7 Unemployment

7.1 Introduction

We care that we have jobs. Policymakers are also interested that people have jobs. So, the unemployment rate is one of the most important variables in macroeconomics. Being unemployed is stressful for most people. Macroeconomic theories have been developed to find how this variable behaves and derive useful insights and policy recommendations to deal with it.

We have learned in previous chapters that GDP is a good measure of a country's standard of living. We have learned that to increase economic growth, i.e., economic progress, we need to increase technological progress. However, technological progress happens slowly, having its effect in the long run.

What about the behaviour of economic progress in the short run? GDP growth will depend on the quantity of land, and capital, but will also depend on the amount of labour. Should we worry that every single able person needs to work? Or should we care about the majority only?

Let's discuss these topics in the following sections.

7.2 Unemployment Measurement

Every single country has its own bureaucracy to get this metric value. For example, the Bureau of Labor Statistics (BLS) works to update this number for the United States. It releases this information monthly.

Let's define some concepts to understand how the unemployment rate is computed:
Employed: This is people who are paid employees from a firm and people who work in their businesses. We count here not only full-time workers but also part-time employees. We also count here people who have a job but are on vacation or are absent due to illness, etc.
Unemployed: We count people here who aren't employed but are actively searching for jobs.
Non-labour-force people: These people are those who are not employed or unemployed, i.e., school students, university students, retirees, etc.

The last category is people who don't belong to the labour force. This means that:

Labour force = Number of employed people + Number of unemployed people

We can get, consequently, our unemployment rate, which is

$$\mu = \frac{Number\ of\ unemployed\ people}{Labour\ Force} x\ 100$$

Where:

μ: Unemployment rate

We can also have another metric. Labour force people belong to the adult population. You can get a metric called:

$$lfp = \frac{Labor\ force}{Adult\ population} x\ 100$$

Where
lfp: Labor force participation rate

7.3 Some issues of the unemployment rate

You have asked yourself about the unemployed people: How to know which people are searching for jobs and who not?

It's hard to estimate that. Getting in or out of the labour force is common in an economy. We can get ill for some reason, we decide to not work for a year, we decide not to search for a job after having spent many months trying to find one, etc. Due to this fact, unemployment rates can have varying values. In the case of the US, the BLS computes other statistics to have a better grasp of the job market. Even though this situation, we can say that the unemployment rate is an imperfect but useful macroeconomic metric to be used and analysed.

Due to the variability of people's behaviour while searching for jobs, as a policymaker, you have to differentiate between short-term and long-term unemployment rates.

We can say that if we have variability in the short-term unemployment rate, we can say that there isn't so much trouble in that country. However, what about if we see a high value in the long-term unemployment rate in a specific country? As an investor, we should pay attention to this macroeconomic variable whenever we want to make a buy-and-hold decision on that country's assets.

From the above paragraph, we can define two types of unemployment:

- Frictional unemployment: Unemployment that results from the variability of fluctuations between the matching of people who want to work and jobs offered by firms. Frictional unemployment is about people joining a different job; it has nothing to do with the overall economic situation of the country.
- Structural unemployment: Whenever the quantity of labour supplied (i.e., jobs offered by firms) is higher than the quantity of labour demanded (people searching for a job) persists in time. Structural unemployment is more related to regime changes in the economy. The macroeconomic situation or the economic structure of the country will have an impact on structural unemployment.

