

Flash Economics

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What accounts for the unemployment rate "miracle" in the United States compared with the rate in the euro zone?

The unemployment rate fell to 3.6 % in April 2019 in the United States versus 7.7 % in the euro zone in March 2019 (hence Donald Trump's tweet, "jobs, jobs, jobs!"). What accounts for the unemployment rate "miracle" in the United States compared with the euro zone?

- We must first verify whether it is the performance in terms of jobs that explains the unemployment gap, and not only changes in the labour force. When comparing the participation rates and the employment rates (calculated in the same way) in the United States and the euro zone, we see that the low participation rate in the United States explains a significant part of the low level of the unemployment rate compared with the euro zone;
- We then have to determine what accounts for the greater job creation in the United States, which also plays a role in explaining the low unemployment:
 - Labour force skills? No;
 - Demand-stimulating policies, even at full employment? Yes, probably;
 - Low unskilled labour costs and creation of unsophisticated jobs in services? Yes;
 - Or, on the contrary, jobs in industry and energy? No.

All things considered, the very low unemployment rate in the United States compared with the euro zone is primarily explained by the low level of the participation rate and the low cost of unskilled labour.

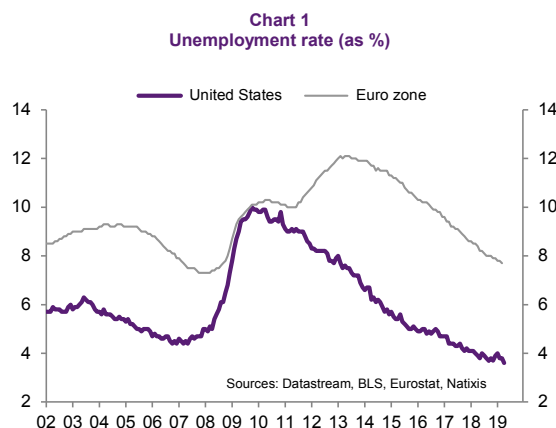
Does the euro zone want to copy this model?

Patrick Artus
Tel. (33 1) 58 55 15 00
patrick.artus@natixis.com
 @PatrickArtus

www.research.natixis.com

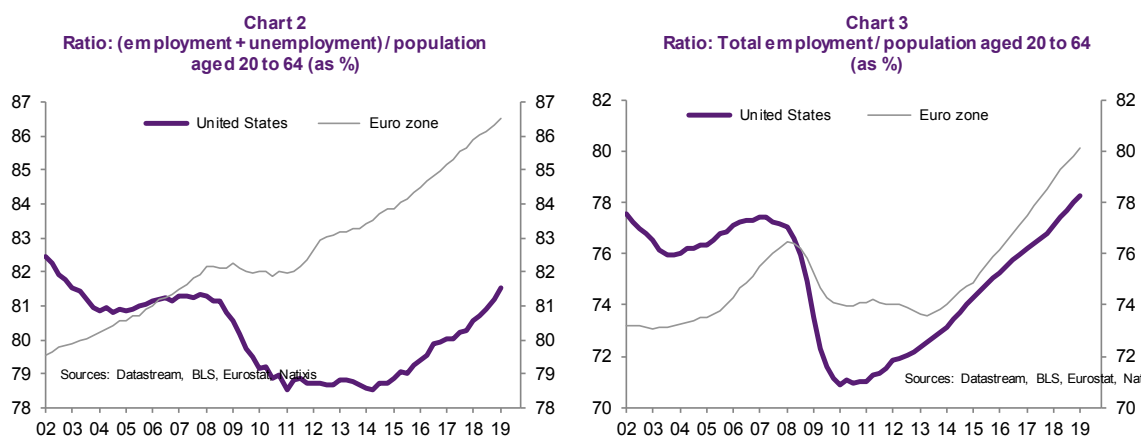
Does the very low unemployment rate in the United States reflect strong performance in terms of job creation?

The unemployment rate has fallen to a very low level in the United States (3.6% in April 2019, versus 7.7% in the euro zone, **Chart 1**).



Before trying to explain the causes of this gap between the United States and the euro zone, we must determine whether **it corresponds to a gap in terms of job creation**.

