January 2022

U.S. Labor Market Update

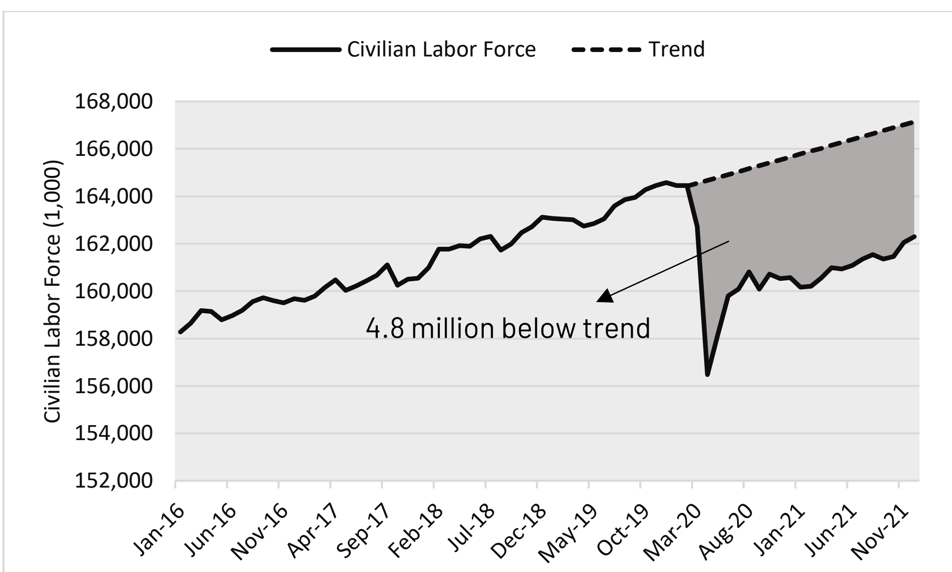
This article provides an update on the U.S. labor market. It discusses key aspects of the labor market including unemployment, labor force participation, wages, and job turnover.

Labor Force Still Significantly Below Pre-Pandemic Trend

By the eye test, the U.S. labor market has been strong in 2021. Nonfarm employment has posted a gain in every month since January. According to the latest job report, the unemployment rate has declined to 3.9 percent, from the high of 15 percent in April 2020.[1] That is, the prospect of finding employment for those in the labor force has significantly improved.

Many people who left the labor force during the pandemic, however, have yet to return. As **Figure 1** shows, roughly 8 million Americans exited the labor force between February and April 2020. While about half of the loss was recovered in the following six months, progress has stalled since then. As of December 2021, the current civilian labor force remains 2.1 million below the December 2019 (i.e., pre-pandemic) level.

Figure 1: *Civilian Labor Force Remains Below Pre-Pandemic Level*



[1] "Economic News Release – Employment Situations Summary." *U.S. Bureau of Labor Statistics* (January 7, 2021). <https://www.bls.gov/news.release/empsit.nr0.htm> (accessed Jan. 14, 2021).

The gap in labor force participation is even bigger if benchmarked against the trend. Before the pandemic, the labor force had been rising steadily. Had this trend continued, there would have been 4.8 million more Americans in the labor force now.

Reasons For Not Working

To assess the impact of the pandemic on American Households, the U.S. Census Bureau rolled out the Household Pulse Survey in April 2020.[2] Among other things, respondents were asked about reasons for not working. **Table 1** shows results from the latest survey regarding the reasons respondents cited for not working, along with a comparison of this information with the responses from January 2021 survey.

The good news is that fewer workers have been kept out of the labor force because of Covid-related job losses or the need to care for themselves or others who have contracted the virus. However, there are several concerning observations.

First, retirement accelerated during 2021. In fact, about five million more Americans indicated that they have retired in the December 2021 survey, compared to the January survey of the same year, which represents a 14 percent jump in the number of workers retired. Second, many workers have become permanently detached from the labor market—about 4.7 million respondents indicated no desire to be employed at the moment. Third, the need to care for children not in school or daycare continued to keep many parents from joining the labor force, though the number has declined since January 2021.

