ANDBANK RESEARCH

Global Economics & Markets

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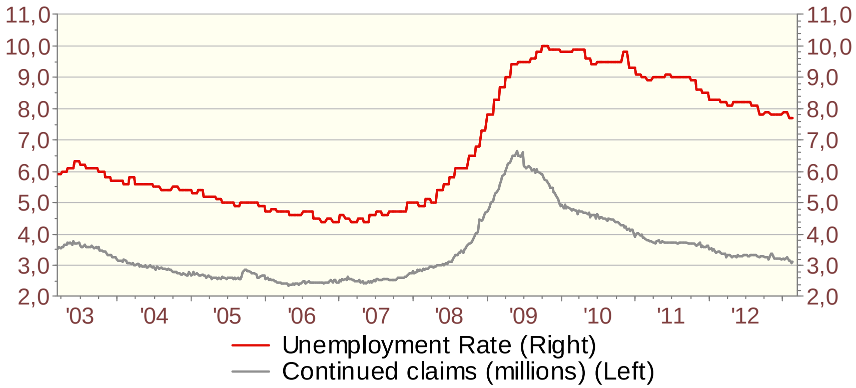
Working paper - 42

One reason to be more optimistic about the US labor market performance (bad for equities?)

April, 2013

Looking at the widely followed figures, all seems to indicate that the labor market is improving in the US

Unemployment rate & Continuing Claims US



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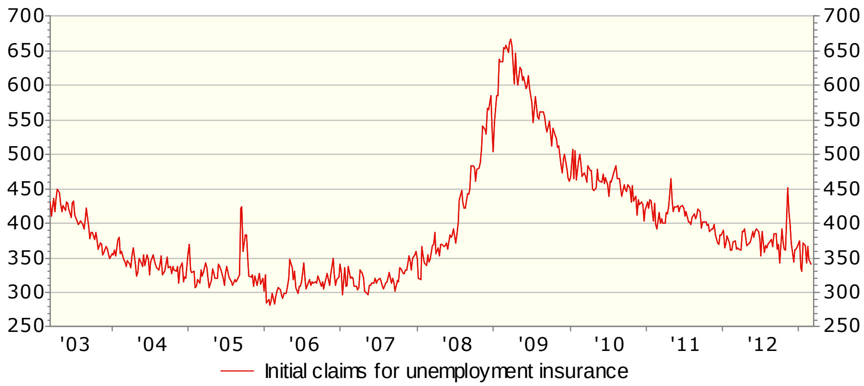
Initial Jobless Claims weekly US



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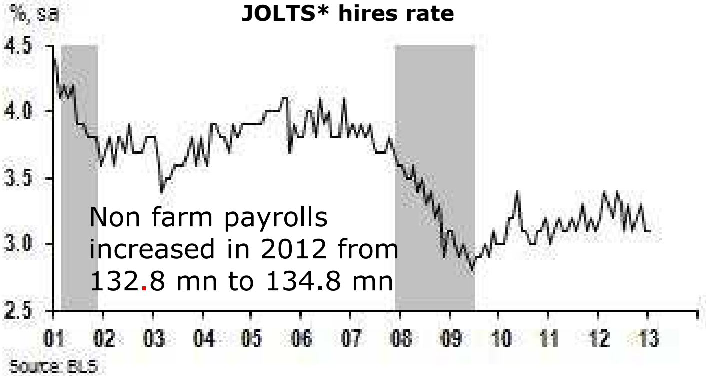
US Unemployment - Persons

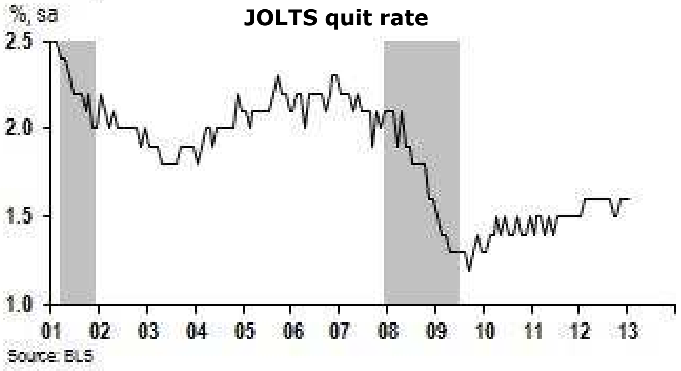
Source: Andbanc, US Department of Labor ©FactSet Research Systems

… and looking at the dynamics in the rates of hiring & firing (to supplement data on employment), we see how they also point to an improvement in labor.