About the first definition, as previously discussed, it's impossible not to find people in the economy who get in or out of the labour market. Consequently, frictional unemployment will never be zero.
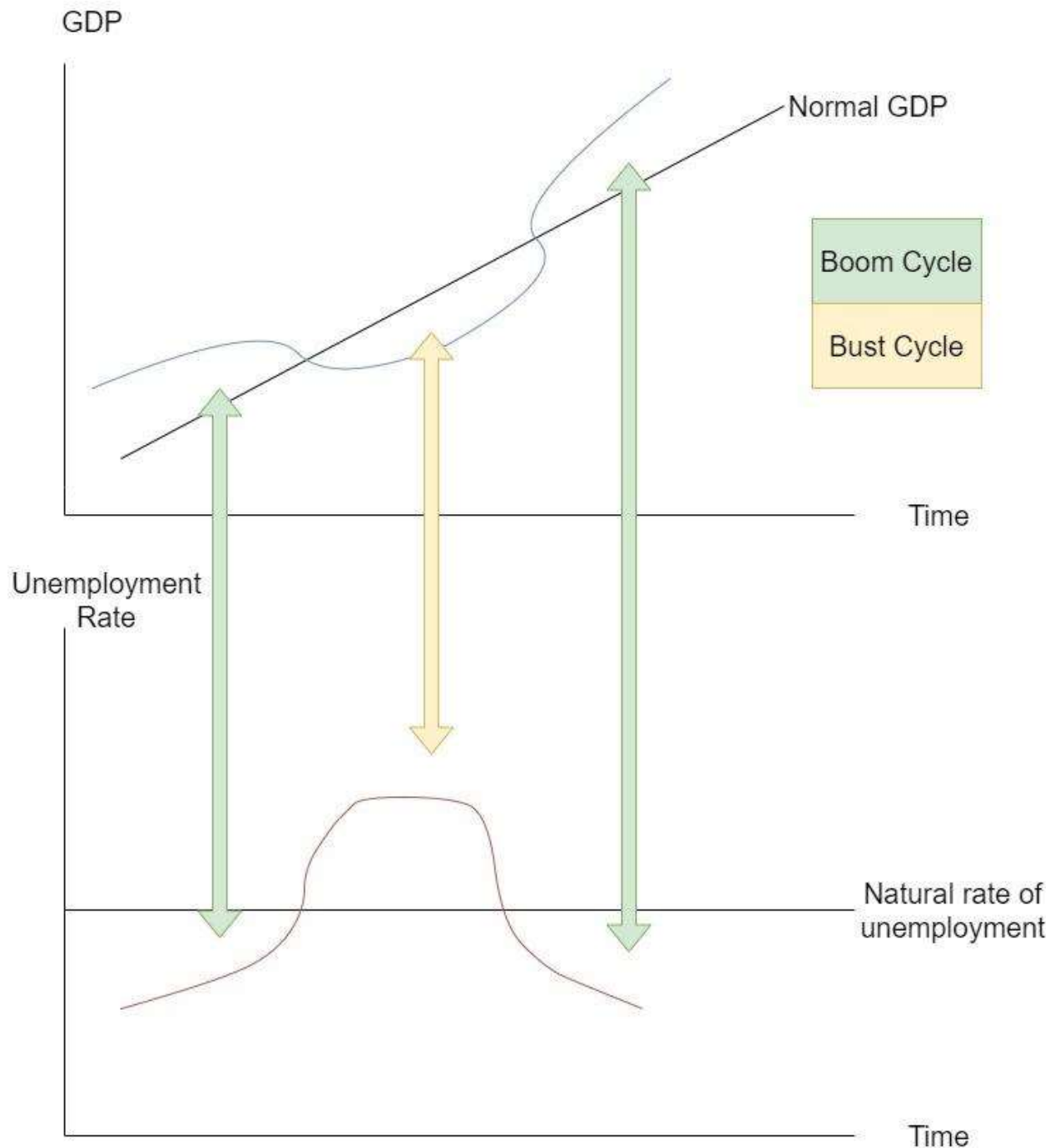
7.4 Can we see an unemployment rate value of zero?

Before we answer this question, you should learn about the following metric, the natural rate of unemployment and the cyclical unemployment rate.

You know from trading that we have an economic cycle of booms and busts. This economic cycle means the GDP fluctuates around a certain increasing level. The fluctuations are the boom and bust cycles and the level is the GDP in normal times.

Consequently, the unemployment rate also fluctuates as per the economic cycles., which we call the cyclical unemployment rate, and we also have the natural unemployment rate which corresponds to the normal GDP level.

Cyclical unemployment rates will always depend on the fluctuations of GDP. While the natural unemployment rate depends on the fundamentals of the economy.

7.5 Trading in the US: Some indicators

While trading forex or US stocks, you can check the following indicators to know how to trade with profits.

- Initial Claims: This metric measures the number of jobless claims filed by people so they can receive benefits for being unemployed. The US labour market allows for benefits whenever you

lose a job. This metric is released weekly: Every Thursday at 8:30 Eastern time. This metric is usually a leading indicator of the unemployment rate.

- Nonfarm payrolls: As previously mentioned, this metric gives us the net number of jobs created, the unemployment rate and the average hourly earnings.

Please consider that you should check these metrics compared with their respective market expectations: If the metric result is higher than expectations, then we go long the dollar or US stocks, if it's lower than expectations, we go short the dollar or US stocks or invest in treasury bonds.