



Labor Market Developments

38th Annual Economic Outlook Symposium at the
Federal Reserve Bank of Chicago

December 6, 2024

Daniel Sullivan

Executive Vice President

Federal Reserve Bank of Chicago

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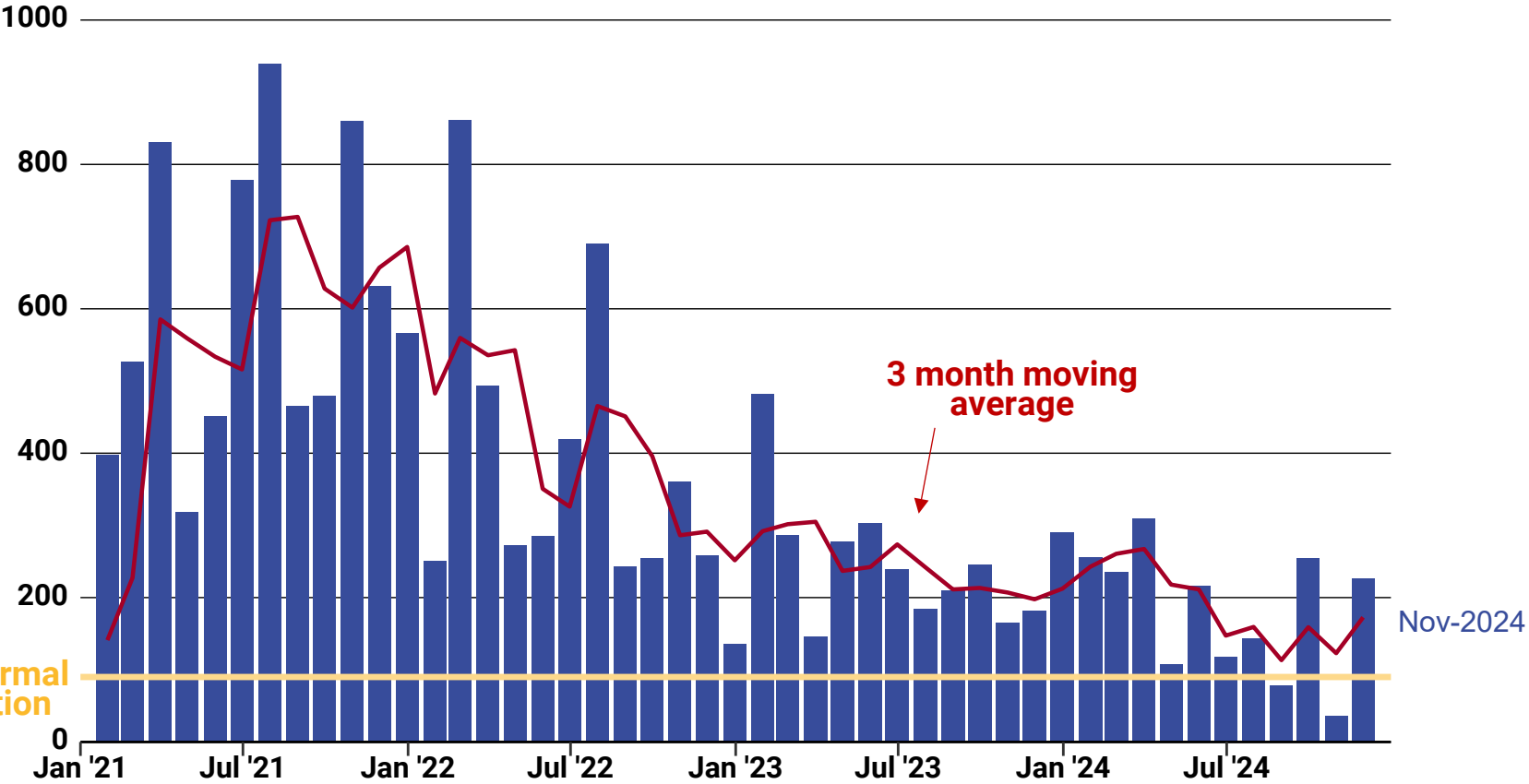
Interesting times