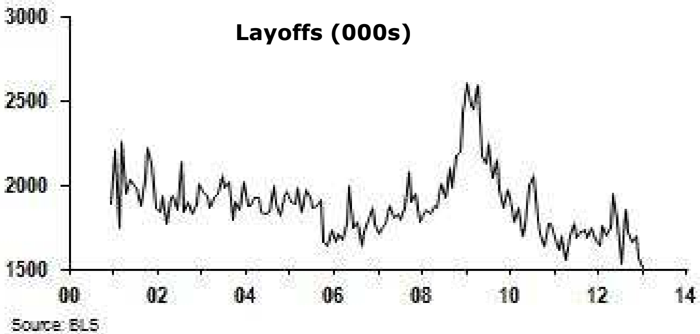
Hiring rates are held at 3.1% in January, keeping stable within the range started in 2012 (+2mn x year)



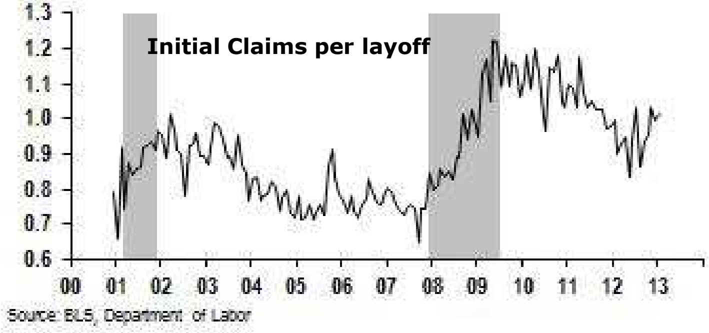
… and quit rate remains also stable at 1.5%



With a negative trend (growth) in layoffs (now at 1.5 million layoffs per year)…



… and keeping stable the number of Initial Claims per layoff at 1 … **the labour market should continue to improve**

