



FEDERAL RESERVE BANK  
OF SAN FRANCISCO

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

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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**

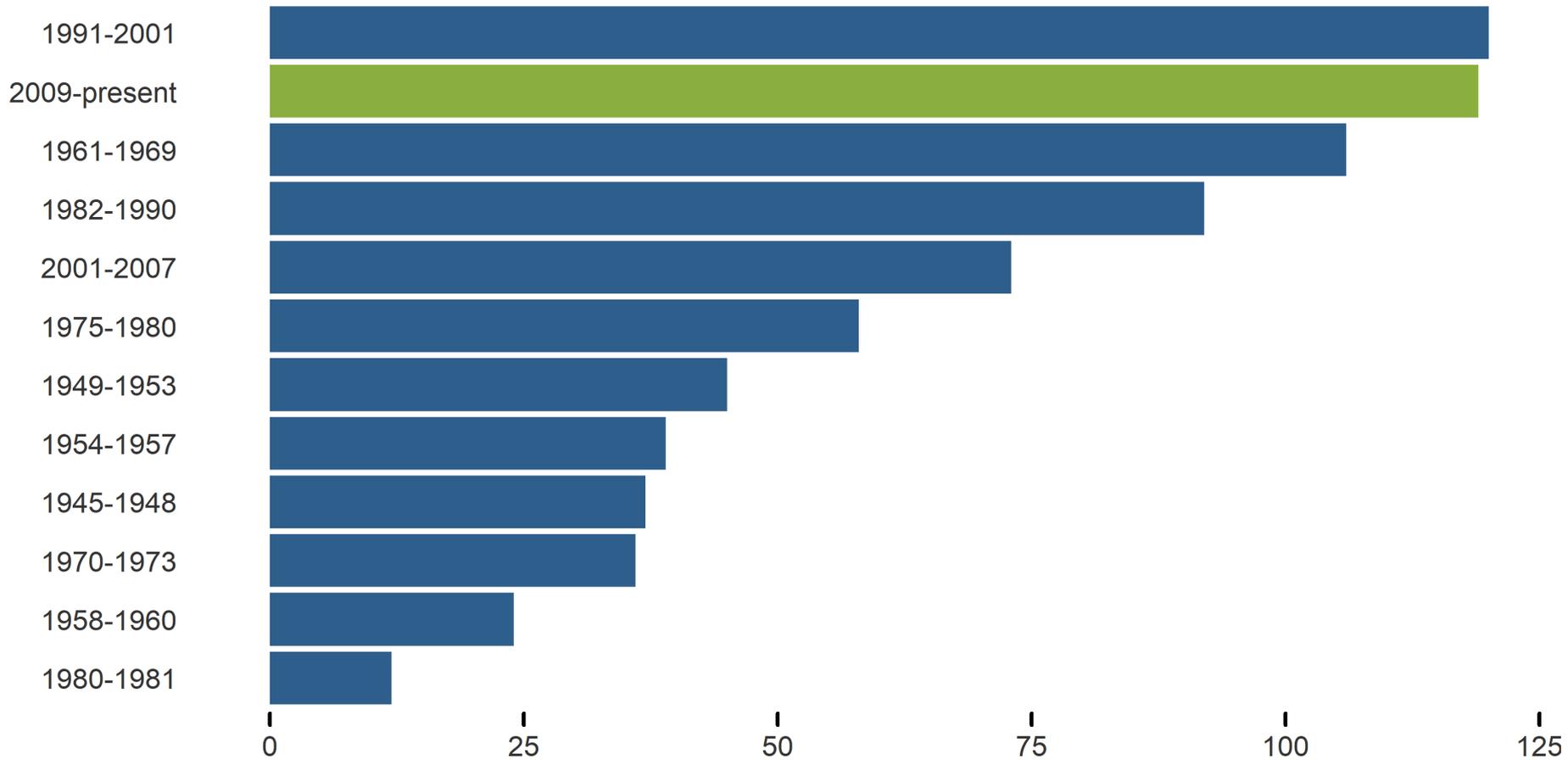