Chart 2 shows the **participation rate**, calculated in the same way in the United States and the euro zone; **Chart 3** shows the **employment rate**. **Since 2016, the participation rate has risen faster in the United States than in the euro zone, but it remains low; the employment rate is lower in the United States than in the euro zone.**



The low unemployment rate in the United States is therefore also explained by a low participation rate compared with that in the euro zone. But the employment rate has risen more in the United States than in the euro zone since 2010.

Why better performance in terms of employment in the United States than in the euro zone?

We examine different possible explanations for the better performance in terms of job creation in the United States.

1. Higher labour force skills?

Table 1 shows that **labour force skills are low in the United States.**

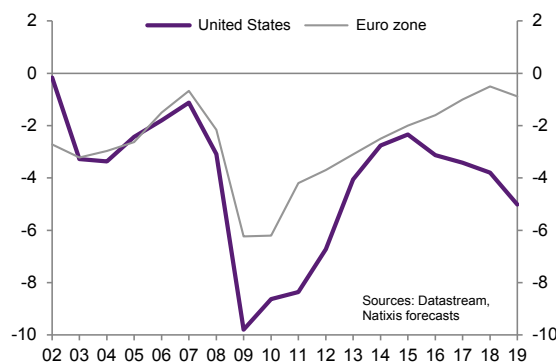
Tableau 1: OECD PIAAC survey, overall score by decreasing score (2016)

Ranking	Country	Score
1	Japan	292.8
2	Finland	286.4
3	Netherlands	283.6
4	Sweden	282.0
5	Norway	281.1
6	Australia	278.9
7	Flanders (Belgium)	278.9
8	Czech Republic	277.6
9	Denmark	277.4
10	Slovakia	276.9
11	Austria	276.2
12	New Zealand	275.9
13	Estonia	275.5
14	Germany	274.7
15	Canada	273.7
16	South Korea	273.0
17	United Kingdom	271.6
	Euro zone as a whole	267.9
18	Poland	267.2
19	Ireland	266.3
20	United States	265.4
21	France	258.2
22	Slovenia	257.0
23	Israel	253.1
24	Greece	252.9
25	Italy	248.8
26	Spain	248.8
27	Turkey	223.0
28	Chile	213.1

Sources: OECD, Natixis

2. The demand-stimulating policies in the United States with, in particular, the **very expansionary fiscal policy (Chart 4)** have encouraged US companies to hire less employable people, and have definitely played a role.

Chart 4
Fiscal deficit (as % of nominal GDP)



3. Have the low unskilled labour costs in the United States (Chart 5) and the fact that low wages remain very low (**Table 2**) led to significant creation of low-skilled jobs?

Chart 5
Minimum wage (proportion of median wage)

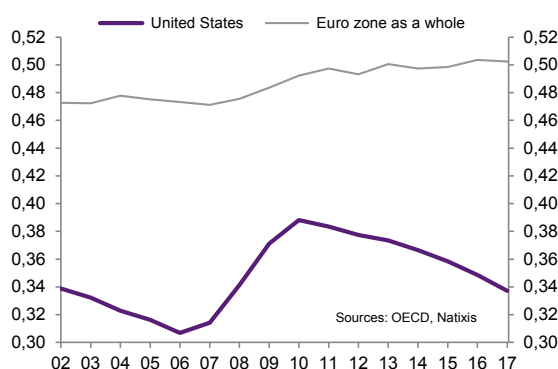


Table 2: United States: Average real household income received by each quintile (in constant dollars, 2017)

Year	The lowest quintile	Second quintile	Third quintile	Fourth quintile	Fifth quintile	The 5% of households with the highest income
1990	13,072	32,889	54,325	81,907	158,951	253,111
1991	12,719	31,947	53,064	80,890	155,114	242,068
1992	12,462	31,224	52,605	80,754	156,473	248,352
1993	12,328	31,252	52,386	81,411	169,617	291,119
1994	12,657	31,545	53,141	82,693	173,846	300,358
1995	13,372	32,683	54,648	84,007	175,310	302,560
1996	13,415	32,927	55,385	85,719	180,287	314,053
1997	13,504	33,759	56,796	87,969	187,549	329,126
1998	13,902	35,102	58,736	90,839	192,226	335,049
1999	14,633	35,931	60,142	93,604	199,612	346,946
2000	14,498	36,201	60,285	93,716	203,081	360,286
2001	14,068	35,348	59,166	92,767	202,596	361,505
2002	13,650	34,706	58,484	91,994	196,409	342,977
2003	13,355	34,307	58,235	92,180	196,503	338,339
2004	13,326	34,099	57,774	91,097	197,005	343,303
2005	13,407	34,423	58,259	91,635	200,800	353,772
2006	13,835	35,073	58,772	93,028	204,961	362,469
2007	13,690	34,893	59,220	93,759	199,073	340,368
2008	13,304	33,688	57,216	91,032	195,231	336,358
2009	13,231	33,508	56,732	90,129	195,668	338,310
2010	12,387	32,148	55,397	88,872	190,856	323,594
2011	12,276	31,899	54,442	87,471	194,449	340,186
2012	12,290	31,764	54,743	87,815	194,571	340,198
2013	12,220	32,477	56,644	91,144	203,796	352,531
2014	12,102	32,220	56,012	91,037	201,129	344,465
2015	12,889	33,762	58,803	95,223	209,384	363,039
2016	13,221	35,246	60,421	97,225	218,542	383,154
2017	13,258	35,401	61,564	99,030	221,846	385,289