- **The labor market remains healthy, but has softened significantly over the last two and a half years**
 - Mainly via decreased job vacancies rather than higher unemployment
- **Nominal wage growth initially didn't keep up with inflation**
 - Could stay elevated longer to make up for previous real decline
 - Strong productivity growth could also support faster wage gains
- **Recent and future employment growth highly dependent on immigration policy developments**
 - Which are quite uncertain now and will be for the next few years
 - Suggests paying somewhat less attention to monthly payroll gains and more to actual changes in the unemployment rate

Payroll employment gains slowing

Change in Total Nonfarm Payroll Enrollment

(Thousands, SA)

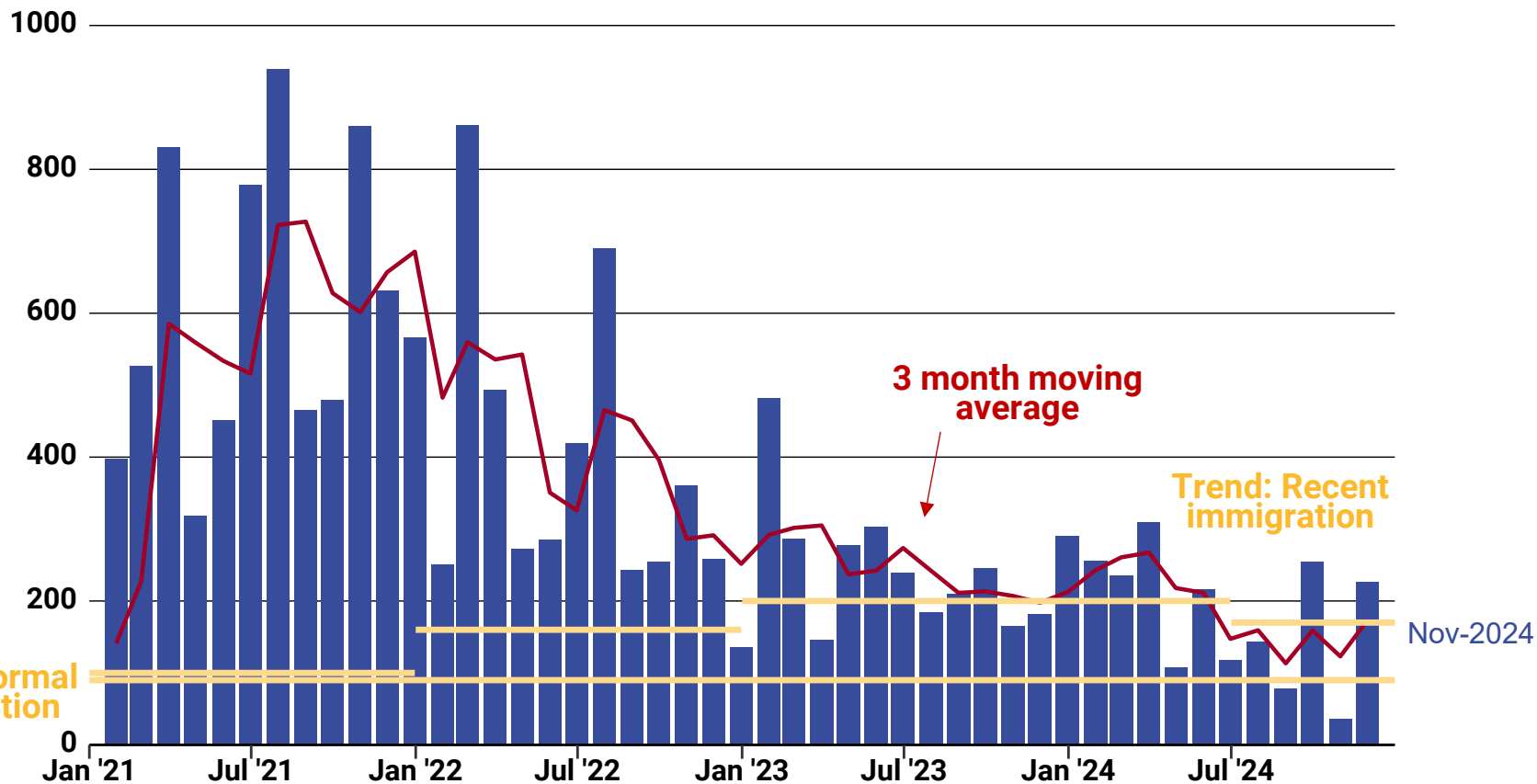


Source: Bureau of Labor Statistics via Haver Analytics

Benchmark levels have risen due to immigration

Change in Total Nonfarm Payroll Enrollment

(Thousands, SA)