**III. The evolving role of UI**

**IV. Bottom lines**

# Current economy

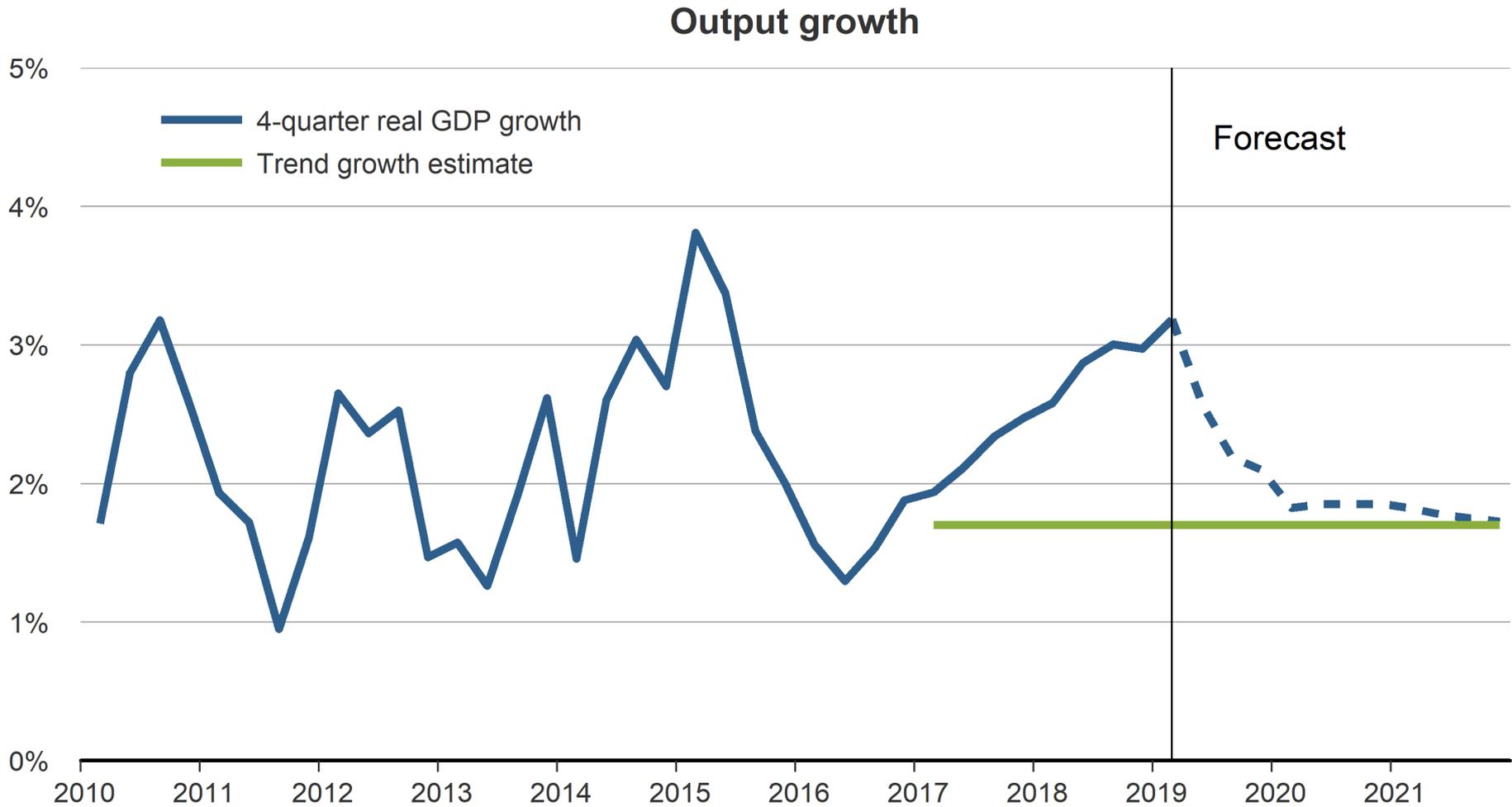
# Likely longest expansion in U.S. history

Duration of postwar expansions in months



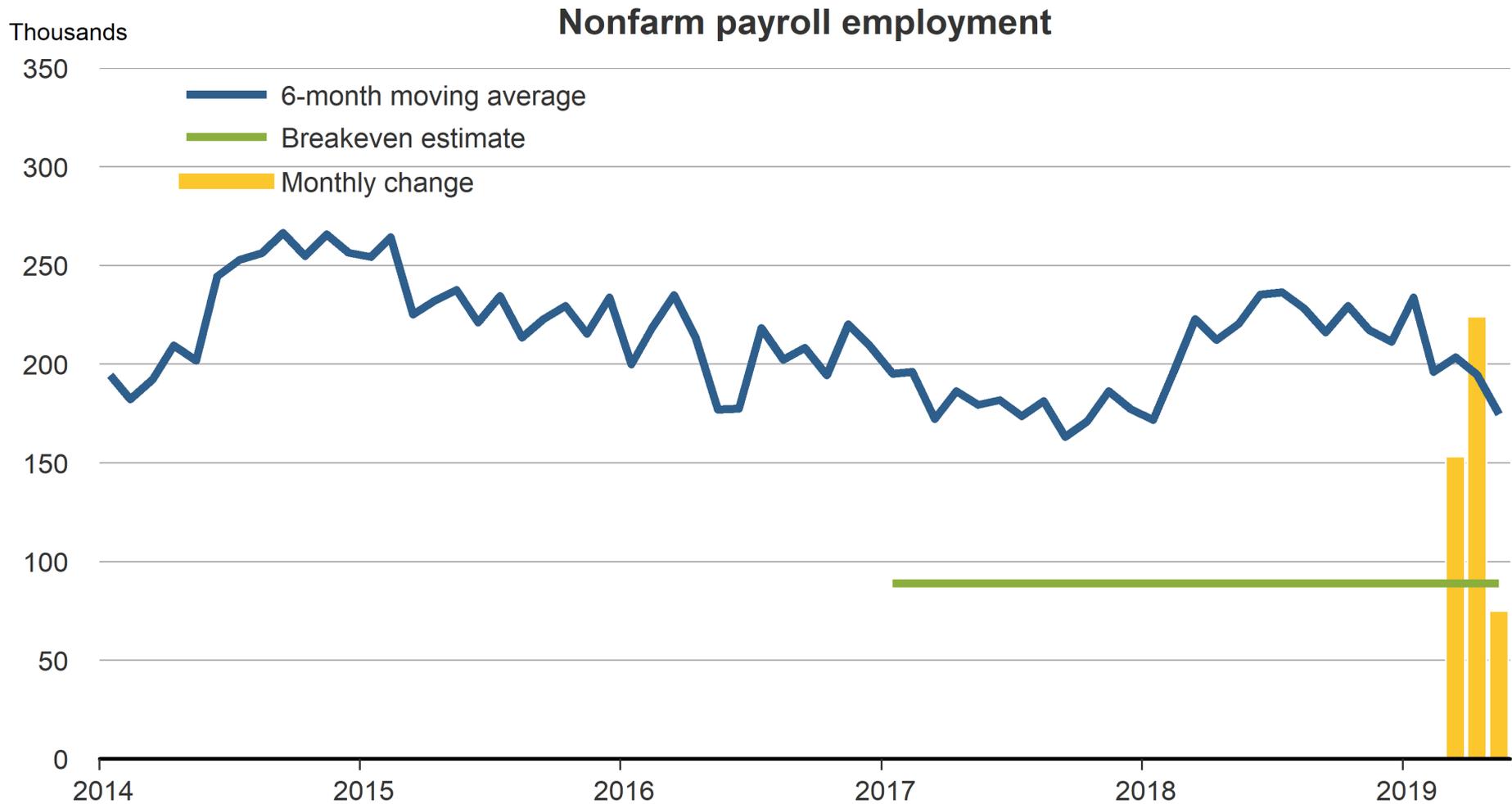
Source: National Bureau of Economic Research and FRSBF staff

