Unemployment: The New Norm
by Jeremy Greenfield
Friday, May 20, 2011

Even as the economy recovers, the days of 5% unemployment may be gone for good.

A chorus of economists and labor market observers say that the "natural" or "structural" rate of unemployment has shifted up, meaning that Americans looking for work should get used to having a harder time finding it. The unemployment rate is currently 9% and could take until 2016 to reach the natural rate.

The so-called natural unemployment rate is somewhere around 7%, according to Mark Vitner, a senior economist at Wells Fargo. Other economists peg the natural unemployment rate somewhere between 5.5% and 7%. They said the figure will be held higher by a skills mismatch in the labor market that has been growing since the 1970s, the recent extension of unemployment benefits and the 2009 minimum wage increase.

"Businesses are looking to hire, but the workers they are looking to hire are not there in the abundance that they want them to be," Vitner said.

Slightly more than half of U.S. businesses are having trouble finding the right candidate for open jobs, according to a survey released today of 1,322 U.S. businesses by global recruitment firm ManpowerGroup. In 2010, only 14% of respondents had similar gripes.

"There's a talent mismatch," said Jeff Joerres, CEO of ManpowerGroup. "That, coupled with the fact that demand in most industries is not so robust that [firms] need to compromise, means companies are able to wait to find the right people."

Natural unemployment rate is a theoretical measure of what share of the workforce would be unemployed under ideal conditions given the underlying structure of the economy; that is, what goods and services that businesses are actually producing and the workers who produce them. Some economists and observers say that the structure of the economy has changed coming out of the recession.

Since 1996, the natural unemployment rate has hovered between 4.5% in 2000 and 5.8% in 2010, according to a periodic survey by the Federal Reserve Bank of Philadelphia. The Congressional Budget Office, which uses the rate to make forecasts and projections, currently pegs it at 5.2%.

Making the New Natural

The structural changes that have the strongest effect on the natural unemployment rate are long-term shifts with prolonged consequences for the economy, according to Diane
Swonk, chief economist and senior managing director at Mesirow Financial, a Chicago-based financial services firm.

While higher levels of education and new technologies have increased overall productivity and the earning potential of highly skilled workers over the course of several decades, the bottom half of the labor force was left behind. Fewer workers with up-to-date training means employers have a harder time filling openings -- a skills mismatch.

"Educational attainment reached a peak in the 1970s, right at the moment we were moving from the industrial age to the information age," said Swonk.

For instance, there are about 600,000 job openings in education and health services and almost 600,000 in professional and business services according to the BLS. Both of these sectors have very high rates of job openings compared to total positions, about 3% each, meaning that there is a lack of talent to fill the positions. This is as opposed to construction, which currently has 67,000 job openings, which is only 1.2% of all such positions.

A boom in the construction industry in the 2000s, an expansion of credit and gains in productivity through technology disguised the significant structural changes in the economy.

"We delayed the pain and papered-over the problem," Swonk said. "The recession washed that away."

Swonk believes that one of the lasting outcomes of the recession will be a skills shortage driven by educational inequality.

Bart Hobijn, an economist at the San Francisco Federal Reserve, argues against the skills mismatch theory for driving up natural unemployment. Hobijn recently studied the unemployment rate among recent college graduates -- who are theoretically resistant to the effects of a skills shortage -- and found that they were faring just as poorly in the labor market as others, implying that skills mismatch isn't having much of an effect on the natural unemployment rate.

While Hobijn pegs the natural unemployment rate at about 6.5%, he attributes much of the upward shift to the extension of unemployment benefits and surprisingly slow hiring for the high number of job vacancies, which now number over 3.1 million, according to the Bureau of Labor Statistics.

Ironically, extended unemployment benefits and a higher minimum wage -- a reaction to the higher unemployment brought on by the recession -- contribute to a higher natural unemployment rate by encouraging more people to put off working and discouraging employers from hiring minimum wage workers.

**Hard Times Finding Jobs**

Ultimately, a higher natural unemployment rate means it will be harder for people to find work.

"Job seekers ... are facing a chaotic and complex environment due to an over-supply of available workers," Joerres at ManpowerGroup said.

In April, the number of people out of a job and looking for work swelled to over 13.7 million, driving the unemployment rate up to 9%. At the same time, the number of job openings increased to their highest level since 2008. Still, employers are slow to hire.

