

Mismatch in the Labor Market

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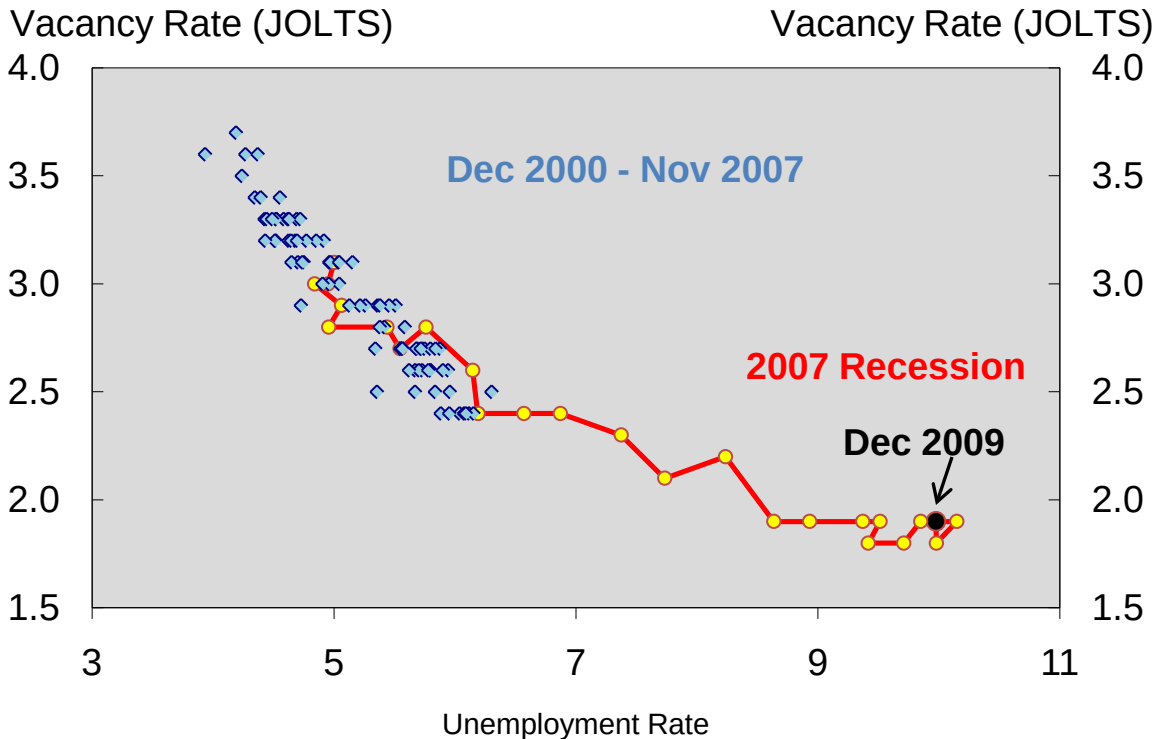
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In this paper we use detailed data on unemployment and vacancies in the U.K. over the period 2005-2009 to construct measures of skill and locational mismatch in the labor market. In particular, monthly data from JobCentre on unemployment claimant counts and on live unfilled vacancies by geographic area (TTWA's, or Travel To Work Areas), occupation and industry can be used to construct several indices of mismatch along each of these dimensions. We study the cyclical patterns of these indices, and decompose them into each of their components.

Recently, it has been argued that the Beveridge curve may have changed during the current recession. In the U.S. and in the U.K. for instance, the unemployment rate currently stands at higher levels than the Beveridge curve would suggest (see the attached Figure for preliminary estimates with data for 2000-2007). This has raised concerns that the natural rate of unemployment might have increased. There are many possible factors that might have caused this shift: the decline in worker mobility due to the housing crisis may have given rise to a locational mismatch in the economy; further, some sectors have shrunk more than others during the recession, which may have caused a skill mismatch in the economy. Finally, social insurance policies such as unemployment benefits, while crucial in allowing families to get by through hard economic times, may not be conducive to geographical reallocation or retraining.

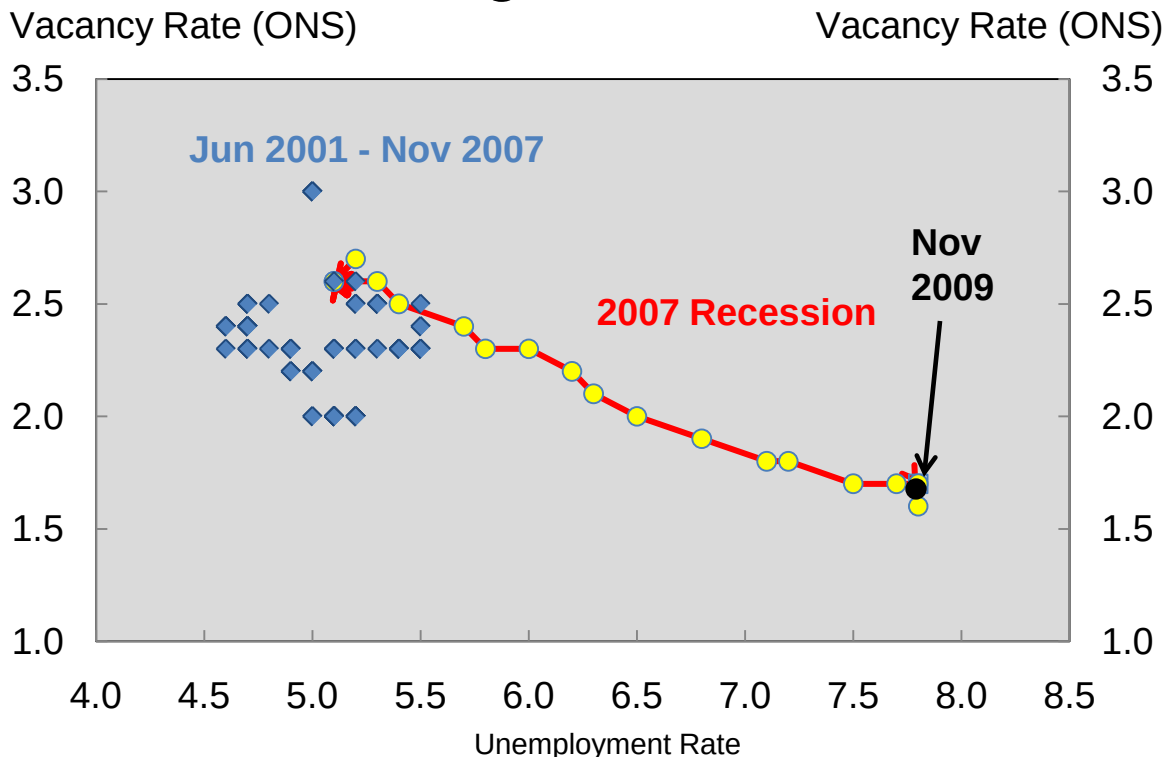
By analyzing measures of mismatch at the level of geographic areas and occupations separately, we can assess whether the dominant source of mismatch is mobility costs and incentives (if mismatch is mostly geographical), or rather retraining costs and incentives (if mismatch is mostly occupational). In addition, since the data allow us to construct measures of unemployment and vacancies for very narrow labor markets defined as commuting area and occupation, then we can perform a decomposition of mismatch between occupational-driven and geographical-driven forces. Finally, we compute labor market tightness by location, occupation and industry and compare it with aggregate market tightness.

Beveridge Curve - US



Source: Bureau of Labor Statistics

Beveridge Curve - UK



Source: ONS Vacancy Survey