# GDP growth projected to slow



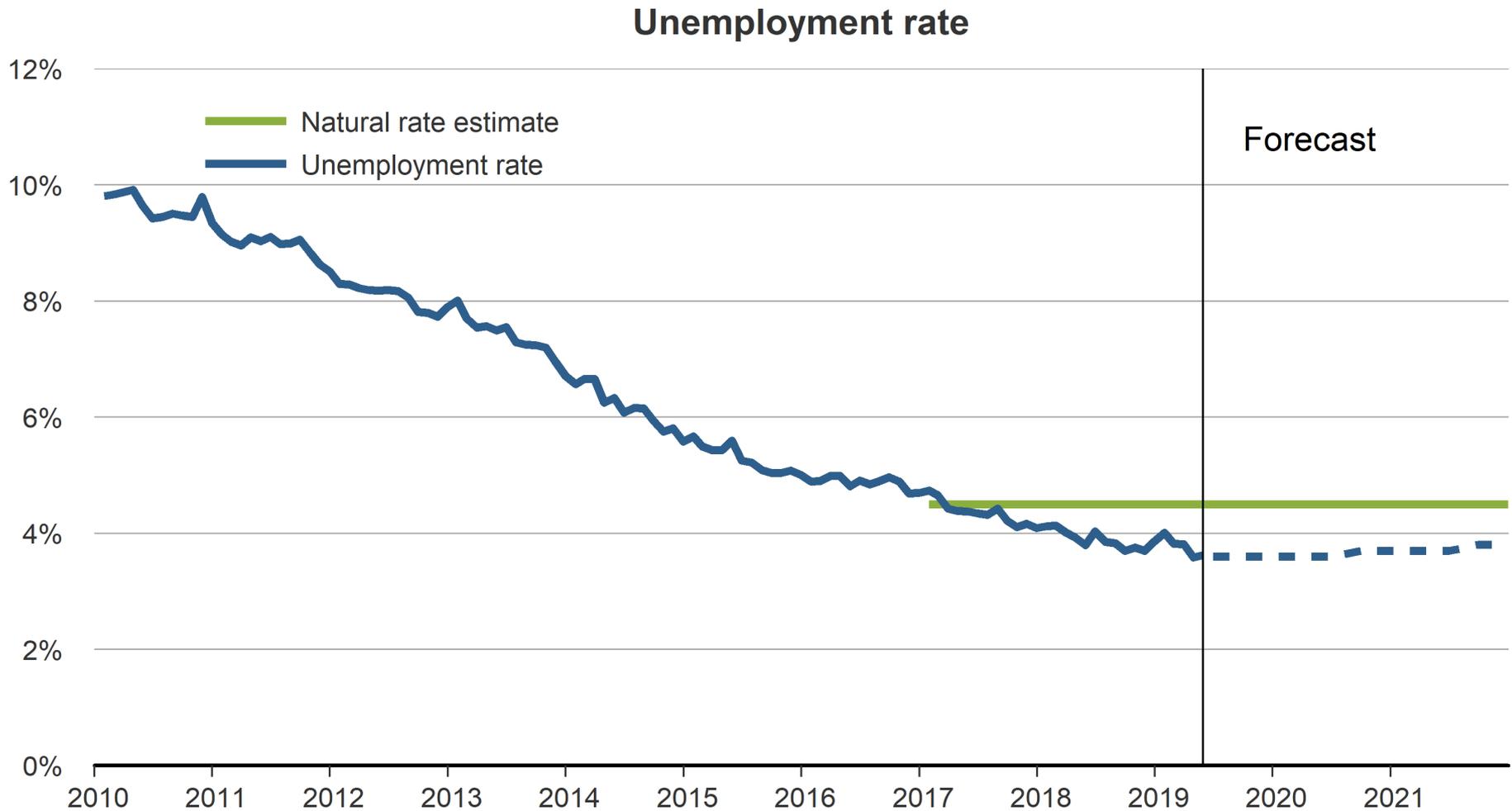
Source: Bureau of Economic Analysis and FRBSF staff