Sources: US Census Bureau, NATIXIS

Charts 6 and 7A and B actually show strong job creation in domestic services and a low low-skilled unemployment rate in the United States.

Chart 6
Employment in the domestic services* sector
(2002:1 = 100)

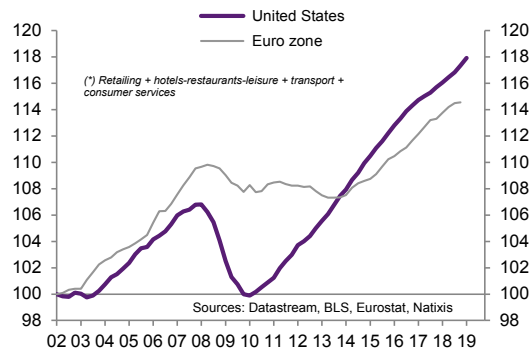


Chart 7A
United States: Unemployment rate by level of education (as %)

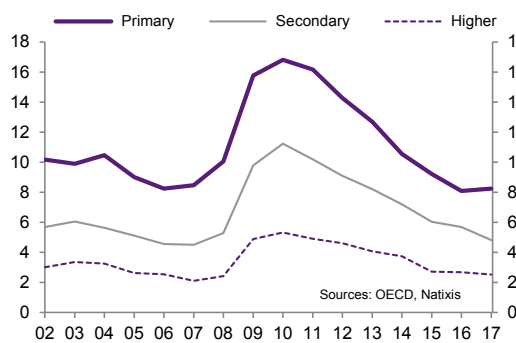
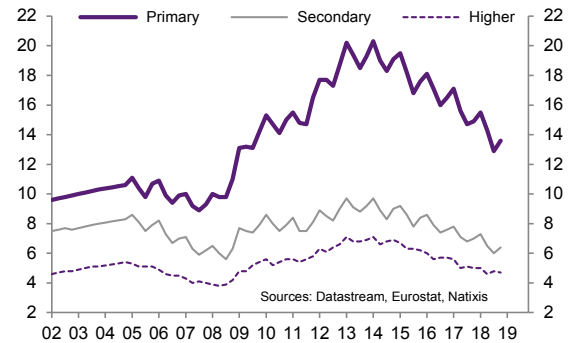
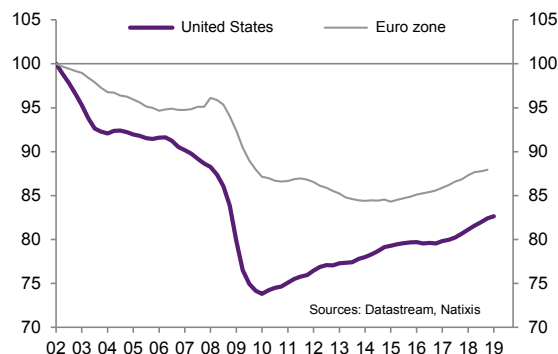


Chart 7B
Euro zone: Unemployment rate by level of education (as %)



4. Is manufacturing employment (which includes jobs in energy) growing faster in the United States? Yes, but barely.

Chart 8
Employment in the manufacturing sector
(2002:1 = 100)



Conclusion: Can we explain the very low unemployment rate in the United States?

The very low unemployment rate (3.6%) in the United States:

- Is explained by a low participation rate combined with rapid employment growth;
- This employment growth is due to demand-stimulating policies and the low cost of unskilled labour.

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