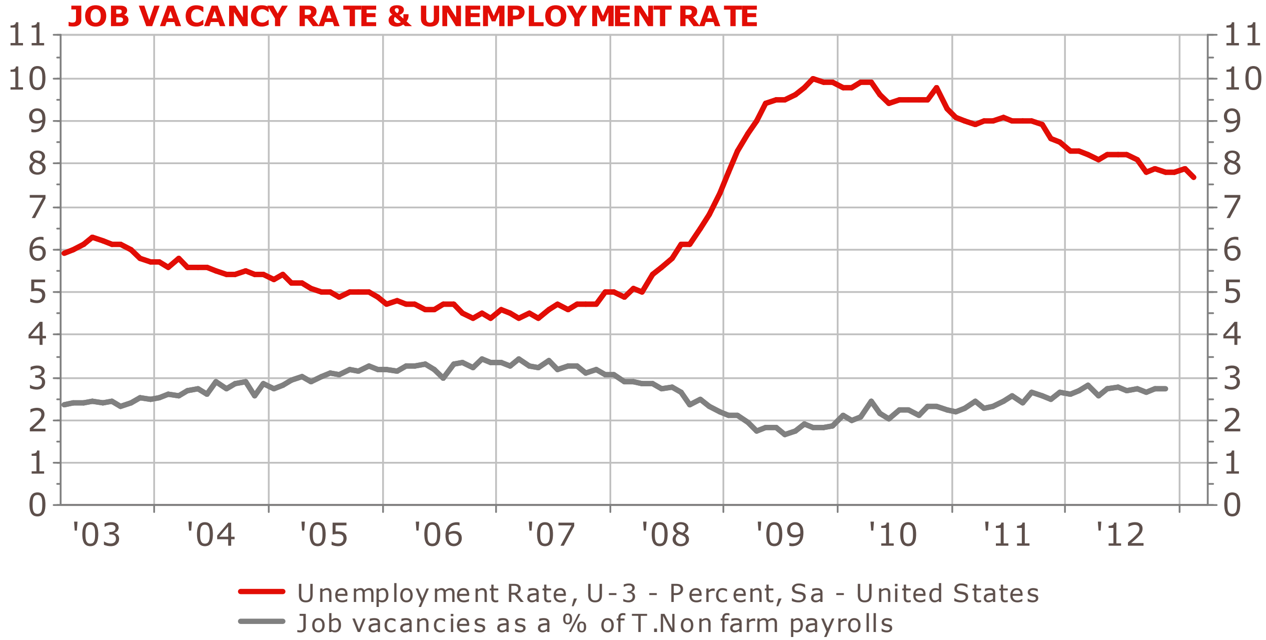


But one specific aspect makes us to be more optimistic concerning labor market performance. The recent rise in labor market inefficiency means that unemployment could improve further.

Theoretically, according to the Beveridge curve, in an efficient labor market, when the unemployment rate decreases job vacancy rates increase.

This inverse relationship seems to hold in the US (according to the chart) pointing to an efficient US labor market, characterized by a minimal mismatch between available unemployed and available jobs.

This is what the chart suggests. The US labor market works efficiently!



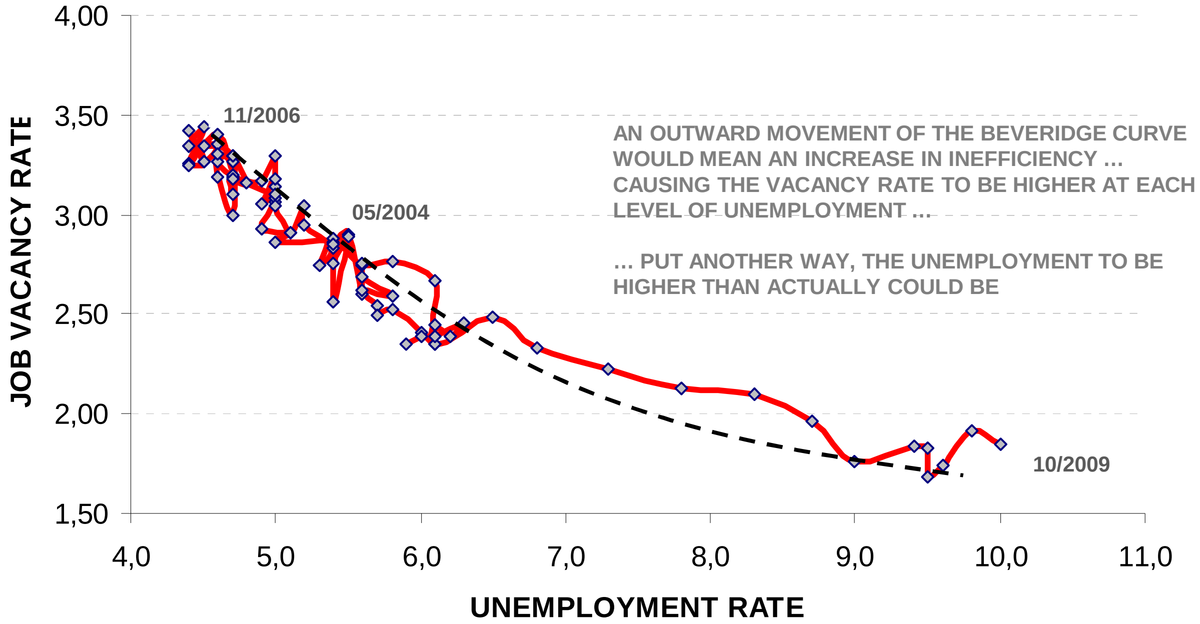
Andbank, U.S Department of Labor, OECD *©FactSet Research Systems*

But the previous chart may not be the appropriate one when gauging the exact level of efficiency in the labor market

You need to relate these items directly and plot them together in order to see whether the curve (structural relationship) has changed.