# Job gains likely easing as well



Source: Bureau of Labor Statistics and FRBSF staff

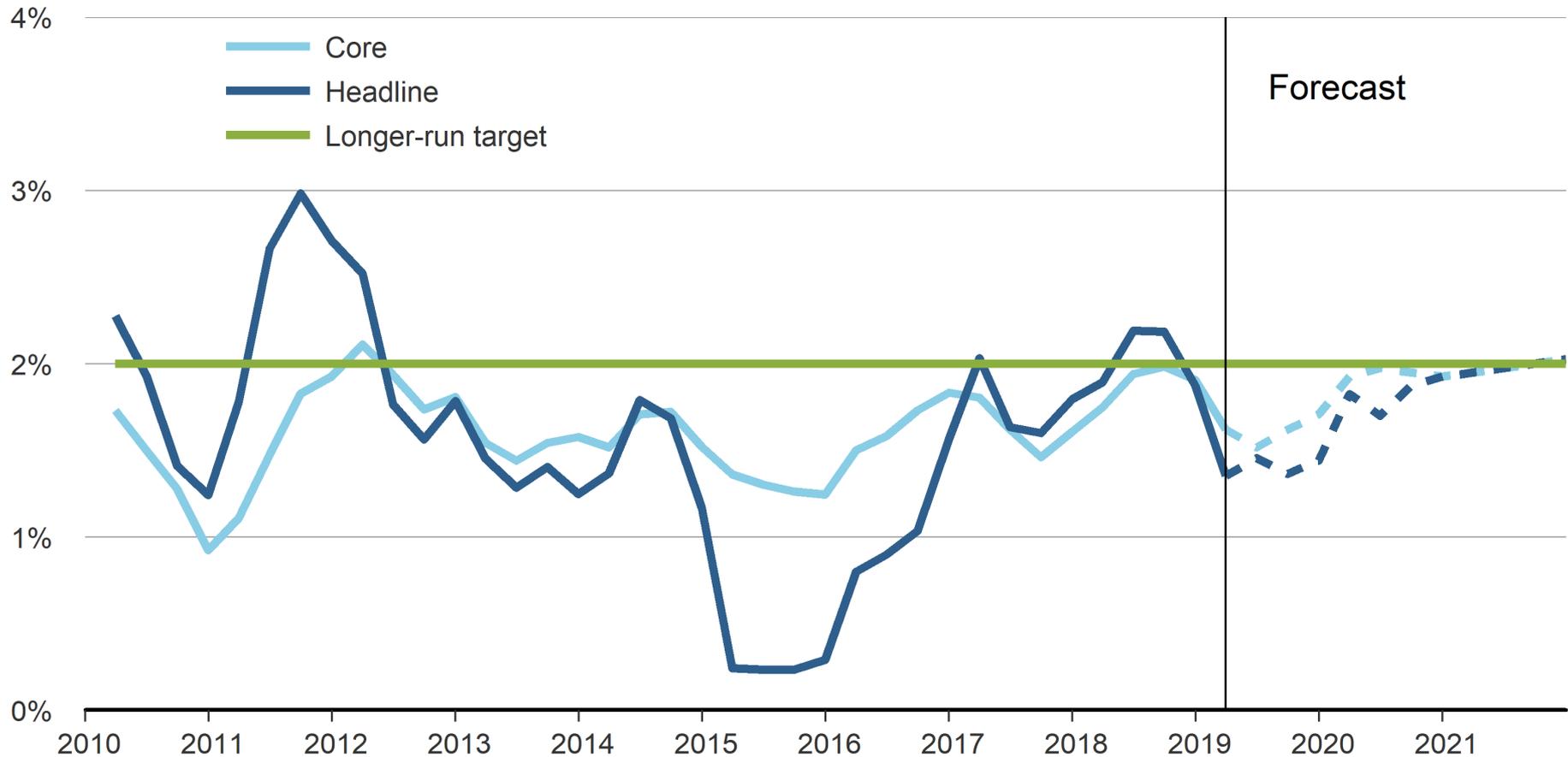
# Labor market beyond full employment



Source: Bureau of Labor Statistics and FRBSF staff

