**The Fed Can Reduce Racial Disparities in Labor Markets**

As discussed in a recent Federal Reserve staff [working paper](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2996084), “recessions may impact different groups at different phases of the aggregate business cycle”. The paper finds that in an economic downturn jobs losses disproportionately hit black and Hispanic workers relative to white workers, while periods of unemployment likewise last longer for black and Hispanic Americans. As a result, in the later stages of an economic recovery new jobs are added at a more rapid rate for black and Hispanic workers.

An important monetary policy implication of this finding is that the gap in labor market outcomes for different groups is affected by how quickly the Fed raises interest rates in an economic recovery. Put another way, if the Fed moves too quickly to raise interest rates, it will disproportionately leave black and Hispanic Americans out of the labor market, and particularly black and Hispanic women and youth.

Two years ago, CEPR discussed racial inequality and the Federal Reserve in a [blog post](http://cepr.net/blogs/cepr-blog/racial-inequality-and-the-federal-reserve), noting that a one percentage point increase to the overall prime-age (25-54) employment rate is generally associated with a 1.6 percentage point increase to the black prime-age employment rate. In the two years since this post, there has been steady improvement in overall labor market conditions. As expected, the overall improvement has led to particularly strong improvement in unemployment rates for black and Hispanic Americans.

From June 2015 to June 2017, the overall unemployment rate has fallen 0.9 points from 5.7% to 4.4%. As shown below, the black unemployment rate fell 2.5 points over the same period, while the unemployment rate for black youth (16-19) fell by 10.2 percentage points. Likewise, in June, the Hispanic unemployment rate hit its lowest level since 2006.

In terms of total number of jobs, six percent more black Americans have been employed over the two year period, 6.4% more Hispanic Americans, and 1.8% more white Americans (see below). Again, the numbers for youth are even more telling, with young black Americans’ job growth at 22.7%, young Hispanic Americans’ job growth at 19% and young white Americans’ job growth at eight percent.

The Fed’s decision to raise interest rates four times over the two-year period may have cut into potentially larger labor market gains for black and Hispanic Americans. The Fed still has the opportunity to allow the labor market to continue to improve, especially for black and Hispanic Americans and for young Americans, by keeping its own findings in mind.