

Trends and Cycles in the U.S. Labor Market

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There has been substantial debate in the recent literature about the role of trend versus cyclical movements in the U.S., particularly for the 2007-2009 recession and subsequent slow recovery. In this paper we analyze and compare different trend and cycle filters including the Hodrick-Prescott filter, Baxter-King band-pass filter, univariate unobserved component model, and a bivariate unobserved component model in order to better understand the driving forces of the “Great Recession.” We extend our analysis beyond the traditional aggregate unemployment statistics to include other labor market indicators and disaggregated series by different subpopulations. We find that the different filters provide conflicting results for the variability of the series’ components and the dominant force during the Great Recession. Additionally, there is wide variability of the relative movements of the components when looking at different subpopulations of the labor market. Therefore, the level of aggregation and the filtering method can lead to different policy results.

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