# Inflation expected to return to target

## Personal consumption expenditures (PCE) price inflation

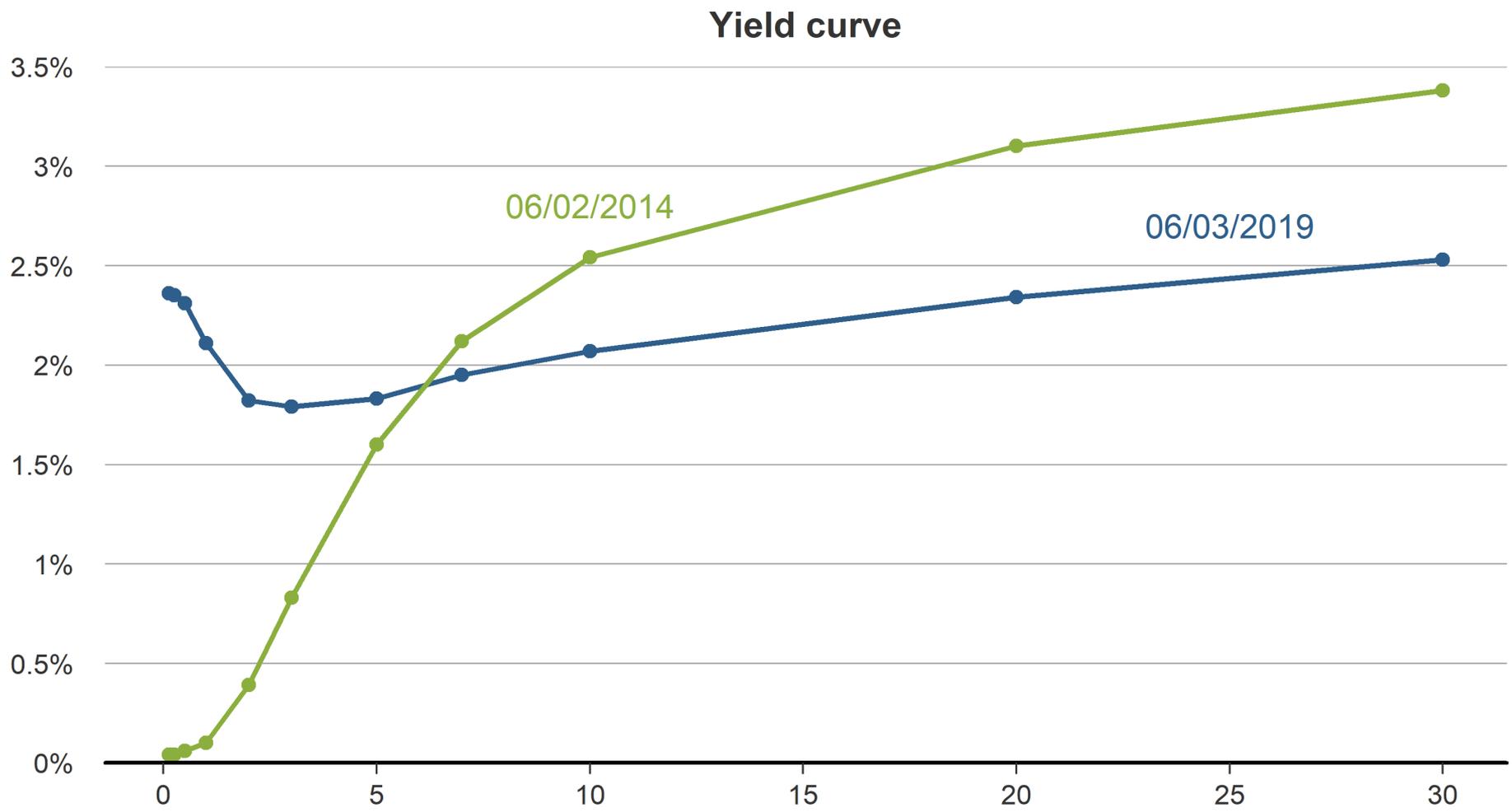


Note: 4-quarter change in personal consumption expenditures price index.

