

Maximum Employment

How does the Fed measure labor market conditions?

MACROECONOMICS

What Is Maximum Employment?



The state of the economy whereby virtually all who are willing and able to work have the opportunity to do so. The Federal Reserve pursues the goal of maximum employment as part of its mandate from Congress.

$$\text{Labor Force} = \text{Employed} + \text{Unemployed}$$

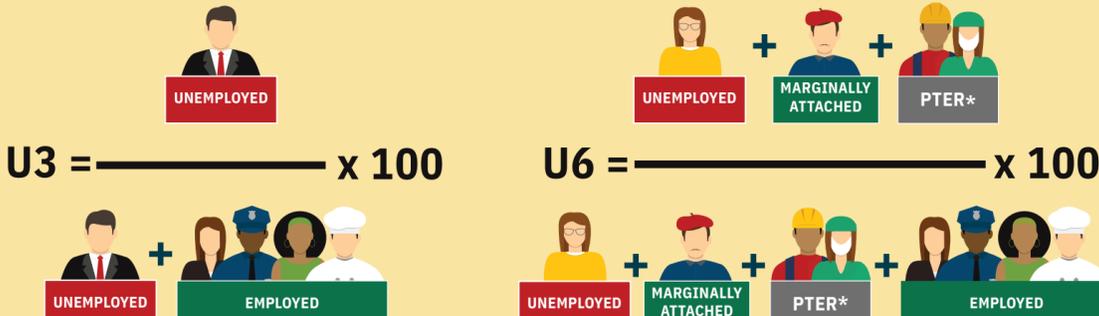
In the Labor Force

- 16+ years old
- Currently working (Employed)
- Not working for one week but actively sought work at least one time in the last four weeks (Unemployed)

Out of the Labor Force

- 15 years or younger
- Active military
- Institutionalized
- Not working and not seeking work

How Are U3 and U6 Unemployment Rates Calculated?



Unemployment rate = (# of unemployed / # in the labor force) x 100

*Part-time for economic reasons

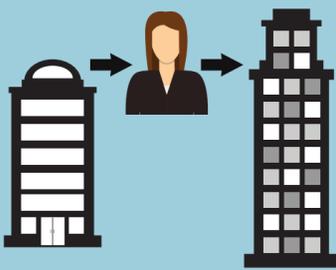
What Are the Types of Unemployment?

Frictional

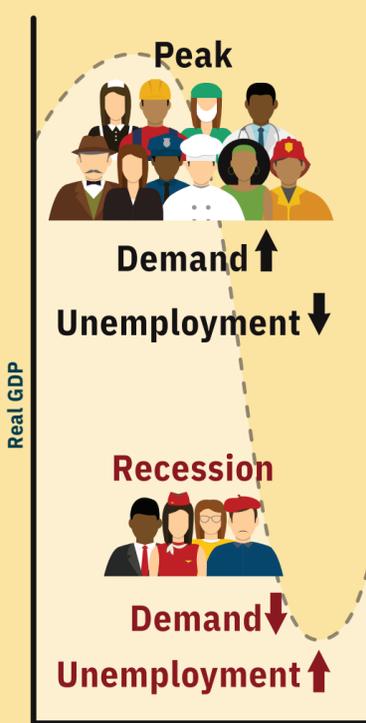
New entrants



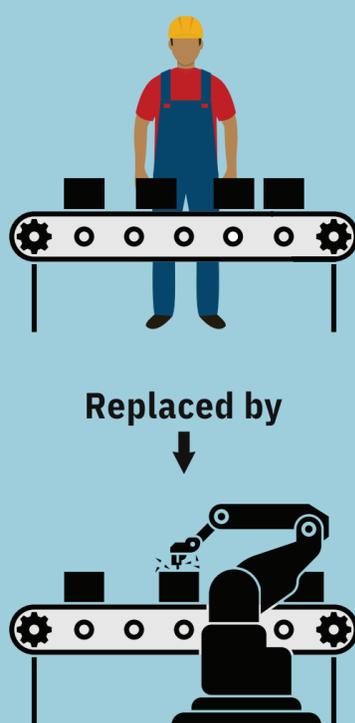
Job switchers



Cyclical



Structural



What Data Does the Fed Use to Measure Labor Market Health?

Labor Market Flows & Wages

- Job-finding rate
- Average hourly earnings growth

- Initial unememployment claims

- Unemployment rate
- Part-time for economic reasons
- Marginally attached workers

Labor Utilization

Employer Behavior

- Payroll employment
- Private job openings rate
- Private hires rate

- Hiring plans
- Private quits rate
- Firms unable to fill jobs

Confidence/Perceptions

Signs of a Healthy Labor Market

The Federal Reserve's mission is to conduct the nation's monetary policy by influencing monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates.

The Federal Reserve is the central bank of the United States, with responsibility for overseeing the nation's monetary system.