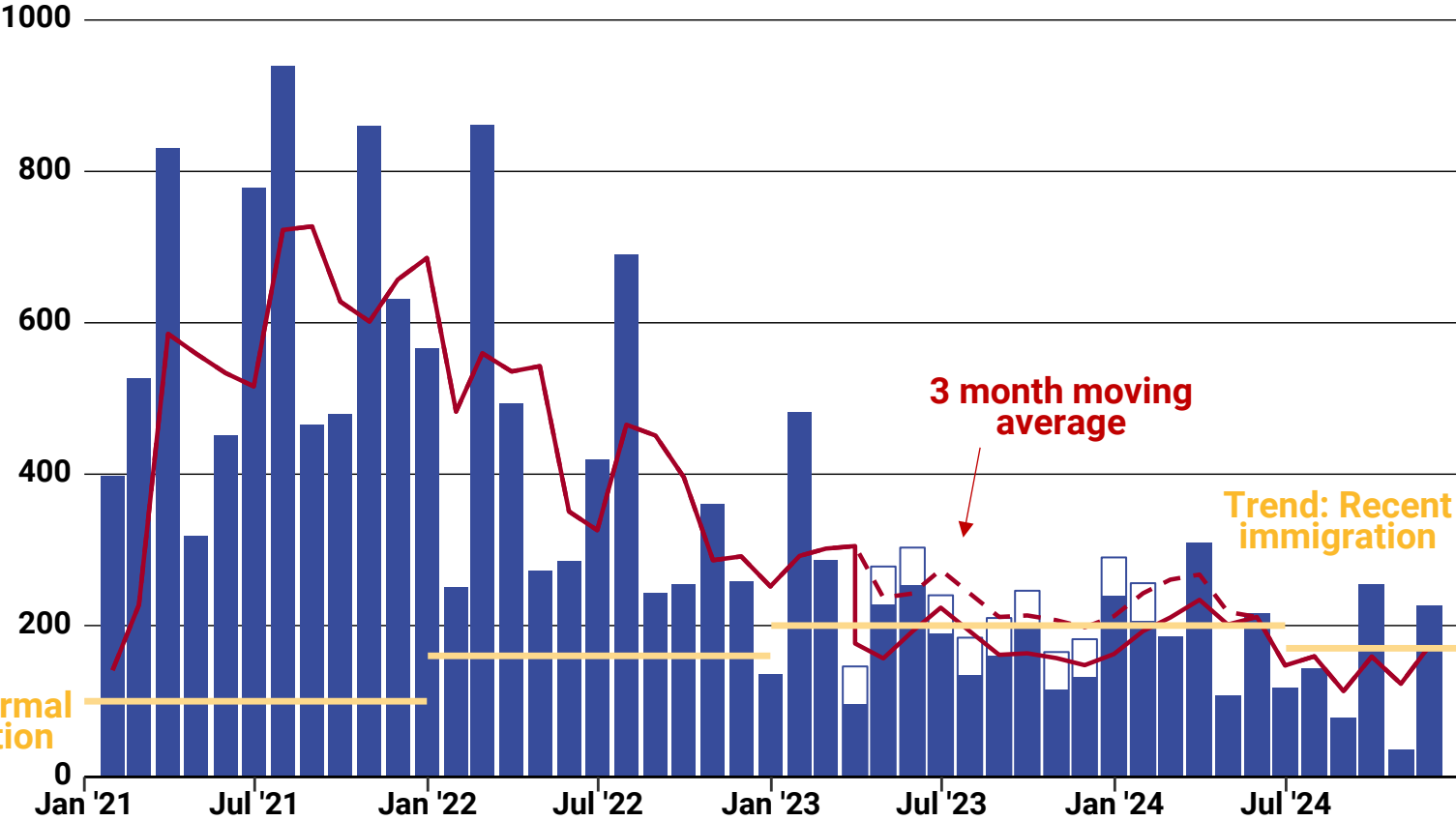


Source: Bureau of Labor Statistics via Haver Analytics

