

Comments on “Making Sense of Labor Market Indicators Amid Data Imperfections” by Scott Brave, Erin Crust, Stefano Eusepi, Bart Hobijn, and Ayşegül Şahin

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Disclaimer: The views expressed here are mine and do not reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.



Main Objective of the Paper

- Summarize policymakers' labor market narratives using a small set of “structural” (or “narrative”) latent factors.
 - Develops a static factor model in which structural factors are obtained by rotating the five principal components derived from a large number of labor market series, with the rotation identified through sign restrictions.
 - e.g., a positive labor demand factor is associated with lower unemployment and higher job vacancies.
 - Unlike the SVAR or SDFM literature, the goal is not to identify structural shocks but to provide an interpretable decomposition of labor market conditions for real-time policy communication, not causal identification.

What This Paper Does Well

1. An outstanding paper that offers policymakers a highly valuable tool for digesting a broad array of labor market indicators into a concise set of narrative factors.
2. Conducts an excellent case study of the post-pandemic labor market to shed light on the Great Resignation and the soft landing.
3. It also includes valuable discussions beyond the core analysis.
 - (i) Accounting decomposition of payroll job gains
 - (ii) Analysis of breakeven payroll gains
 - (iii) Discrepancies in employment gains across the two surveys and how they predict population revisions in the household survey

Outline of My Discussion

- My discussion focuses on the robustness of their core analysis particularly from the viewpoint of policymakers (or Fed economists).
 1. Stability of the principal components (and thus the rotation matrix ν and factor loadings Γ)
 2. Plausibility of sign restrictions
 3. Expanding the analysis to non-labor market variables

Stability of the Principal Components

- The analysis relies on PCs computed from the full-sample covariance structure, which may evolve over time — the authors themselves acknowledge this by excluding the COVID period from the estimation.
- Policymakers conducting real-time policy analysis need to be aware of possible shifts in the structure of the labor market.
- Figure D.3 shows that, apart from the labor demand factor, the remaining factors exhibit notably different behavior across subsamples.

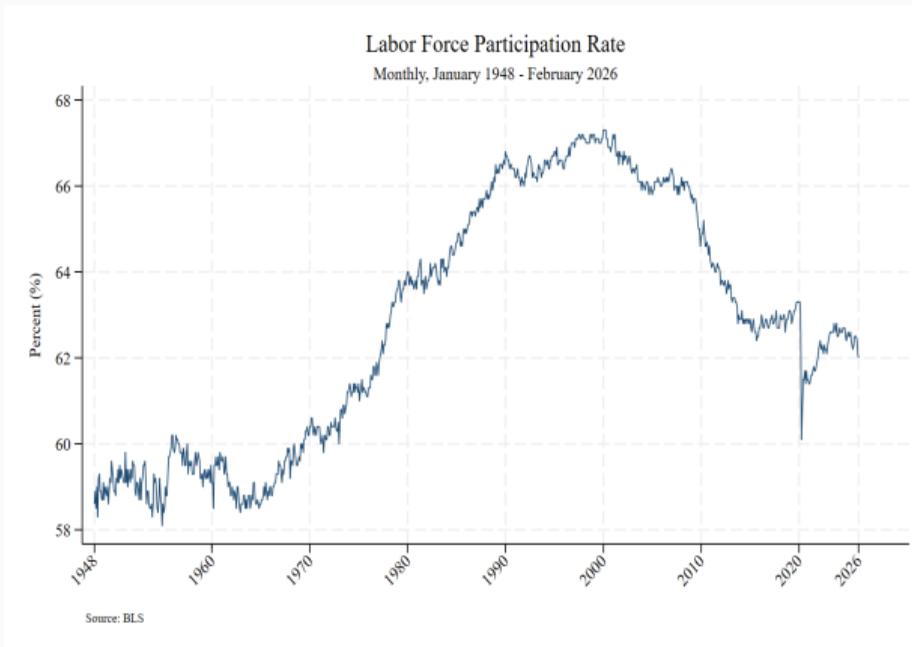
Pseudo Real-Time Analysis as a Robustness Check

- Perform a pseudo real-time analysis using only the information that policymakers actually had available, for example during the GFC, and then compare those findings with ex-post results obtained from the full sample.
- Overall, the U.S. labor market has experienced numerous structural changes over the full sample period:
 1. Contraction of the manufacturing sector
 2. Changes in the cyclicalities of wages
 3. Increased female labor force participation and aging

Are the Sign Restrictions on Labor Supply Plausible?

