THE TIMING OF "LIFTOFF," OR THE RAISING OF THE FEDERAL FUNDS RATE, HINGES ON THE STRENGTH OF THE ECONOMY, WHICH THE FEDERAL RESERVE ASSESSES.

BEYOND THE UNEMPLOYMENT RATE: MEASURING A CHANGING LABOR MARKET

How close to full employment are we?

In 2014, the Federal Reserve Bank of Atlanta continued to focus its research on the labor market and what had to happen before the economy could achieve full employment. Price stability and maximum employment are the two objectives of the Fed's dual mandate from Congress. By the end of the year, the U.S. economy had made significant progress toward full employment. Two closely watched measures of labor market health, job creation and the unemployment rate, had improved considerably (see the Total Nonfarm Employment and the Unemployment Rate charts on page 6).

Employers added an average of 260,000 jobs per month during 2014, ahead of the 194,000-a-month pace of the previous two years. Meanwhile, the jobless rate fell from 6.6 percent at the beginning of 2014 to 5.6 percent in December. The unemployment rate is fast approaching the 5.2 percent to 5.5 percent range the Federal Open Market Committee (FOMC) judges to be consistent with full employment. The FOMC is the Fed's policy-setting body.

Without question, the labor market made real progress last year. But the official unemployment rate and monthly job creation numbers can tell only part of the story. Broader labor market measures continued to indicate that a significant body of available resources—people and their capacity to work productively—were not being used. This "slack" meant that the labor market, and thus the broader economy, was not operating at full capacity.

Number of part-time workers remained high

Other important signs of labor market slack included the still-high number of people working part-time who preferred full-time jobs. The ranks of these Americans working part-time for economic reasons more than doubled during the Great Recession. In total, the share of part-time jobs in the labor market climbed to one in five during the recession. The situation has improved, but by the end of 2014, the number of involuntary part-time workers was still well above the prerecession level. In fact, at the end of the year, five-and-a-half years into the recovery, the U.S. jobs market counted about 2.2 million fewer full-time workers than it did before the recession began in 2007.

While the rise in part-time employment is a concern, data suggest the United States does not appear fated to become a "part-time economy." Of the additional 7.2 million people employed since October 2010—when payroll job growth turned consistently positive—7.0 million, or 96.8 percent, are employed full-time, according to Atlanta Fed economist Julie Hotchkiss.

Finally, another signal of labor market slack was the lack of upward wage pressure in 2014. Wage pressure would have given policymakers more confidence in the falling unemployment rate. Such pressure would have indicated that the gap between current conditions and full employment was closing.

How much can monetary policy do?

Through 2014, a range of indicators suggested that the underutilization of labor market resources gradually diminished. But how much labor market slack remains? How much of that slack has been removed—and can be removed in the future—by monetary policy?

The answers to these questions are critical to the FOMC's decision about the timing of "liftoff," or when to raise the federal funds rate (see the Effective Federal Funds Rate chart on page 6). When the FOMC decides to begin removing policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. And that decision will depend on data that the Federal Reserve continues to gather and assess.

The rest of this annual report will explore questions concerning labor market slack and additional facets of the nation's complex, fluid labor market. We hope the report will help to illuminate how much labor market slack results from transitory factors—which monetary policy can address—and how much might be the result of more lasting changes—which are generally not directly influenced by Fed policy.