"We're at an inflection point," said Brett Good, a senior district president with Robert Half International. "Every survey that we've conducted has indicated that hiring managers are saying it's harder and harder to find the talent they're looking for at the professional level."
Labor industry observers like Good and Joerres point to anecdotal evidence that suggests that the natural unemployment rate is up and that the U.S. economy has entered a new era of higher unemployment driven by a skills mismatch.

"Job descriptions have gotten much more specific and demand in most industries is not so robust, so companies can wait to find the right people," said Joerres.

Some economists, however, don't see the natural unemployment rate shifting much, citing a lack of evidence in the numbers coming out of the Bureau of Labor Statistics.

"We're beginning to see a little more hiring, but there's still a lot of slack," said Michael Feroli, chief U.S. economist for JPMorgan, referring to the difference between the real unemployment rate and the theoretical natural rate, which he pegs at 5.5%. Still, Feroli admits that there are industries that are seeing a tightening of the labor market, like technology or healthcare. In the latest numbers from the BLS, openings in healthcare increased to over 600,000, more than any other industry measured.

Whether the natural unemployment rate is 5.2% or much higher, the real unemployment rate is still 9%, meaning that there are more than four people on average competing for each job opening.

Write to Jeremy Greenfield

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Dmitri 1 minute ago | Report Abuse

Americans should not accept this new "normal" unemployment rate. I am an immigrant and came here with just $900 in my pocket. I am a solid proof that American dream works well for those who want to work hard and achieve it. I had a lot of help along the way from my relatives, friends, teachers, etc. I will be greatfull for that for the rest of my life by helping others. American dream is still alive! I am very optimistic about the future of this great country and I am proud to call myself an American. Don't let the mainstream media convince you otherwise! America is still the only beckon of hope. Keep the dream alive!

Reply

Naif Mabat 9 minutes ago | Report Abuse

0 0
Bush got called "a miserable failure" on unemployment as soon as it hit 5.5% back in 2004.

But now that a Democrat is in office, 9% is "the new natural".

I should have seen this coming.

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**Jeff Zipp**  12 minutes ago  |  Report Abuse

Let's just give the Obamanation an excuse to continue doing nothing. Real results require real actions. Not just tax increases for the central elite palace.

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**GC**  22 minutes ago  |  Report Abuse

Let's all just decide that full employment is 9% and we'll be fully recovered effective immediately. I feel better already.

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**A Yahoo! User**  23 minutes ago  |  Report Abuse

I am sure Obama would like to convince you high unemployment is "normal". He would rather not have you remember the Bush years as the "good old days". Maybe he thinks all us older guys without a job have Alzheimers already. Bad for him, some of us still have sharp memory and are comparing him all the way back to Jimmy Carter and Gerald Ford. Even those two are looking better all the time.

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**TM**  28 minutes ago  |  Report Abuse

It's simple. Companies hire when they need. Right now. No need! Only hope is new products an "new" companies in the future. Then old companies lose from competition.

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**Cowboy**  31 minutes ago  |  Report Abuse

An article like this only shows up when a Democrat is president and failing! What a bunch of S. . .
Nelson 33 minutes ago | Report Abuse

Quote "Labor industry observers like Good and Joerres point to anecdotal evidence that suggests that the natural unemployment rate is up and that the U.S. economy has entered a new era of higher unemployment driven by a skills mismatch."

This is exactly what happens when parents are more worried about their kids making the football team than make the grades. You get out what you put in. There are only so many jobs that you only need to know how to swing a hammer, or get a driver's license. "I was a cool kid in High School" just don't get you too many jobs these days.

Reply

A Yahoo! User 38 minutes ago | Report Abuse

Whenever there is high unemployment they say it is because there is a "skills mismatch". Rubbish. Skills mismatch is only another way of saying employers are so picky they expect to find someone experienced in exactly what they want with no training time whatever. Employers are picky because their business, like the economy, is sluggish and they don't need to hire very badly. Picky employers mean the young without experience don't qualify even if they are well educated in a closely related field. It means the experienced employees over 50 also don't qualify because, well, they are old and ugly and there is no hurry. Its the economy, stupid. Little to do with "skills".

Reply

Nick 45 minutes ago | Report Abuse

Typical copout by companies: We can't find workers that have the skills we need!! Well yeah, you are looking for someone with 15 specific points, all you are getting is people with 12 of them, so nope can't hire them!! Hey nobody is perfect even the company looking to hire!!! The sad truth is noone really wants to hire anybody just yet. Th ey keep saying they do to keep the media and pro-recession is over propaganda going.

Reply

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