We can see how this relationship has been structurally stable over time (we have been moving along the hypothetical black line that represents the trade-off)

US BEVERIDGE CURVE



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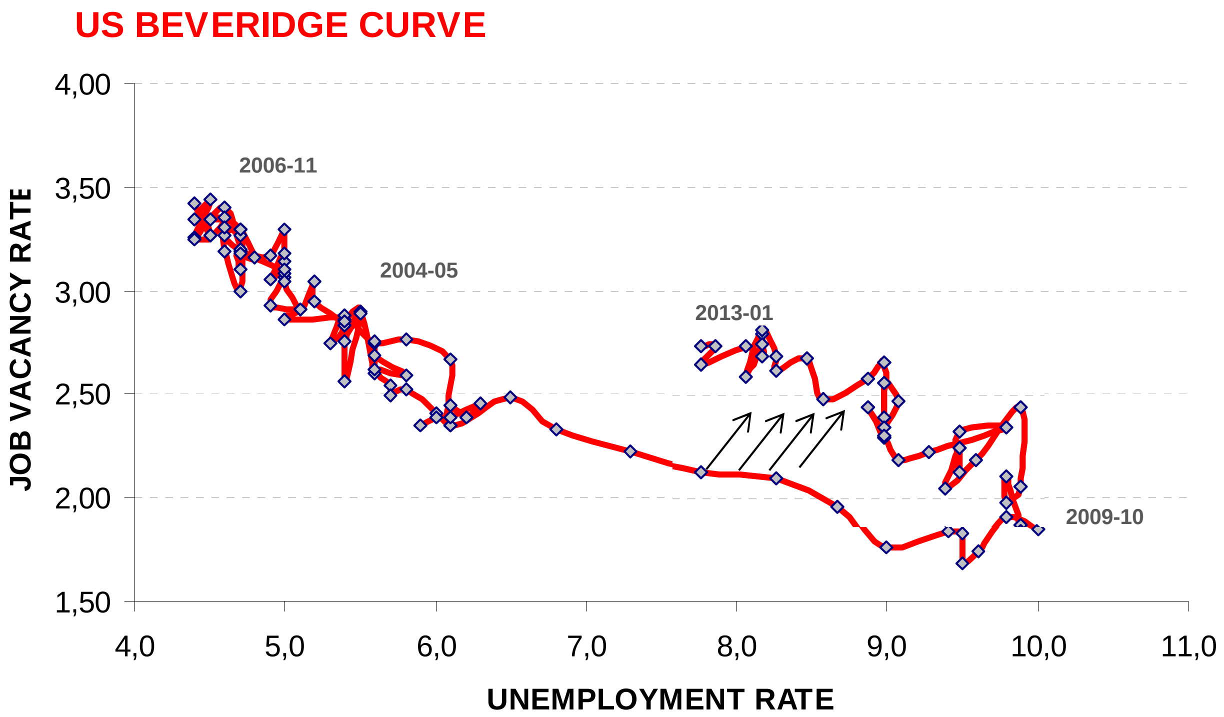
This line has hardly experienced outward or inward movements (suggesting that efficiency in the labor market has been quite stable).

But … from Oct-2010, this structural relationship has moved outward, resulting in a higher inefficiency in labor market … causing the unemployment to be higher than it could be?



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If true, this thesis suggest that just with the right policy of linking labor demand and supply, the curve should move right and settle into an unemployment rate, maybe below 7%.

Conclusions.

- Looking at the widely followed figures, all seems to indicate that the labor market is improving in the US.
- And looking at the dynamics in the rates of hiring & firing (to supplement data on employment), we see how they also point to an improvement in US labor.
- But one specific aspect makes us to be **more optimistic concerning labor market performance.** The recent rise in labor market inefficiency means that unemployment could improve further.
- Theoretically, according to the Beveridge curve, in an efficient labor market, when the unemployment rate decreases job vacancy rates increase. Under the efficiency hypothesis, this structural relationship keeps stable along a line with a negative slope.
- But from Oct-2010, **this structural relationship has moved outward**, resulting in a higher inefficiency in labor market … causing the unemployment to be higher than it could be.
- If true, this thesis suggest that just with the right policy of linking labor demand and supply, the Beveridge curve should move right and settle into an unemployment rate maybe below 7%.
- Now think about the implications that an unemployment rate below 7% might have on markets *(End of QE programs? Maybe the starting of exit strategies from the Fed?)*

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