ 4%) 6 (TUR $\geq$ 9% or IUR $\geq$ 6%) 53 14 (all states) 14 (TUR $\geq$ 6%) 9 (TUR $\geq$ 7% or IUR $\geq$ 4%) 10 (TUR $\geq$ 9% or IUR $\geq$ 6%) 47

# UI benefit duration: large changes

## Available UI weeks: normal and extended



Note: Based on U.S. DOL information. Ignores short-term suspensions of the EUC program in April, June-July, and December of 2010.



# UI benefit duration: large changes

## 9 states currently have normal UI weeks<26

### States with Normal UI Durations<26 Weeks (2019)

<u>State</u>	<u>Maximum duration (weeks)</u>	<u>Changes with state unemployment rate?</u>
Arkansas	16	
Florida	12	Y
Georgia	14	Y
Idaho	21	Y
Kansas	16	Y
Michigan	20	
Missouri	20	
North Carolina	12	Y
South Carolina	20	

Source (primary): U.S. DOL "Comparison of State UI Laws"

# Recent research findings on UI extensions

- **Little or no adverse impact on job search**
  - **Main impact is on labor force attachment rather than acceptance of job offers**

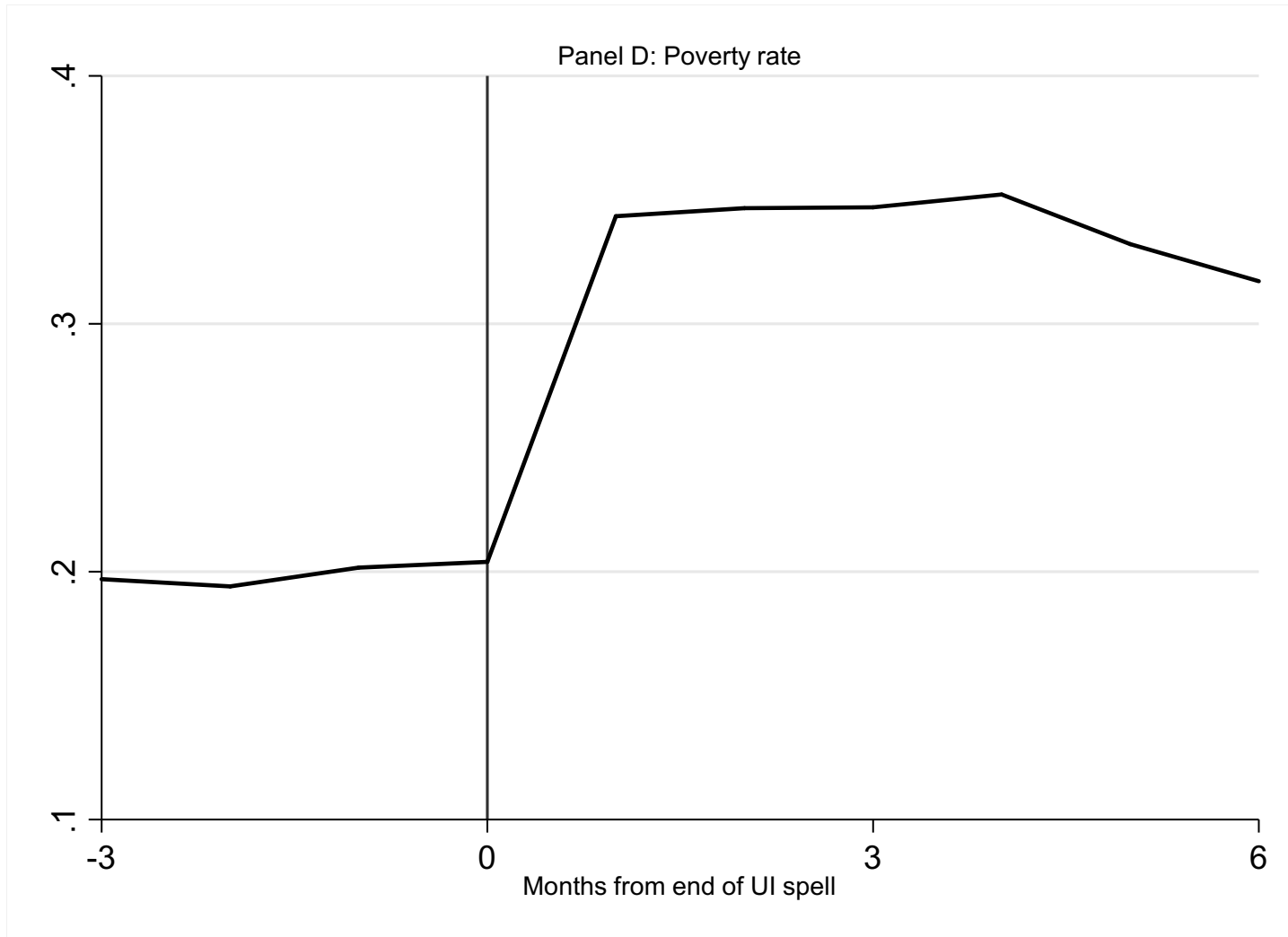
# Little or no adverse impact on job search