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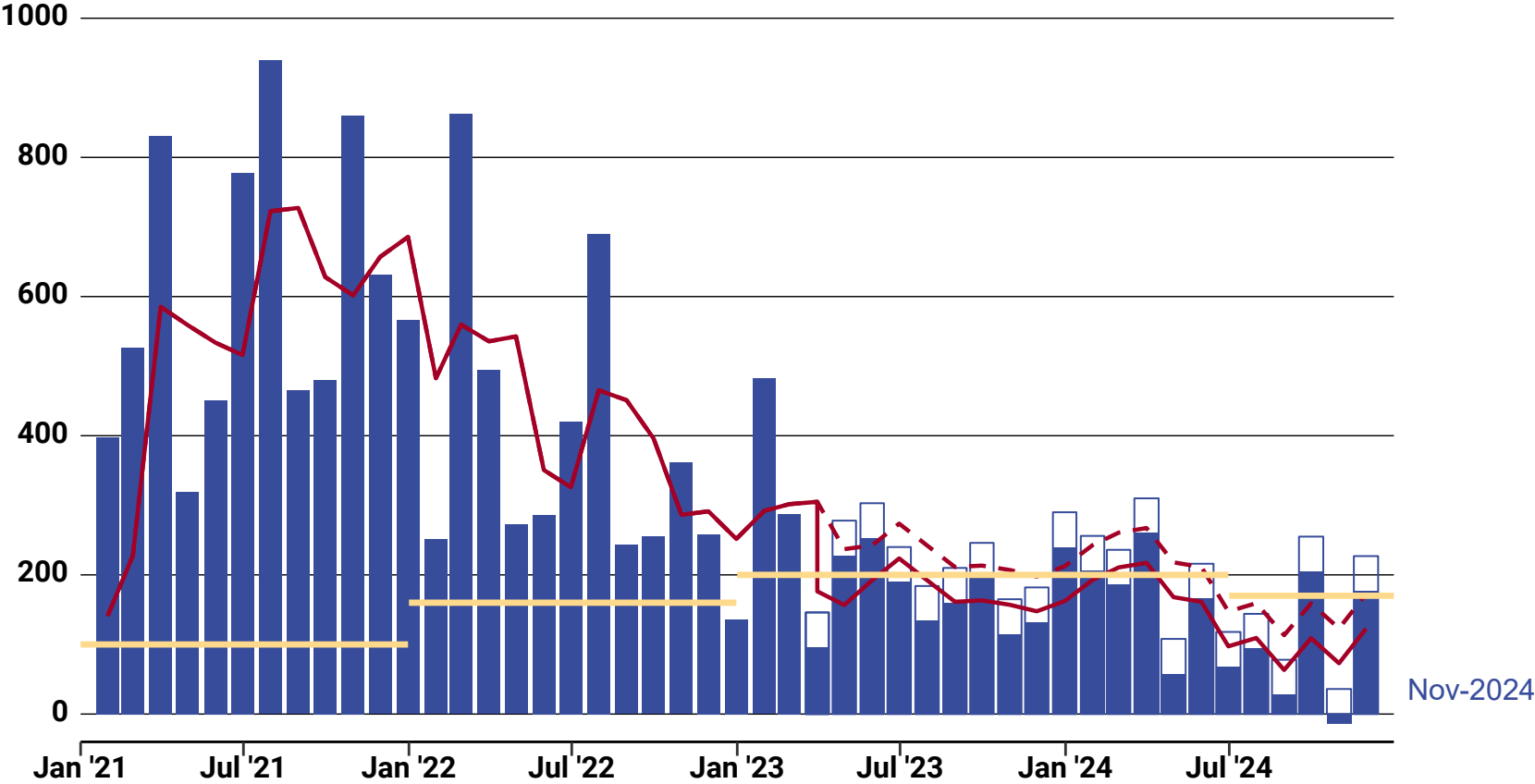