AVERAGE MONTHLY JOB GROWTH IN 2014

260 000

Labor markets improved significantly in 2014

3.12
million—year-over-year decline change in jobs

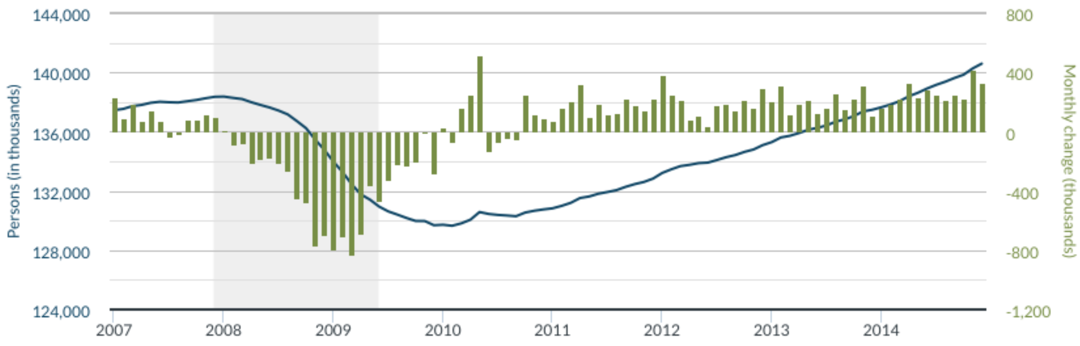
1.1
percentage points—year-over-year decline in unemployment

976,000
—year-over-year decline in people working part-time involuntarily

Note: Numbers are seasonally adjusted.
Source: U.S. Bureau of Labor Statistics

Nonfarm Employment

After robust 2014 employment growth, the United States had added nearly 10 million jobs since the recession.

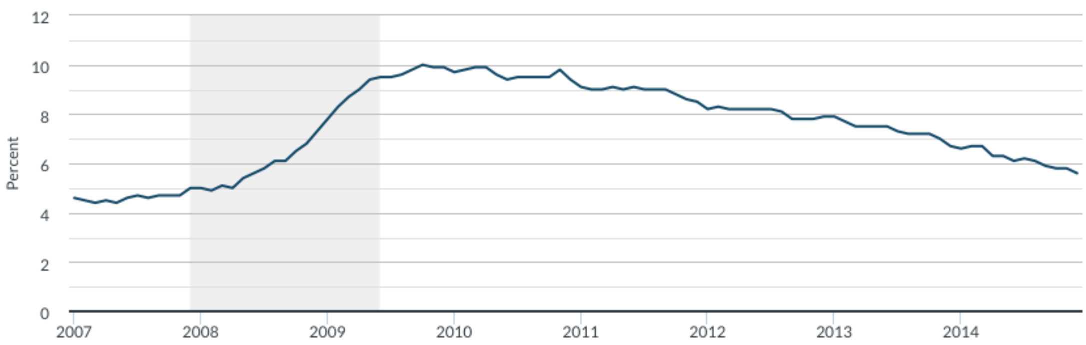


Note: Shaded areas indicate recession.

Sources: U.S. Bureau of Labor Statistics; Federal Reserve Economic Database, St. Louis Fed.

Unemployment Rate

The uneployment rated ended 2014 at it its lowest point in six-and-a-half years.

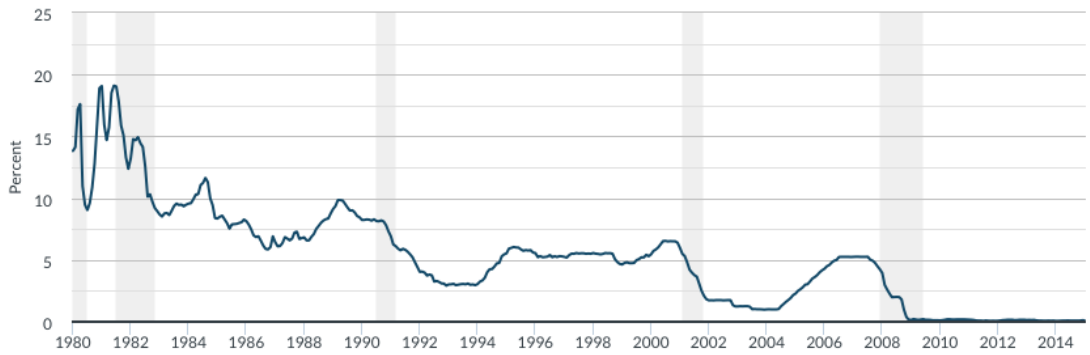


Note: Shaded areas indicate recession.

Sources: U.S. Bureau of Labor Statistics; Federal Reserve Economic Database, St. Louis Fed.

Effective Federal Funds Rate

The Fed's main policy interest rate remained extraordinarily low by historic standards.



Note: Shaded areas indicate recession.

Source: Board of Governors of the Federal Reserve System