The Daily Dish

How Tight Is the Labor Market?

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The U.S. labor market has seen remarkable changes over the past two years, and remains a challenge for policymakers and analysts alike. In February 2020, 63.4 percent of the population participated in the labor market (labor force participation rate), and of those, 3.5 percent were unemployed and 152.5 million had jobs. Two months later, 22 million had lost their jobs, the unemployment rate had skyrocketed to 14.7 percent, and labor force participation had dropped to a rate of 60.2 percent.

With the onset of recovery from the extremely steep and short (two month) recession, these indicators of the labor market had visibly improved. Labor force participation now stands at 62.2 percent, the unemployment rate at 4.0 percent, and 149.6 million Americans are employed. These are big improvements, but not yet back to their February 2020 levels. This would seemingly imply some labor market slack.

At the same time, there is a drumbeat of stories about the inability of employers to find workers, job openings have hit record levels, wages are on the rise, and the rate at which workers are quitting their jobs has hit an all-time high. This is hardly the picture of a labor market that is trying to work off some slack. It is the image of a labor market on fire.

How can both be true at the same time? In an interesting new working paper, R. Jason Faberman, Andreas I. Mueller, and Ay?egül ?ahin investigate the question: "Has the Willingness to Work Fallen during the Covid Pandemic?" They point out that the overall supply of labor has two components: (1) the willingness to look for and accept a job, and (2) the hours one is willing to work on the job. The former – known as the extensive margin – is the focus of the conventional statistics, which essentially count the number of people in different classifications (participating in labor force, employed, unemployed, etc.). Their focus is on the latter.

Specifically, they use questions about individuals' desired work hours for the 2013-2021 period taken from the Job Search Supplement of the Survey of Consumer Expectations. By estimating individuals' desired hours of work, they can compute the aggregate desired supply of hours, which can be compared to that aggregate demand for hours of work. The gap by which supply exceeds demand is a measure of labor market underutilization that they refer to as the Aggregate Hours Gap.