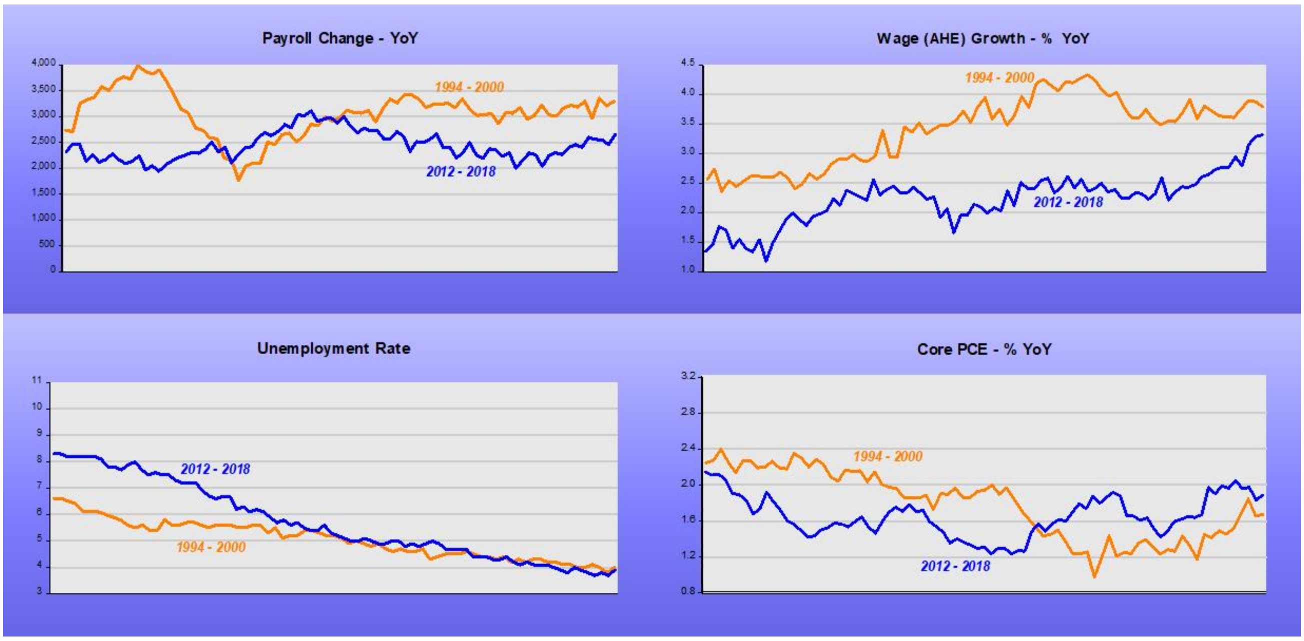
Two Labor Markets: The "Strong" & the "Weak"

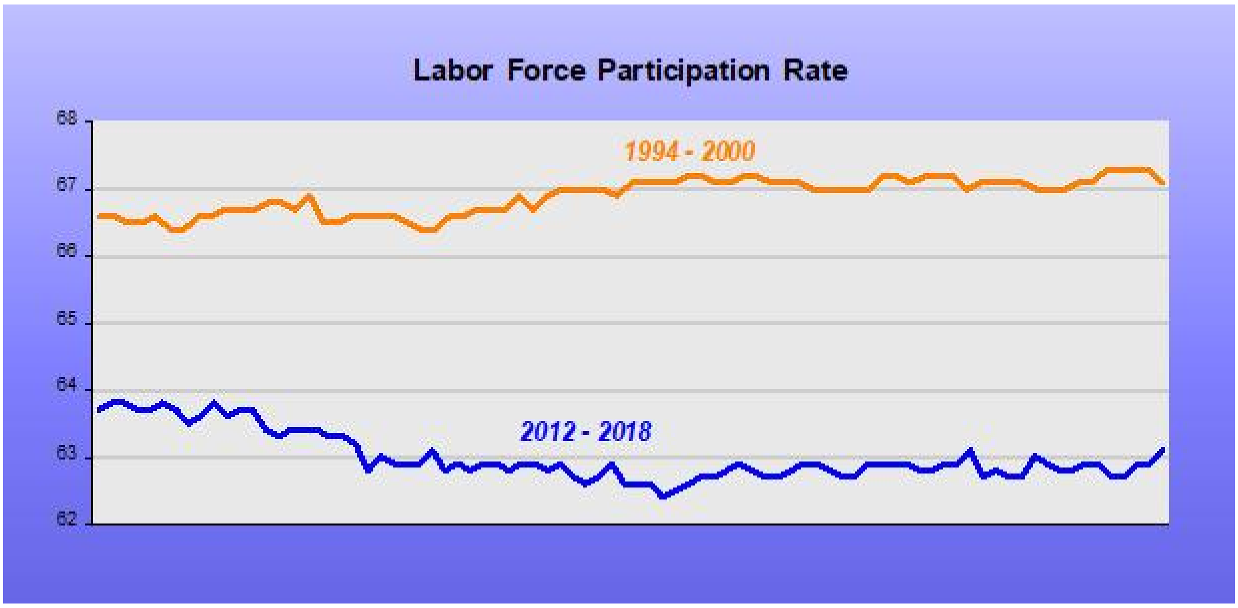
"We need the concept of a natural rate of unemployment … we need to have some sense of whether unemployment is high, low or just right," Jay Powell says (at AEA).

Keep on looking Mr. Powell, you won´t find it. As the panel indicates, a "low" unemployment rate can be a feature of both a "strong" and a "weak" labor market.



In all other dimensions, this labor market is relatively weak. Employment has grown much less. Wage growth has been much more subdued. Meanwhile, on average, inflation is similar (1.6% yoy now versus 1.7% then).

The participation rate well reflects the "dullness" of the present labor market.



The driving force that defines the state of the economy (and the labor market) is aggregate nominal spending growth. That growth has been much lower and given very similar rates of inflation, so has real growth. Not shown are the depressed **levels** of both nominal spending (NGDP) and real output (RGDP).

In the AEA Meetings: Bernanke: “excellent chance of breaking expansion record… no sight of it getting murdered.”

Problem is there was never a recovery! In other words, weakness is pervasive.