Source: Bureau of Labor Statistics via Haver Analytics

Increases slightly below constant u benchmark

Change in Total Nonfarm Payroll Enrollment

(Thousands, SA)

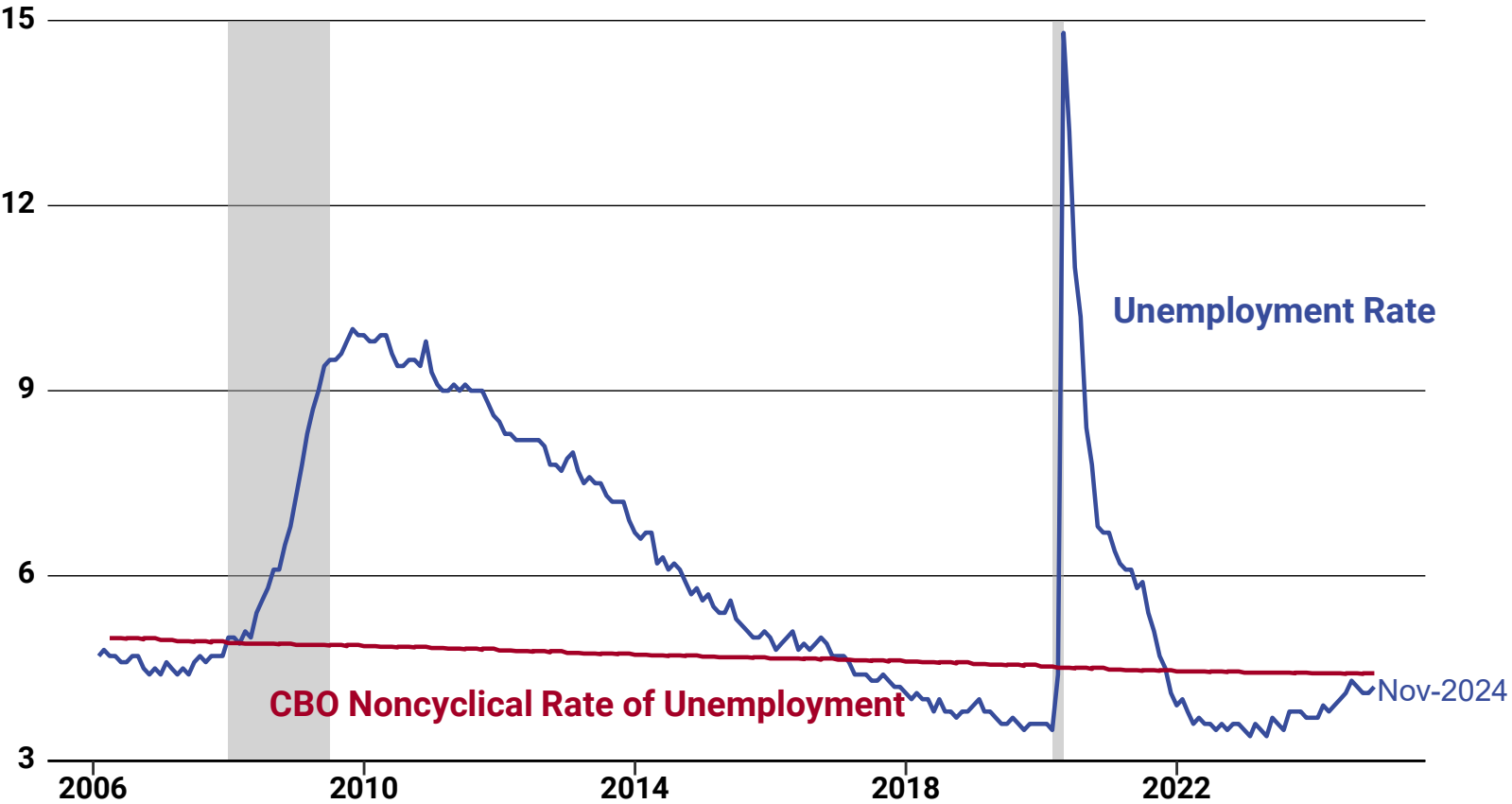


Source: Bureau of Labor Statistics via Haver Analytics

Unemployment remains low, but has risen

Unemployment Rate

(Percent, SA)

