



Visual 2

Benchmark: The Natural Rate of Unemployment

The Congressional Budget Office (CBO) calculates an estimate for the natural rate of unemployment. The natural rate of unemployment is an estimate of **full employment**. This is the unemployment rate that exists when essentially all workers who can easily or usefully be hired are working.

Full employment is possible when the economy is growing fast enough to generate enough jobs for people seeking employment.

- If the current unemployment rate is higher than the natural rate, the economy is not creating enough jobs to keep the labor force fully employed.
- If the current unemployment rate is lower than the natural rate of unemployment, it might signal that employers are finding it difficult to find new employees. As firms compete for a shrinking pool of workers, it could result in rising inflation.