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December 15, 2019 | Log Cabin Democrat (Conway, AR) | Joe McGarrity - Economics professor

As we approach the end of the year, people will start making all sorts of predictions about what will occur in the new year. Economic predictions are among these prognostications. You will see predictions about what will happen to the stock market, the interest rate, and GDP growth. This column will add to the frenzy and weigh in on next year's unemployment rate.

The Bureau of Labor and Statistics recently released the unemployment rate for last month. It was 3.5 percent, which is very low by historical standards. From 1960 to 2018, the annual unemployment rate varied between 3.5 percent in 1969 and 9.7 percent in 1982. The average unemployment rate during this time was 6 percent. The median rate was 5.6 percent. The median rate suggests that half of the annual unemployment rates have been above 5.6 percent while the other half of these rates have been below 5.6 percent.

The economy tends to move toward a situation where the unemployment rate is 5.6 percent. The current monthly unemployment rate is as low as an annual rate has gotten since 1960. We can expect the current low rate to move up toward the 5.6 percent rate that occurs during the economic conditions found during normal times. For example, the 1969 unemployment rate of 3.5 percent was followed by a 5 percent unemployment rate in 1970.

In order to have an economy reach a low unemployment rate of 3.5 percent, two things must happen. First, the government has to implement policies that either help or that do not harm the business climate. Trump's deregulation push has encouraged business expansion, while his trade restrictions have not done too much harm – at least not yet. Second, the economy must have some good luck. Low energy prices, technological innovation, peace, and countless other factors influence the economy and are often not the result of the current president's policies.

In 2019, the U.S. has experienced good luck which has contributed to our low unemployment rate. It is unreasonable to expect that we will have such good luck in 2020. If luck is randomly determined, we are just as likely to have worse than average luck as we are to have above average luck. Bad luck will slow economic growth and cause firms to need fewer workers which will increase the unemployment rate. Even if the U.S. economy has good luck in 2020, it is unlikely that we will have exceptionally good luck like we did in 2019. With just moderately good luck, consumers will desire less consumption than they did in exceptionally good times. In this case, firms will not feel the need to employ as many people, so the unemployment rate will not stay at such a low rate.

The role of luck in the economy is a bit like the role of luck for a baseball player. If an all-star player has good luck in a season, he will hit many of his line drives to open spaces in the outfield, which will result in hits. In this year, the player may win the most valuable player award. It is unreasonable to believe that the player will have such good luck again. If he just has an average level of luck, many of his hard hit balls will be directed right at a fielder and end up as outs.

My prediction, then, is that the unemployment rate will rise from its current level of 3.5 percent. My prediction is not based on the likely result of a government policy. Instead, it is based on the realization that an economy cannot have exceptionally good luck all of the time and that the string of good luck will run out.

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