- The identification of the SR labor supply factor is novel. The result confirms its countercyclicality (\Rightarrow importance of “income effects”).
- The LR labor supply factor is driven by the CPS population series. Its correlations with the LFPR and EPOP ratio are set to approximately zero.
 - Figure 12 indicates that the LR labor supply factor explains a very small portion of their variances.
- This identifying assumption, and the result it produces, sit uneasily with the policy narrative that emphasizes demographics as the major driver of the LFPR.

Demographics as the Dominant Driver of the LFPR



- “(P)articipants saw reasons to believe that slack was more limited, viewing the decline in the participation rate as primarily reflecting demographic trends with little role for cyclical factors.” (January 2014 FOMC meeting minutes)
- “Movements in the LFPR tend to be dominated by nonmonetary structural factors ... the most obvious feature of the LFPR over the past 25 years is its downward trend, which largely reflects the aging of the baby-boom cohort into retirement ages.” (Foote et al., 2025)

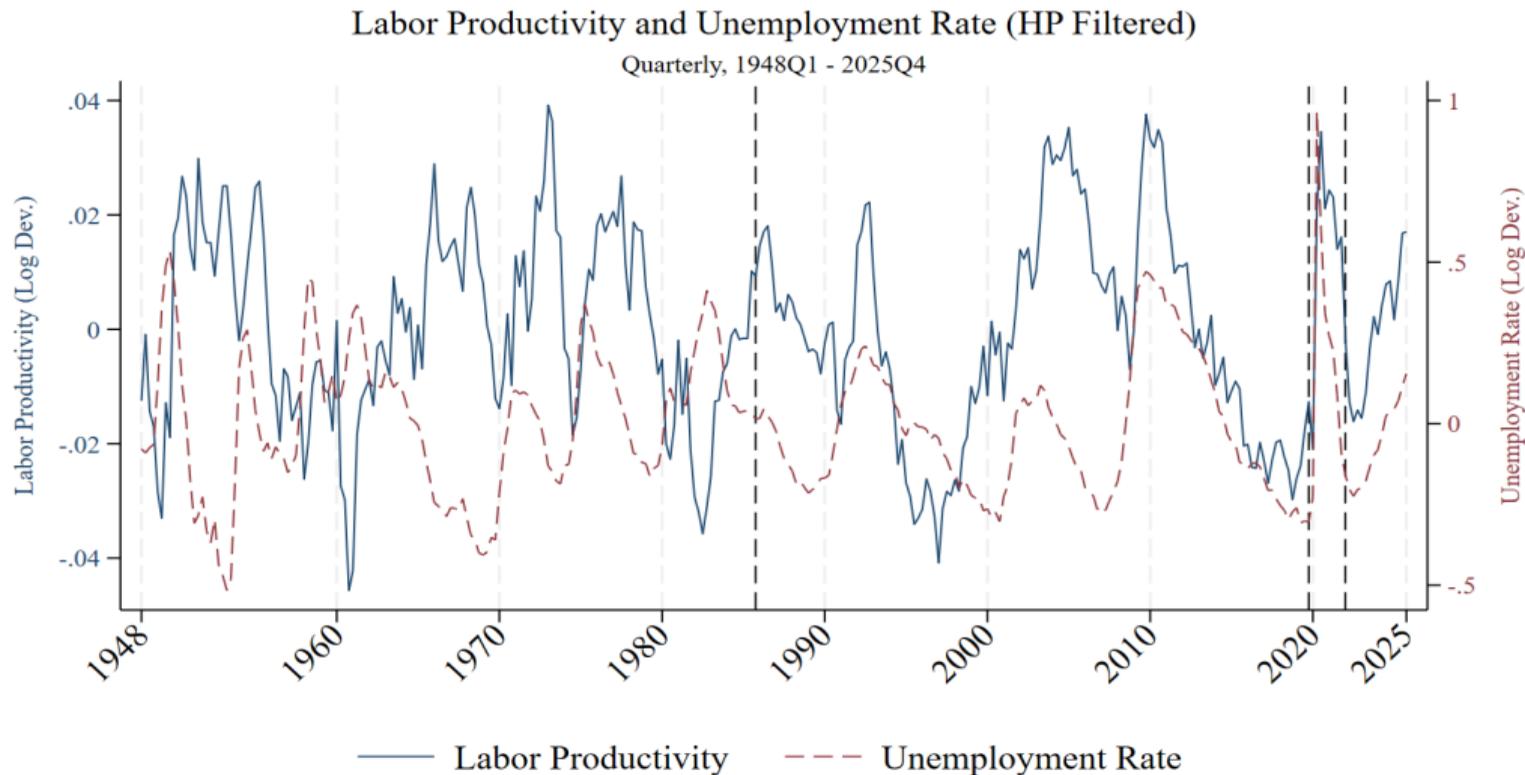
Incorporating a Demographic Trend

- Perhaps it is important to capture the demographic trend explicitly.
- Use, for example, the share of 65+ population as one of the core indicators and impose sign restrictions linking it negatively to the LFPR and EPOP ratio.
- This factor might also explain the low frequency trend in the unemployment rate.
 - Crump, Eusepi, Giannoni, and Şahín (BPEA, 2019) infer the secular component of the unemployment rate from long-run movements in labor market flows.

A Potential Extension: Including Non-Labor Market Variables

- The framework could be expanded by including non-labor market variables, potentially giving us a deeper understanding of the labor market.
- Productivity could be one of them, given current narratives.
- In the 2024–25 FOMC minutes, “productivity” appeared 38 times, compared with just 13 mentions in the 2022–2023 minutes:
