

# U.S. Economic Outlook Report

## April 20, 2021: Tight Labor Market



**ANDREW DUGUAY**

Prevedere Chief Economist

### *Prevedere Chief Economist, Andrew Duguay, provides a personal view on topical economic issues*

As the United States navigates the recession and bolsters economic recovery with stimulus packages, everyone is looking forward to strong economic growth. But one of the biggest challenges for businesses has been hiring, and more specifically, hiring the right talent to keep stride with that growth.

### **Red Hot Recession**

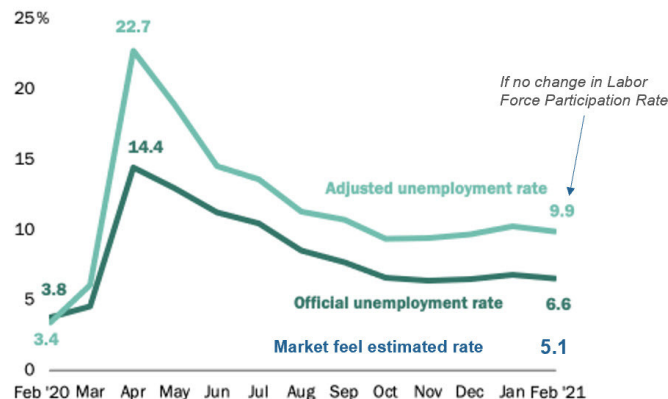
One of the paradoxes of U.S. economic recovery is that there are 8.5 million fewer people employed than there were a year ago, but the jobs market feels red hot, with many skilled and unskilled job openings going unfilled.

This anomaly has many business implications continuing through 2021 and beyond. Let's uncover what's contributing to this "red hot" recession.

The first contributing factor is the labor force. The latest releases of the unemployment rate are around 6% on a seasonally adjusted basis. However, that number is skewed in a couple of ways. Over the past 12 months, an unprecedented number of people exited the labor market, and thus, not counted as unemployed. According to The Pew Research Center, if we assumed no change in the labor force participation rate, which dropped from 63.3% before the pandemic to its current state at 61.5%, the actual unemployment rate would be closer to 10% by their estimate.

### **U.S. unemployment rate may have been higher than it appeared in February 2021, perhaps more than double its level a year ago**

*Unemployment rate (%), February 2020 to February 2021*



The second half of the equation is growing labor demand. Usually, recessions happen with a twin effect of job losses and decreases in job openings. However, this current situation is much different. There has been more stimulus money loaded into this recession versus past recessions. There have also been dichotomies where consumers are spending more in certain areas like grocery, home improvement and online, and less in other pandemic-restricted areas such as travel, hospitality, and food services. The result is that many sectors of the economy saw unprecedented levels of growth and needed to increase headcount in response.

To look at this further, Prevedere combined different data sets from the Bureau of Labor Statistics to look at Unemployed-Persons Per-Job Opening, which sheds more light on the situation than the unemployment rate. Right now, the number of Unemployed-Persons Per-Job Opening is 1.47, indicating that for every person available for work, there are about one and a half jobs open and available to them.

When the labor market was incredibly tight before the pandemic, this number fell below 1, meaning that there were not enough available people for every job opening.

However, the current 1.47 number suggests a relatively tight labor market, and comparable to levels last seen around mid-2015. The last recession ended around 2009/2010, so it took about five years after the previous recession to reach this number. Now, 12 months after the pandemic started, the U.S. is already seeing this level of Unemployed-Persons Per-Job Openings.

In 2015, the unemployment rate was 5.1%. With the current labor market dynamics, the unemployment rate of 6.6% feels more like what an economy would at a 5.1% unemployment rate. This is important because a 5.1% unemployment rate is very close to what most economists agree is full employment.

### Conclusion

Currently, the U.S. is in a unique situation where there are 8.5 million fewer people employed, but the job market feels like the U.S. is back to full employment. Prevedere is expecting GDP growth of around 6% in 2021, creating significant pressure on businesses to keep pace with demand amidst a time when people aren't actively looking for work. A reduction in the labor pool combined with increasingly high demand due to stimulus will put upward pressure on existing wages across the board. Businesses will need to be aggressive to recruit, train and retain labor in this environment, and will have to be conscious of the pressures on margins this will create. For businesses that can correctly strike this balance of rising labor costs, but also rising demand, 2021 presents many opportunities for a successful year.