Yellen Still Sees ‘Significant’ Under-Use of Labor Resources (1)

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(Updates with stocks in fifth paragraph. For more on the Jackson Hole conference, see EXT3 <GO>.)

By Craig Torres and Jeff Kearns

Aug. 22 (Bloomberg) -- Federal Reserve Chair Janet Yellen said slack remains in the U.S. labor market even after gains made during the five years of economic recovery.

“The economy has made considerable progress in recovering from the largest and most sustained loss of employment” since the Great Depression, Yellen said today in a speech at the Kansas City Fed’s annual economics conference in Jackson Hole, Wyoming. Even so, she underscored the Federal Open Market Committee statement last month that “underutilization of labor resources still remains significant.”

Yellen’s remarks appeared in line with the message from minutes of the July FOMC meeting, which showed officials growing more aware that labor markets are approaching full employment.

Still, pinpointing a full recovery in the job market is difficult given the “depth of the damage” from the recession, she said. Her speech walked through the arguments of how much slack might be related to weak demand as opposed to more permanent trends.

“Significant structural factors have affected the labor market, including the aging of the workforce and other demographic trends, possible changes in the underlying degree of dynamism in the labor market, and the phenomenon of ‘polarization’ -- that is, the reduction in the relative number of middle-skill jobs,” she said in a 16-page speech that included 21 footnotes.

## Stocks, Treasuries

Stocks remained lower after her remarks. The Standard & Poor’s 500 Index declined 0.1 percent to 1,990.56 at 10:03 a.m.

in New York. The yield on the 10-year Treasury note was little changed at 2.41 percent.

For some of the so-called structural changes, she presented a counter-argument on why they could also represent cyclical trends. Disability applications may reflect “perceptions of poor job prospects,” she said. Bad job opportunities may have brought forward retirements, she said, and so the aging workforce may contribute less to declining labor participation in future years.

Minutes of the July meeting released Aug. 20 showed some Fed officials “were increasingly uncomfortable” with the FOMC’s forward guidance.

Solid Footing

Yellen has said the central bank has no “mechanical answer” for when to raise rates, and that before doing so policy makers must be certain the economy is on a solid footing.

Most Fed officials forecast they will need to raise the benchmark rate sometime next year after holding it near zero since December 2008. The median estimate of policy makers released after their June meeting shows they project a rise to

1.13 percent at the end of 2015 and to 2.5 percent a year later.

FOMC participants will release their next set of quarterly projections on growth, employment, inflation and the rate outlook after the next meeting Sept. 16-17, which will also be followed by a Yellen press conference.

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