

'Hidden' unemployed show real jobs picture

Shows more slack in the market than appears

June 14, 2004

(Reuters) — Buried inside the official U.S. employment report each month is a little-known figure that gives a much less rosy picture of the labor market than the headlines.

The government agency that produces the data also publishes an alternative measure that tries to capture the hidden unemployed, those who are not included in the official unemployment rate for various statistical reasons.

That broader measure is dramatically higher, at 9.7 percent in May, compared with the official level of 5.6 percent.

That's an extra 5.96 million people, in addition to the 8.2 million "officially" unemployed, who are waiting on the sidelines and may at some point step back into the labor force.

Although it receives little notice, the adjusted jobless rate has important implications for Federal Reserve policy-makers because it suggests the job market will not tighten as quickly as some in the financial markets believe.

"It shows there is more slack in the labor market than appears on the surface and as job opportunities improve, we'll see people re-entering the labor force to search for work," said former Fed Governor Lyle Gramley.

"That means fears that inflation is about break out all over the place do not seem warranted," he said in an interview.

The Federal Reserve is widely expected to start raising interest rates later this month, as the economy recovers from the 2001 recession and job creation picks up. But the Fed can boost rates at a slower pace if inflation is not a big threat.

DISCOURAGED WORKERS

The Labor Department's adjusted measure of unemployment adds in people it describes as "marginally attached" to the labor force. These are workers who have not actively looked for work in the past four weeks, including "discouraged workers" who have given up altogether. They also include those who have given up looking for full-time jobs and have settled for part-time work instead.

None of the unemployment measures include the 1.7 percent of the male wage-earning population who are in prison, or another 1.36 million men, according to the Bureau of Justice Statistics.

``We have had this unprecedented withdrawal from the labor force over the past three years," said Lee Price, research director at the independent Economic Policy Institute. ``The traditional measure of labor market slack, the unemployment rate, is giving us a misleadingly tight picture."

Indeed, the labor force participation rate is at its lowest level since 1988—lower even than in the last recession.

Financial markets and private-sector economists pay little attention to the alternative measure of joblessness, and a search of the Federal Reserve's entire database of research turned up only two articles on the topic.

The author of one of those papers, economist Yolanda Kodrzycki at the Boston Fed, said the broader measure is ``very helpful," although it tends to move in tandem with the official rate.

On Wall street, analysts generally hold upbeat views on the economy and accept the unemployment rate at face value, said HSBC Chief Economist Ian Morris. ``There is a whole debate to be had on unemployment, but it's not happening," he said.

The adjusted measure shows ``unemployment remains stubbornly high and higher than it should be at this point in the cycle," said Jose Rasco, senior economist at Merrill Lynch.

Federal Reserve officials seem to be aware of the limits of the reported unemployment rate.

Fed Governor Donald Kohn noted in a speech last week that many people who left the work force because of poor prospects are probably ready to rejoin the market.

``If that is correct, then the current level of the unemployment rate ... may, if anything, understate the availability of labor resources," Kohn said.

The return of the uncounted into the work force will also slow the improvement in the official rate, and could actually send it higher, even as new jobs are being created.