Source: Bureau of Economic Analysis and FRBSF staff

# Recession risks and monetary policy

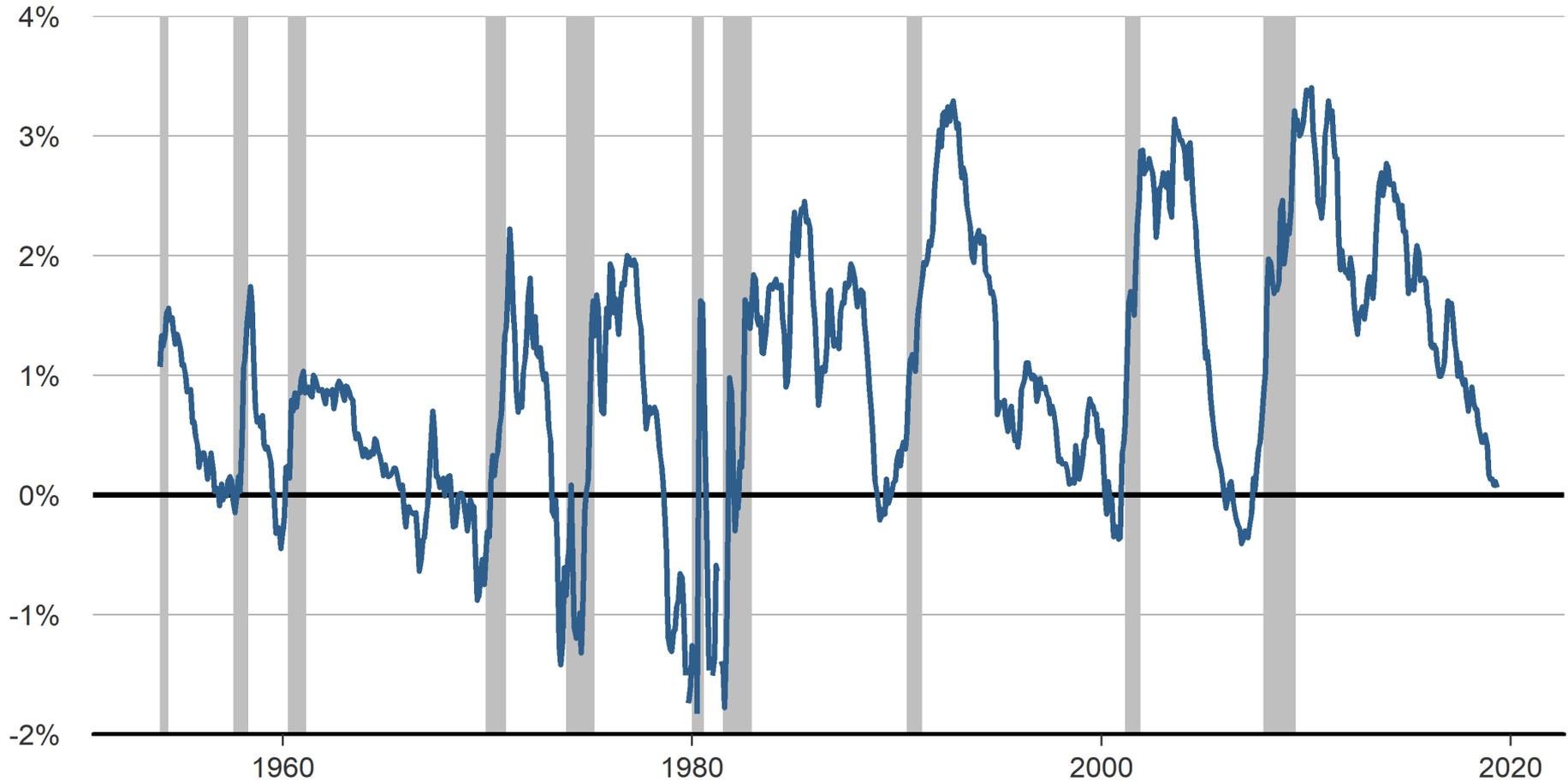
# Yield curve has flattened substantially



Source: US Treasury Department, Constant Maturity Treasury Rates

# Yield curve: inversion precedes recessions

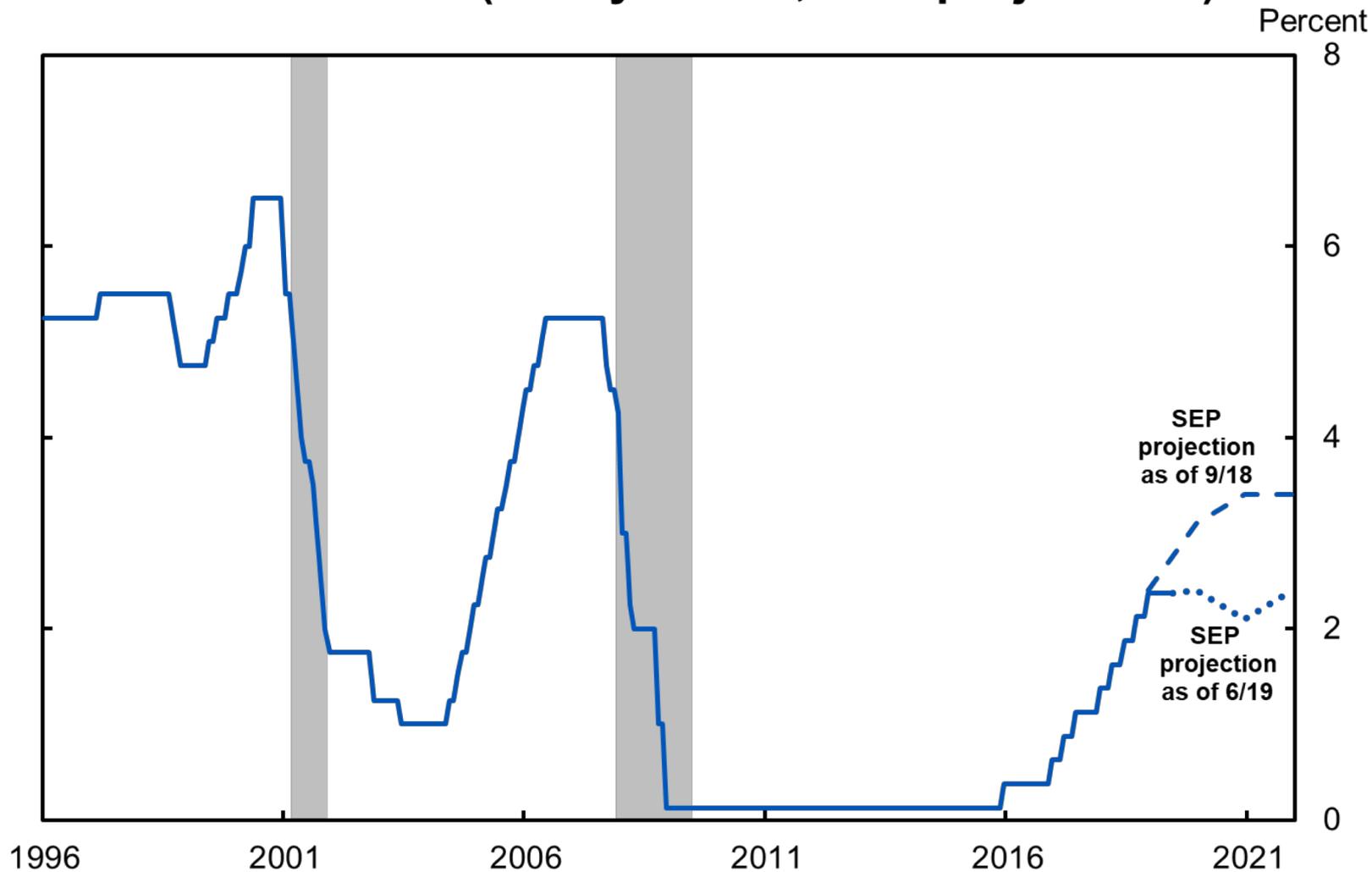
## Monthly Term Spread: 10-Year and 1-Year Treasuries



