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Economics Group

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Short- and Long-Term Unemployment: A Labor Market Divided

Short-term unemployment is running at levels consistent with the rate of job openings, but long-term unemployment remains elevated and suggests that for some workers, unemployment is a structural issue.

The Split Between Short-Term and Long-Term Unemployment

Even as the headline unemployment rate has improved markedly over the past year, other indicators, in contrast, continue to paint a bleak picture and highlight how the labor market has changed since the Great Recession. Job vacancies have nearly doubled since 2009 as the economy has recovered. However, the unemployment rate remains high relative to the job openings rate. This has resulted in an outward shift of the Beveridge Curve and suggests more frictions in matching the unemployed with available jobs.

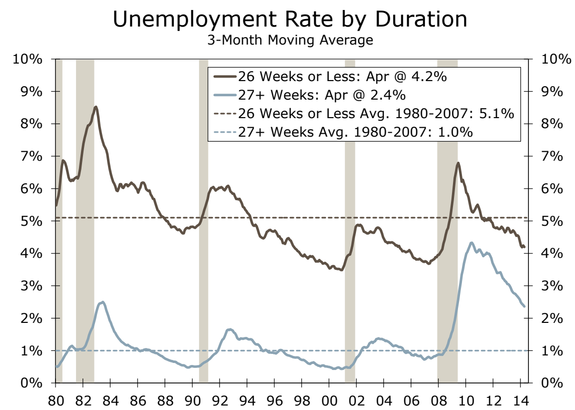
Persistent long-term unemployment has been a defining characteristic of the current expansion. The jobless rate for workers unemployed 27 weeks or more stood at 2.2 percent in April, which is significantly higher than the 1.0 percent average for the 1980-2007 period. In contrast, short-term unemployment is at 4.1 percent, below its longer-term average (top chart). This dichotomy leads to two very different pictures of structural unemployment in the economy. As evidenced by the middle chart, the short-term unemployment rate is consistent with the rate of job openings in the economy, indicating a fairly normal degree of frictional unemployment. However, the long-term unemployment rate remains high relative to the availability of jobs in this expansion, suggesting a greater degree of skills and locational mismatch (bottom chart).

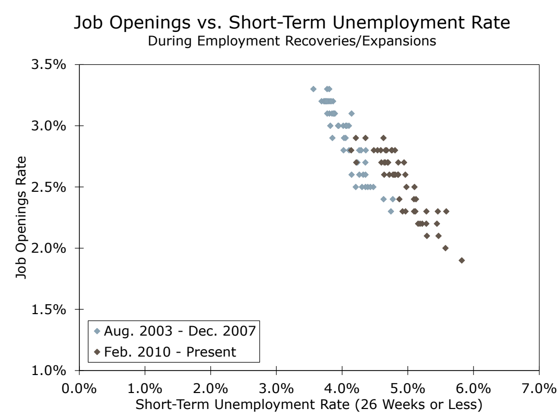
The Long and Short of It: Which Group Matters for Wages?

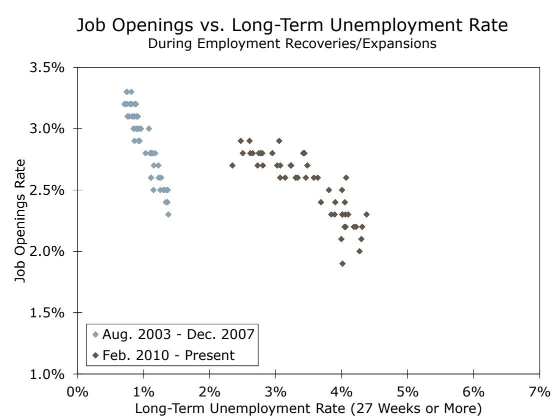
Two important issues are raised by these results. As long-term unemployment remains elevated, the risk rises that the slow cyclical recovery results in longer lasting structural unemployment. Evidence shows that as unemployment spells lengthen, the unemployed become less likely to find work as their skills are perceived to have deteriorated.

Second, a debate has risen recently as to what extent wage pressures reflect the relative influence of short-term or long-term unemployment. If employers are dismissive of the long-term unemployed within their candidate pool, the short-term unemployment rate would be a more relevant indicator of slack in the labor market. Viewing the long-term unemployed as part of the candidate pool, however, would indicate substantially more slack in the labor market and lower wage pressures.

While the evidence is mixed as to which group matters for future wage inflation, we do know that wage growth has remained modest given the recent decline in the headline unemployment rate. This suggests that perhaps the long-term unemployed are exerting a significant influence on wage setting as it is long-term, not short-term, unemployment that remains high relative to average. Given that short-term unemployment is below its average since 1980, it would suggest that wage pressures should be higher.







Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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