 - “Many participants remarked that structural factors such as investment related to AI and other productivity-enhancing technologies may be contributing to softer labor demand.” (October 2025 FOMC meeting minutes)
 - “A number of participants noted that structural factors such as technological progress and higher productivity growth, possibly reflecting increasing use of AI, could boost economic growth without generating price pressures and could also damp job creation.” (December 2025 FOMC meeting minutes)

Productivity and Unemployment: A Changing Relationship



Source: BLS. Notes: Both series are logged and HP filtered with smoothing parameter 10^5

Correlation Between Productivity and the Unemployment Rate

1948Q1-1985Q4	1986Q1-2019Q4	2022Q1-2025Q4
-0.46	0.44	0.94

- The correlation pattern reversed its sign when comparing the pre–Great Moderation period and the subsequent 35 years.
 - Recognized in the literature (e.g., Barnichon (2010), Gali and van Rens (2021)).
 - Fujita and Ramey (work in progress) examine this finding in relation to the instability of Okun’s law.
- The correlation has been even higher (0.94!) for the last three years.
- A full-sample PCA averages over these very different regimes, potentially obscuring what is driving the labor market right now.

Conclusion

- **An outstanding paper** that offers policymakers a valuable tool for summarizing a broad array of labor market indicators into a small set of narrative factors.
- **A note of caution:** Results depend on the full-sample covariance structure, so the quantitative content of the factors should be interpreted with some caution.
- **A map of familiar territory:** This framework is suited to quantifying existing narratives rather than generating new ones.
- **A next step:** Expanding beyond labor market data, incorporating, for example, productivity and inflation, could reveal new channels and narratives that a labor-market-only lens might miss.