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

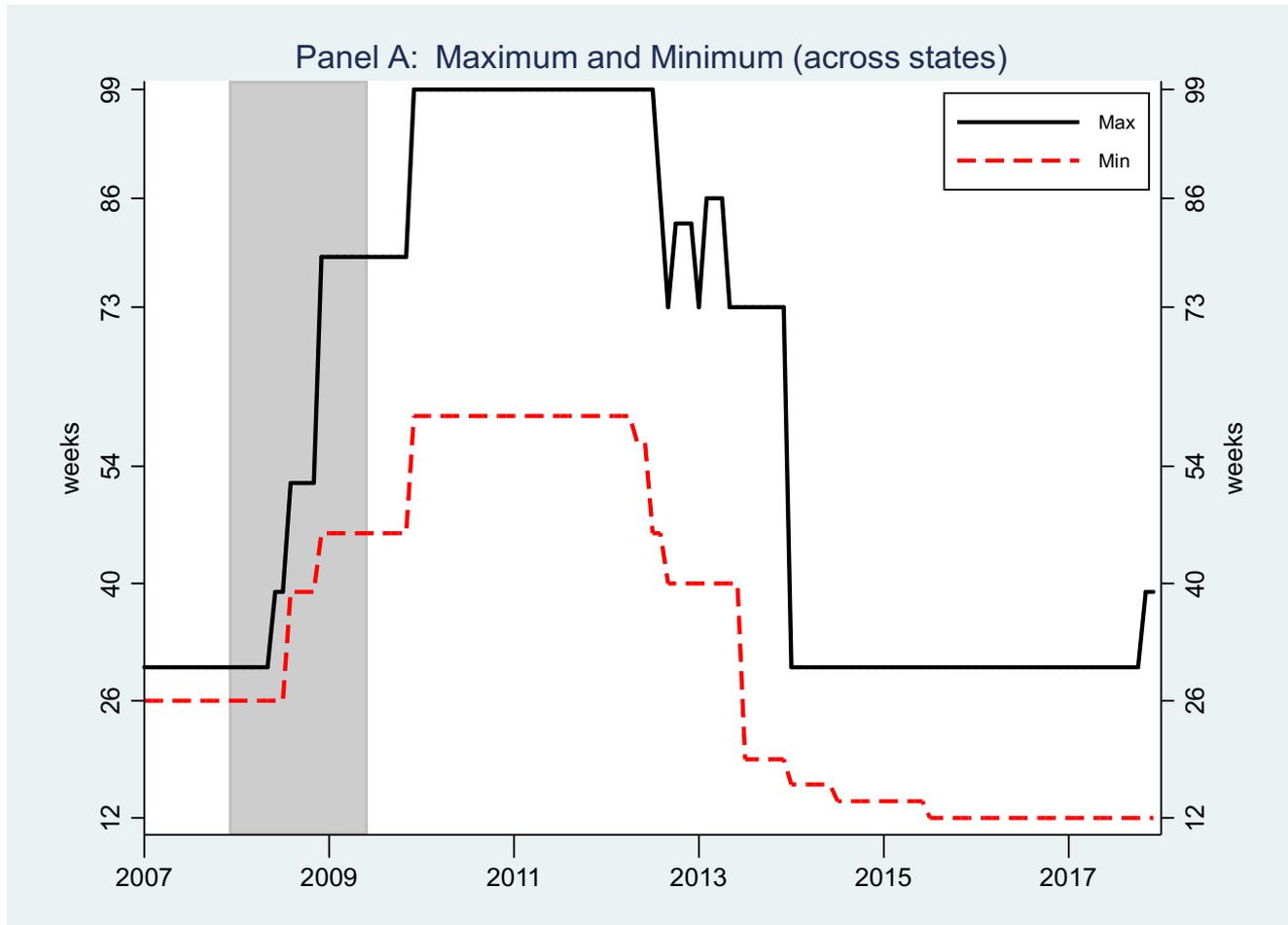
Extensions: combination of perm EB and temp EUC programs

