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# Economics Group

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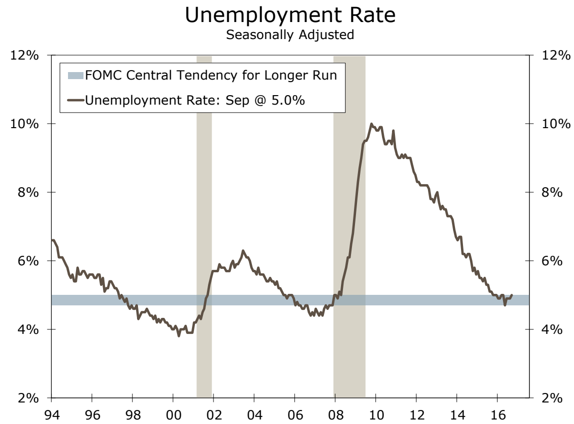
# Full Employment: Fact or Fiction?

***With the unemployment rate at five percent, we take a closer look at the data in this series of reports that sheds light on the hotly debated question: Is the labor market at full employment?***

## Beyond the Sound Bites

One of the most widely followed indicators of the labor market is the unemployment rate. By most estimates, including the FOMC's, the unemployment rate is currently signaling that the labor market has reached full employment (top chart). Yet, despite the progress made since the Great Recession, the labor market recovery in this expansion has been much maligned. Amid steady headline job growth in recent years, the questions and criticisms have been nearly as numerous as the increase in payrolls: labor force participation suggests some workers have simply given up, the duration of unemployment remains too high, the quality of jobs has been weak relative to previous expansions, wage growth is anemic, etc.

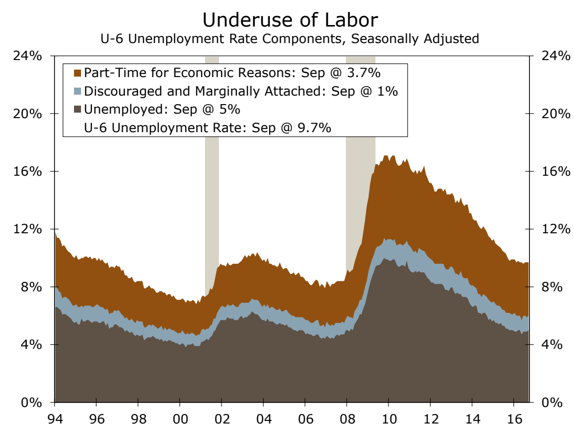
In this series of reports, of which this is part I, we look beyond the sound bites and offer a more complete picture of the state of the labor market.



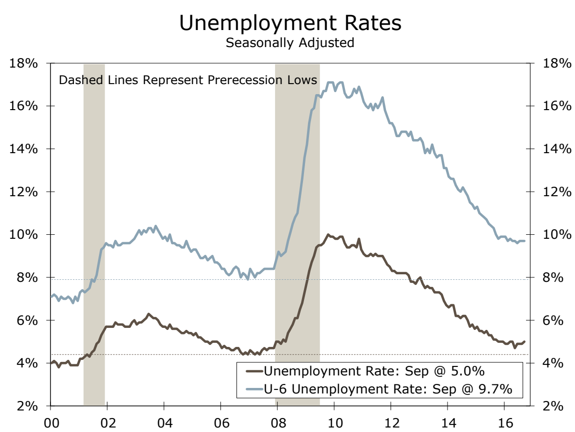

## Not Your Grandfather's Full Employment

To begin, we start with the unemployment rate. As mentioned above, the unemployment rate is five percent, a level considered to be close to full employment. Yet, economic growth, inflation, the fed funds rate and other indicators suggest quite the opposite. One criticism often leveled against the unemployment rate is that it is not the "real" unemployment rate. Put another way, the commonly cited unemployment rate, more formally the U-3 rate, fails to fully reflect the extent of idle labor.

The Bureau of Labor Statistics publishes six different unemployment rates, each progressively broader than the previous measure. The U-3 rate is the most commonly cited and certainly a "real" measure of unemployment. The broadest measure, the U-6 or "underemployment" rate, captures all those who are unemployed and counted in the U-3 rate, plus all those who are employed part time for economic reasons, plus all those who are marginally attached to the labor force (middle chart). Marginally attached persons are those who are currently neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months.




Unlike the U-3 rate, data for the U-6 only goes back to 1994. The U-6 rate skyrocketed during the Great Recession and improvement has been steady but gradual. This rate has fallen significantly from its peak and is below 10 percent, a sign that there is significantly less slack in the labor market than there was even a year or two ago. However, at 9.7 percent, the U-6 remains off its prerecession low of about 8 percent (bottom chart). Thus, the U-6 rate signals the labor market is a bit farther from full employment than the U-3 would suggest, particularly among those working part-time for economic reasons and those who remain on the fringes of the labor force. In part II, we will explore these labor force participation dynamics.




Source: U.S. Department of Labor, Federal Reserve Board and Wells Fargo Securities

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