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Unemployment Rate is Down to Pre-recession Rates, but a Broader Measure Indicates More Progress is Needed to Reach Full Recovery

Maine Center for Workforce Research and Information

Dana Evans

Maine Center for Workforce Research and Information, Dana.A.Evans@Maine.gov

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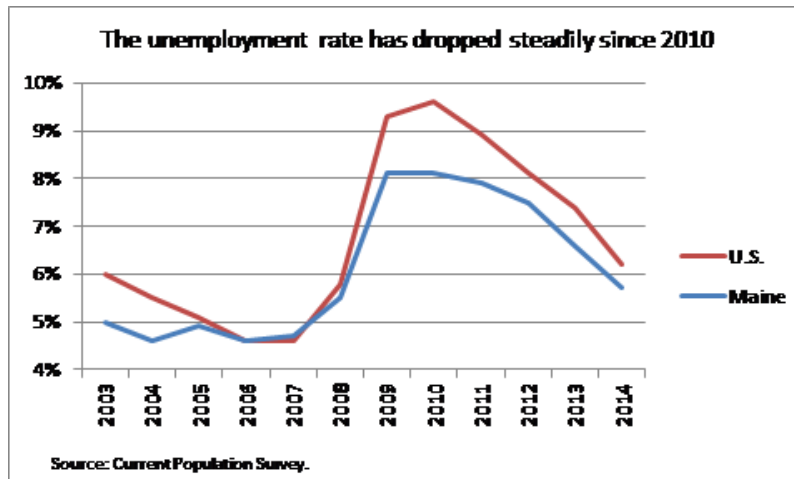
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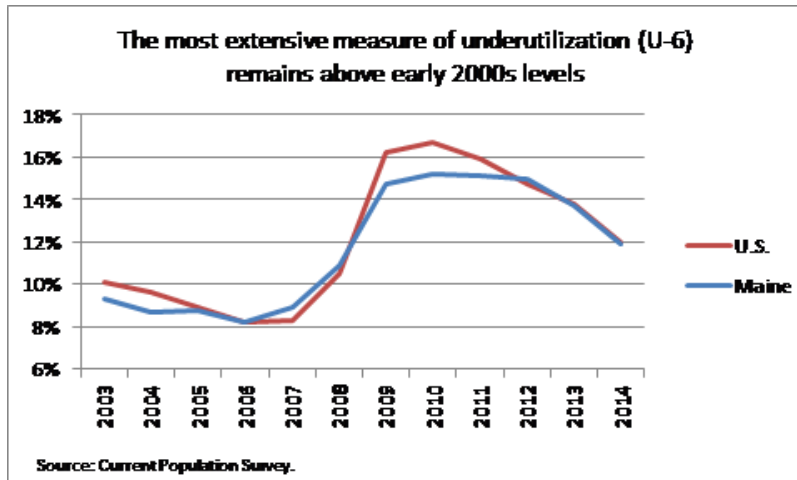
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Unemployment Rate is Down to Pre-recession Rates, but a Broader Measure Indicates More Progress is Needed to Reach Full Recovery

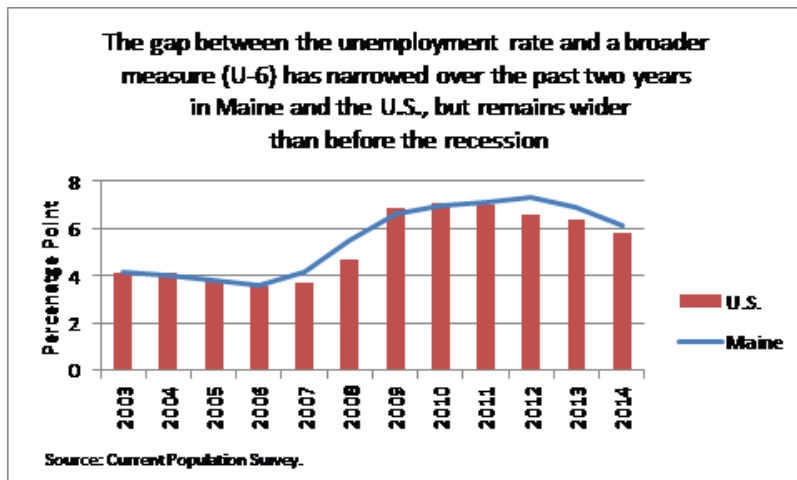
Recently the Federal Reserve decided not to raise the interest rate despite the falling U.S. unemployment rate, which is nearing the range often considered “full employment,” or the rate the economy can operate at without creating too much inflation. In addition to the unemployment rate, the Fed looks at many other measures, including a more comprehensive measure of labor underutilization.



Unemployment rates have declined significantly from the recession-induced 2010 peak to 5.5 percent in the U.S. and 4.8 percent in Maine as of March 2015. A broader measure of labor underutilization, called U-6, suggests some slack in the labor market. U-6 averaged about 12 percent in both Maine and the U.S. in 2014, well above the pre-recession averages. The U-6 figure not only includes the traditional definition of the unemployed (also known as the U-3), but also discouraged and other marginally attached workers as well as those working part time who want full-time employment. It is the most comprehensive measure available of slack in the labor market.



The unemployment rate and U-6 tend to move in tandem throughout the business cycle. Both measures peaked in 2010. However, the gap between the two rates remains wider than before the recession. From 2003 to 2007, the average spread between the unemployment rate and U-6 was about four percentage points both in Maine and the nation. The gap, which increased to about 7 percent during and shortly after the recession, declined to about 6 percent in 2014.



Although the gap has narrowed, it remains elevated. Both in Maine and the nation the share of people marginally attached to the labor force or working part time who want full-time work remains higher than before the recession, and labor force participation rates for age groups under age 55 are lower. We have made a lot of progress in the recovery, but still have a ways to go to achieve a full labor market recovery.