

Economic Analysis

Yellen on Labor Market Dynamics at Jackson Hole

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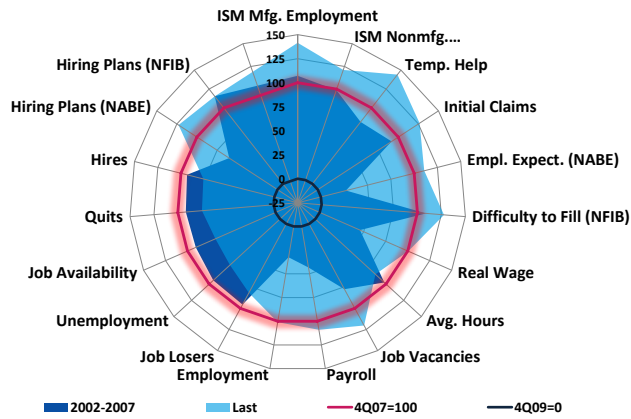
- **Reemphasized the need to maintain the course of discretionary monetary policy**
- **Continuous evaluation of cyclical and structural influences perceived to be central to the Fed's objective of maximum employment**

Much awaited by investors, the Fed Chair's speech at Jackson Hole did not deliver the expected substance for the financial markets. Yellen stayed the course with regard to the preset message on the difficulties "to judge the remaining degree of slack" in the labor market, with the usual dovish undertone advocating for the maintenance of a discretionary monetary policy. "Monetary policy ultimately must be conducted in a pragmatic manner that relies not on any particular indicator or model, but instead reflects an ongoing assessment of a wide range of information in the context of our ever-evolving understanding of the economy," stated Yellen.

The Jackson Hole symposium also highlighted the sharpening debate around the timing of the lift-off and the path of the federal funds rate among the FOMC members. The FOMC members are at odds over what the potential levels of unemployment and economic growth are and subsequently how far the Fed is from overshooting its economic objectives relating to unemployment and inflation. "Differing interpretations of these developments affect judgments concerning the appropriate path of monetary policy," said Yellen. Yellen's speech suggested that significant cyclical factors still affect the under-use of labor resources, specifically in the dramatic decline of participation rate, part time employed for economic reasons dynamics, labor market flows (levels of quits and hires), and labor compensation. More hawkish viewpoints are expressed by Plosser (FRB Philadelphia) and Bullard (FRB St. Louis), advocating for earlier lift-off of the near zero policy rate. Conversely, Evans stands at the dovish end of the spectrum pressing to wait until 2016.

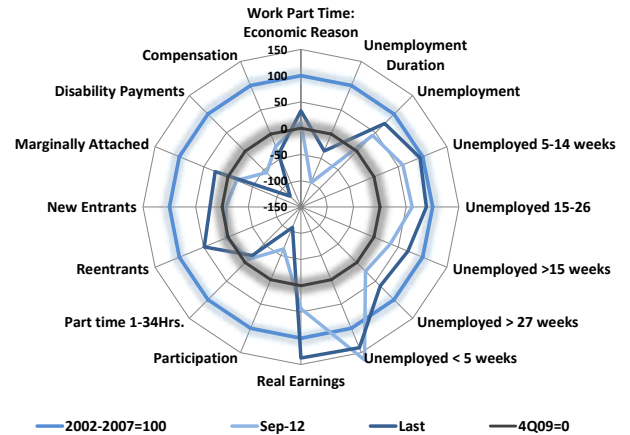
Looking forward, Yellen highlighted that "as the recovery progresses, assessments of the degree of remaining slack in the labor market need to become more nuanced because of considerable uncertainty about the level of employment consistent with the Federal Reserve's dual mandate." While the monetary policy will remain highly accommodative for the year ahead, backed with a 4.4tn balance sheet and below equilibrium policy rate, the magnitude of the Fed's accommodation depends on how the long end of the yield curve will respond to gradual changes in the federal funds rate.

Chart 1
Labor Market Outlook (%)



Source: BLS, DoL, NABE, NFIB, ISM & BBVA Research

Chart 2
Labor Market Utilization (%)



Source: BLS, DoL, NABE, NFIB, ISM & BBVA Research

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