Table 1: *Number of Respondents by Cited Reasons for Not Working*

Reasons for Not Working	Survey Conducted in Dec. 1 – Dec. 13, 2021	Change Since Jan. 2021
Retired	43,070,333	4,972,879
Don't want to be employed	4,769,545	(192,992)
Caring for children not in school/daycare	5,174,478	(793,262)
Covid-related job loss	4,751,525	(13,558,705)
Caring for self or others with Covid	2,956,038	(3,689,007)
Concern about contracting Covid	2,562,658	(2,918,183)

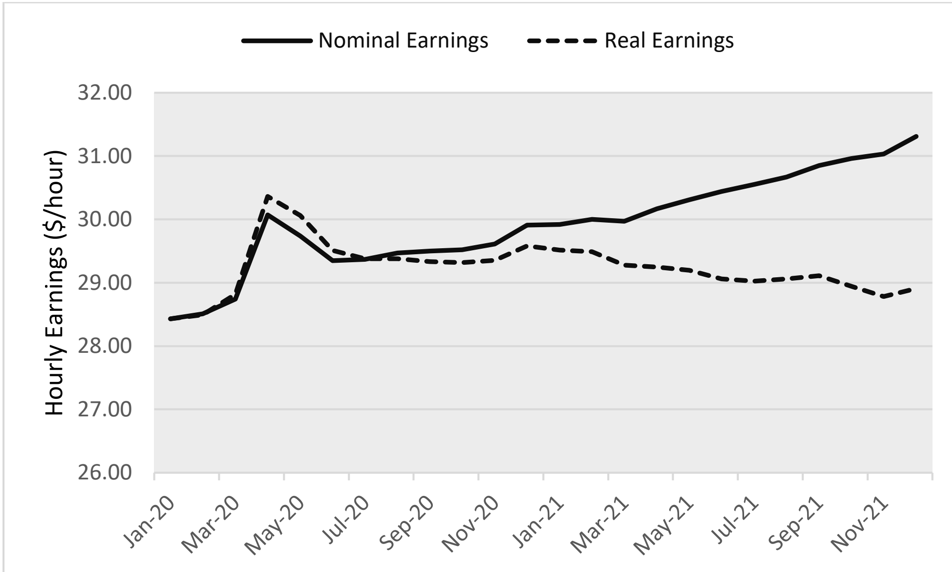
Rising Wages Are Not Real

The slow recovery in labor force participation means that employers likely have to engage in a bidding war for the services of available workers. Indeed, average hourly earnings increased from $29.9 in January to $31 in December this year. The bad news is inflation is also at a 30-year high. Real wage, which adjusts nominal wage by the consumer price index, actually declined by 61 cents per hour in 2021 (*See* **Figure 2**).[3] In other words, despite taking home larger paychecks, workers have lost financial ground and cannot fill their shopping carts with as many items.

[2] "Household Pulse Survey: Measuring Social and Economic Impacts during the Coronavirus Pandemic" (December 20, 2021). *United States Census Bureau*. < https://www.census.gov/programs-surveys/household-pulse-survey.html > (accessed Jan. 14, 2021).

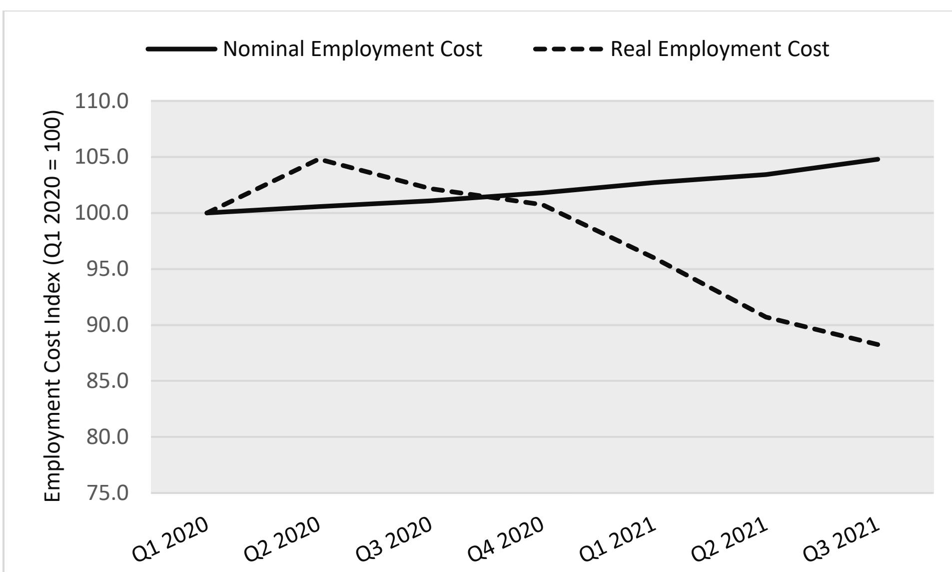
[3] In the figure, real wage is scaled such that nominal wage equals real wage for January 2020.

