

Update of “What Is the New Normal Unemployment Rate?”

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This note reports updated estimates of the natural rate of unemployment based on the methods used in “What Is the New Normal Unemployment Rate?” *FRBSF Economic Letter* 2011-05, February 14, 2011, by Justin Weidner and John C. Williams:

<http://www.frbsf.org/publications/economics/letter/2011/el2011-05.html>. The estimates reported in the original *Economic Letter* were based on data available in early February 2011. The estimates reported in this note use data through the first quarter of 2017. This update also incorporates the estimates of the natural rate of unemployment published by the Congressional Budget Office in January 2017.

Figure 1 is an updated version of Figure 1 from the *Economic Letter*. The smoothed (four-quarter average) natural rate estimates based on the four alternative labor market indicators range from 4.6% to 5.5% in the first quarter of 2017. The median estimate is 5.1%, 0.3 percentage point above the 4.8% pre-recession median estimate. Figure 2 shows the median estimates and range of values implied by the four alternative measures since 1996 using the four-quarter averages. For comparison, the median response to the question about the level of the natural rate of unemployment in the August 2016 Survey of Professional Forecasters (SPF) was 4.8%. The blue line in Figure 2 shows the median SPF natural rate response and the red lines show the 90th and 10th percentile SPF responses in each period.

Figure 1A. Beveridge Curve

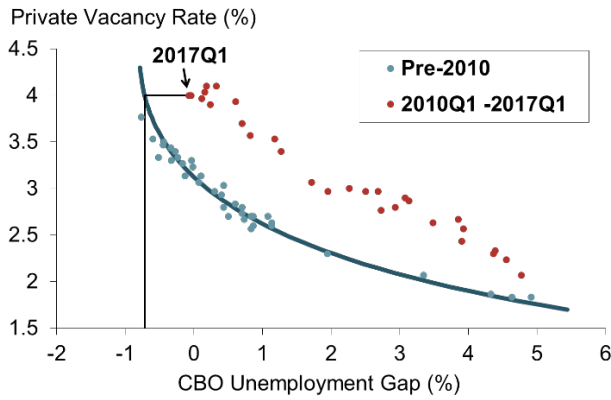


Figure 1B. Perceptions of Labor Market Slack

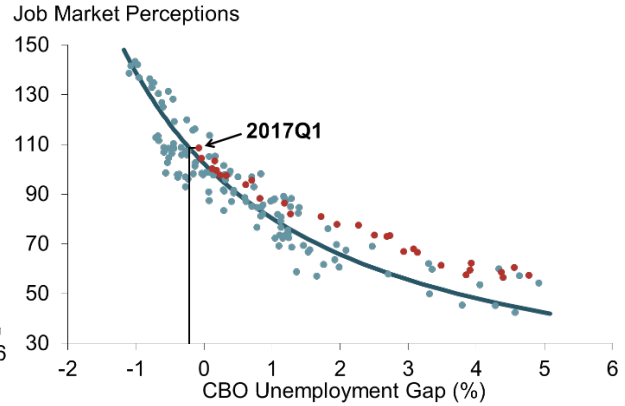


Figure 1C. Quits

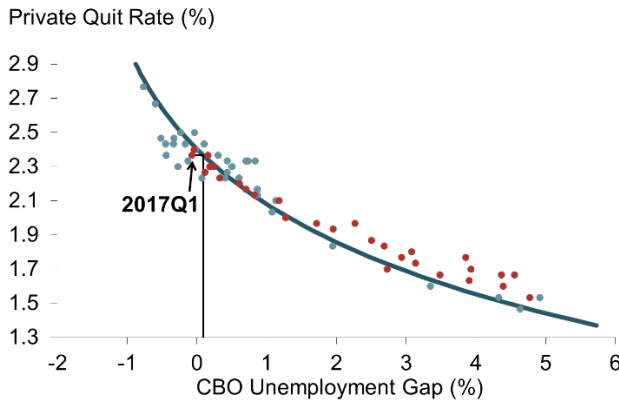


Figure 1D. Business Survey

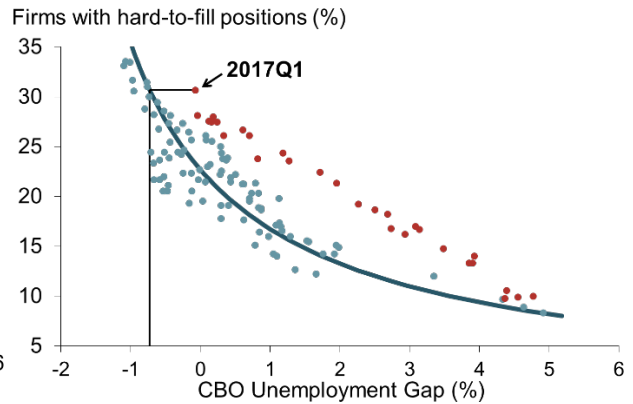


Figure 2. Estimates of the Natural Rate