- **Economic theory suggests that more generous and/or longer UI benefit availability should prolong unemployment (extend search)**
  - **Past empirical work confirms, often with admin data**
- **My research with Henry Farber (Princeton) and Jesse Rothstein (UC Berkeley) finds limited effects of recent UI extensions on job search**
  - **No statistically meaningful effect on *job finding***
  - **Main effect is increase in *labor force attachment*: prolonged job search, perhaps to maintain eligibility**
  - **Unemployment up, but not for expected reason**

# Recent research findings on UI extensions

- Little or no adverse impact on job search
  - Main impact is on labor force attachment rather than acceptance of job offers
- **Important transfer (Rothstein-Valletta study of “99’ers”)**
  - **Many individuals exhausted maximum UI benefits during and after the Great Recession**
  - **Poverty spikes after UI loss**

# Poverty spikes after UI loss



# Recent research findings on UI extensions

- Little or no adverse impact on job search
  - Main impact is on labor force attachment rather than acceptance of job offers
- Important transfer (Rothstein-Valletta study of “99’ers”)
  - Many individuals exhausted maximum UI benefits during and after the Great Recession
  - Poverty spikes after UI loss
- **Disagreement about “macro” or indirect effects on labor market activity (hiring)**
  - **Missouri study (April 2011 withdrawal): large effects**
  - **Nationwide comparisons: mostly find small effects**

# Bottom lines

# Summary and concluding thoughts

- **Expansion looks to set a new record**
  - Sustained solid growth (in context of new normal of slower growth)
  - Unemployment at 50-year lows, labor market strong
- **Signs of slowing**
  - Recession does not appear imminent, but probably not banished forever
- **Historic changes in UI since Great Recession**
  - Extensions are an important source of income support, limited downsides
  - With scaling back of normal UI in some states, political/economic pressure to keep low in future?



# References (selected)

- Farber, Henry S., Jesse Rothstein, and Robert G. Valletta. 2015. “The Effect of Extended Unemployment Insurance Benefits: Evidence from the 2012-2013 Phase-Out.” *American Economic Review* 105(5): 171-176.
- Farber, Henry S., and Robert G. Valletta. 2015. “Do Extended Unemployment Benefits Lengthen Unemployment Spells? Evidence from Recent Cycles in the U.S. Labor Market.” *Journal of Human Resources* 50(4): 873–909.
- Johnston, Andrew C., and Alexandre Mas. 2017. “Potential Unemployment Insurance Duration and Labor Supply: The Individual and Market-level Response to a Benefit Cut.” Working paper, UC Merced and Princeton University. Forthcoming, *Journal of Political Economy*.
- Mertens, Thomas. 2019. “FedViews.” Federal Reserve Bank of San Francisco, June 13.
- Rothstein, Jesse, and Robert G. Valletta. 2017. “Scraping by: Income and Program Participation After the Loss of Extended Unemployment Benefits.” *Journal of Policy Analysis and Management* 36(4): 880-908.