Figure 2: *Real Hourly Earnings Have Declined in 2021*



The cost of labor for producers, in real terms, has also been declining in recent months, as shown in **Figure 3**. In the Figure, the real employment cost index is obtained by adjusting the nominal employment cost index, using the producer price index. The real cost of labor declined more, in 2021, than did real wages. In other words, producers have been able to more than offset rising wages through price increases for their products, while raises for workers have been all but washed away by inflation.

Figure 3: *Real Employment Cost Has Declined in 2021*

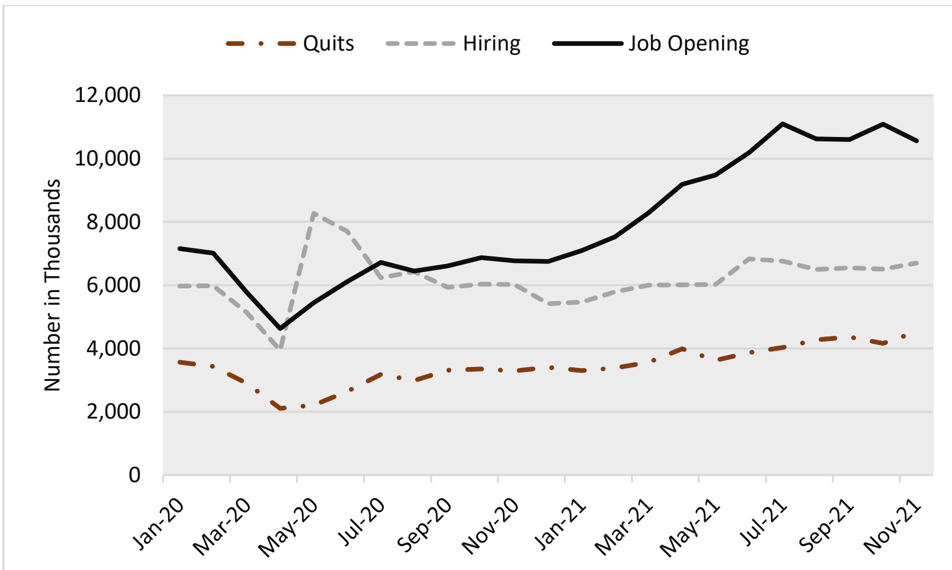


Stalling Hires and Surging Quits

Following the dip in April 2020, hiring rebounded quickly in the next few months but has stalled since then despite continued increases in job openings. As **Figure 4** shows, the divergence between hiring and job openings started around late 2020/early 2021. As of November 2021, as many as 3.8 million job openings remained unfilled.[4]

In the meantime, more and more workers are quitting—a trend that has largely been uninterrupted since the outbreak of the pandemic. The Bureau of Labor Statistics estimated that 4.5 million workers quit in the month of November 2021 alone—a record high.[5]

Figure 4: *Hiring, Job Opening, and Quits Since January 2020*



Recovery by Sector

Stalled hiring and rising quits have made it difficult for industries to replenish their workforces. **Table 2** shows that net employment gain, which is cumulative hires net of cumulative separations, is negative for most industries since the outbreak of the pandemic. In other words, most industries are currently operating with fewer workers than they did before the pandemic.

Leisure and Hospitality tops all industries in terms of cumulative job losses, followed by Accommodation and Food Services. Using 2019 as the benchmark, these two industries, combined, would have to hire an additional 1.8 million jobs to return to that baseline level. In

[4] "Job Openings and Labor Turnover Survey (JOLTS)." U.S. *Bureau of Labor Statistics*. <https://www.bls.gov/jlt/#data> (accessed Jan. 14, 2022).

[5] "Job Openings and Labor Turnover Summary." U.S. *Bureau of Labor Statistics*. <https://www.bls.gov/news.release/jolts.nr0.htm> (accessed Jan. 14, 2022).

contrast, the transportation industry has surpassed its pre-pandemic employment by 223 thousand jobs. Construction is another industry that has posted a strong net gain in employment.