**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	13 (IUR $\geq$ 5%)
	Mar. 1993 - forward	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	13 (all states)
	Nov. 23, 2008 - Nov. 7, 2009	
	Tier I	20 (all states)
	Tier II	13 (IUR $\geq$ 6% or TUR $\geq$ 8%)
	Combined total	33
	Nov. 8, 2009 - May 26, 2012	
	Tier I	20 (all states)
	Tier II	14 (all states)
	Tier III	13 (TUR $\geq$ 6% or IUR $\geq$ 4%)
	Tier IV	6 (TUR $\geq$ 8.5% or IUR $\geq$ 6%) <sup>3</sup>
	Combined total	53
	May 27, 2012 - Sep. 1, 2012	
	Tier I	20 (all states)
	Tier II	14 (TUR $\geq$ 6%)
Tier III	13 (TUR $\geq$ 7% or IUR $\geq$ 4%)	
Tier IV	6 (TUR $\geq$ 9% or IUR $\geq$ 6%)	
Combined total	53	
Sep. 2, 2012 - Dec. 28, 2013		
Tier I	14 (all states)	
Tier II	14 (TUR $\geq$ 6%)	
Tier III	9 (TUR $\geq$ 7% or IUR $\geq$ 4%)	
Tier IV	10 (TUR $\geq$ 9% or IUR $\geq$ 6%)	
Combined total	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**

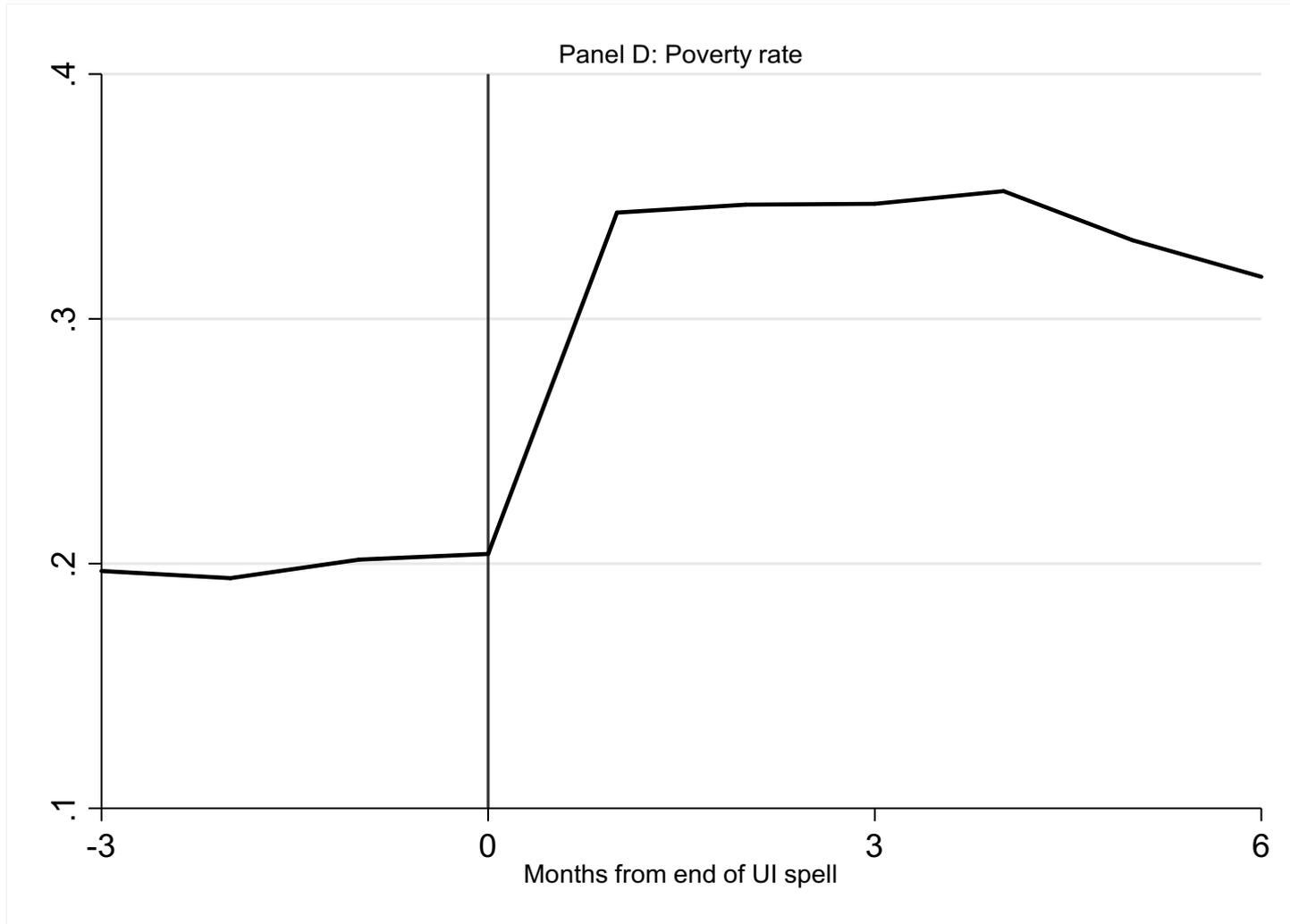
# Little or no adverse impact on job search

- **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.
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- Mertens, Thomas. 2019. “FedViews.” Federal Reserve Bank of San Francisco, June 13.
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