Table 2: *Net Gain of Employment Since Pandemic by Industry*

Industry	Cumulative Job Separation (1,000)	Cumulative Hires (1,000)	Net Employment Gain (1,000)
Leisure and hospitality	28,844	27,764	(1,080)
Accommodation and food services	25,087	24,247	(840)
Education and health services	18,427	17,768	(659)
State and local government	7,412	6,924	(488)
Health care and social assistance	16,122	15,547	(575)
Manufacturing	9,930	9,687	(243)
Trade, transportation, and utilities	29,840	29,749	(91)
Durable goods manufacturing	5,678	5,459	(219)
Arts, entertainment, and recreation	3,758	3,518	(240)
Retail trade	19,486	19,306	(180)
Professional and business services	26,066	26,159	93
Other services	6,107	5,998	(109)
Wholesale trade	3,841	3,699	(142)
Educational services	2,303	2,219	(84)
Information	2,142	2,072	(70)
Nondurable goods manufacturing	4,249	4,229	(20)
Mining and logging	543	492	(51)
Real estate and rental and leasing	1,828	1,825	(3)
Federal government	1,328	1,353	25
Transportation, warehousing, and utilities	6,518	6,741	223
Financial activities	5,011	5,093	82
Finance and insurance	3,185	3,265	80
Construction	9,015	9,135	120

Recovery by Establishment Size

The progress of replenishing the workforce has varied across establishments, depending on the number of employees. Small establishments, i.e., those employing fewer than 10 employees, have more than fully recovered the lost jobs during the pandemic. In fact, as **Table 3** shows, these establishments have a net gain of 1.6 million jobs since the pandemic. One possibility is that many of those who lost their jobs or quit during the pandemic started their own small businesses instead of returning to their old jobs.[6]

Extremely large establishments, i.e., those employing more than 5,000 employees, are also progressing well toward restocking their workforce. Mid-size establishments, such as those

[6] Small businesses might also have other advantages such as lower payroll costs, more flexibility with workplace arrangements, and stronger employer-employee attachment.

employing 10 to 49 employees and those employing 250 to 999 employees, are lagging; they have a combined gap of 2.7 million jobs to fill in order to reach the pre-pandemic workforce size.

Table 3: *Net Gain of Employment Since Pandemic, by Establishment Size*

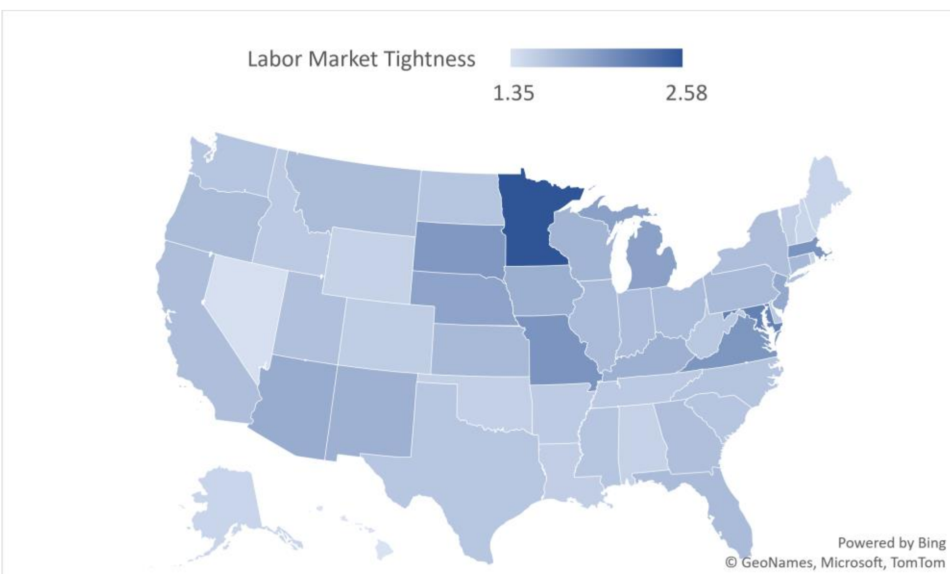
Size of Establishment	Cumulative Job Separation (1,000)	Cumulative Hires (1,000)	Net Employment Gain (1,000)
1 to 9 employees	17,988	19,597	1,609
10 to 49 employees	42,314	40,986	(1,328)
50 to 249 employees	44,364	43,931	(433)
250 to 999 employees	21,230	19,808	(1,422)
1,000 to 4,999 employees	8,810	8,393	(417)
5,000 or more employees	1,223	1,206	(17)
All Size Classes	135,927	133,918	(2,009)

Hot and Cold States

While there is a disconnect between hires and job openings at the national level, the gap is wider in some states than it is in others. A simple measure of labor market tightness is the ratio of job openings to hires. **Figure 5** shows how this ratio varies across states for the month of October 2021.

The state of Minnesota has the hottest labor market with a ratio of 2.58, meaning that on average more than three employers are competing for one worker. By contrast, the labor markets are relatively cooler in the Southern states like Alabama and in the Mountain states like Wyoming.

Figure 5: *Labor Market Tightness Across U.S. States*



For additional inquiries, please contact info@vegaeconomics.com.