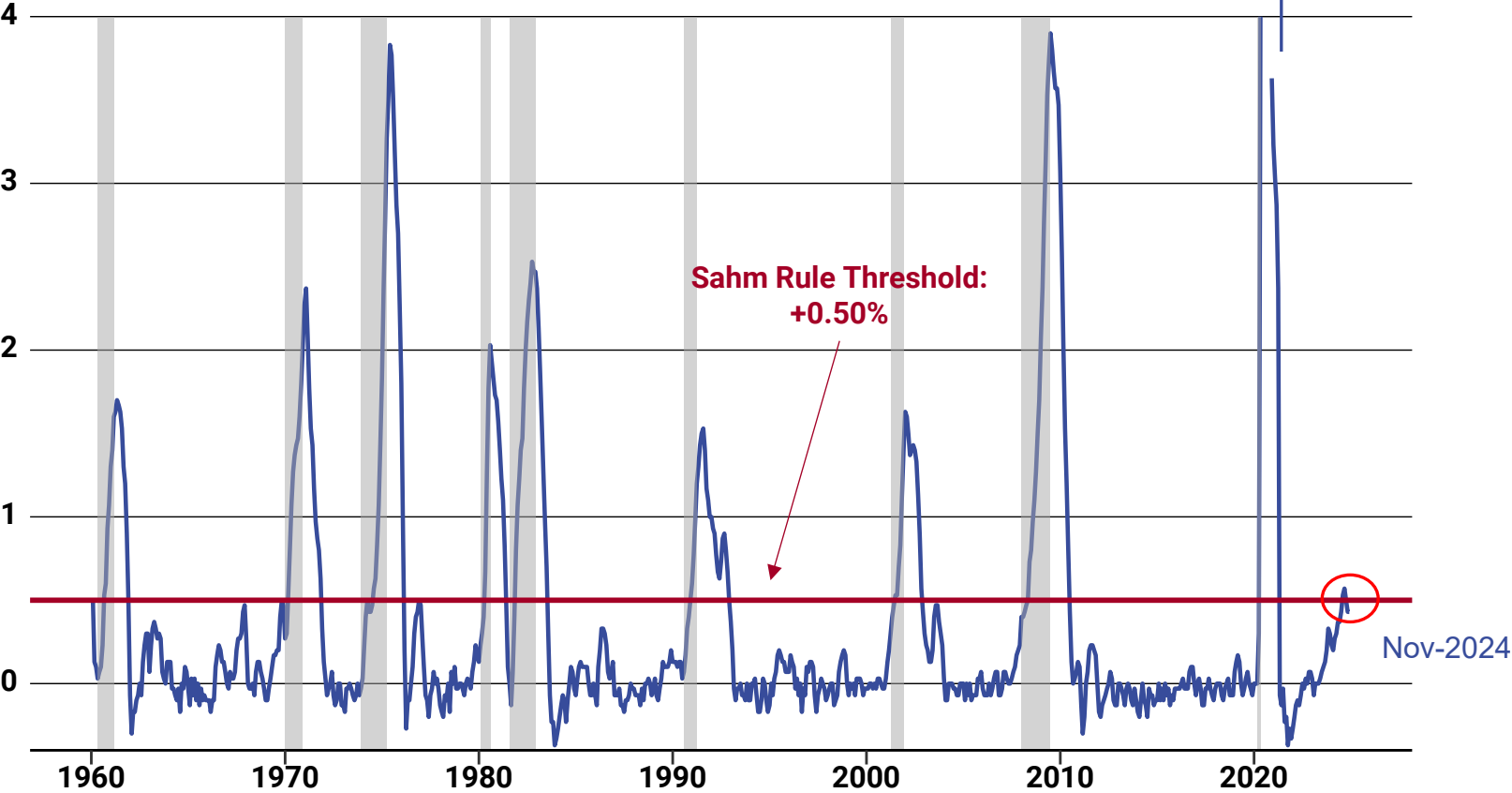


Source: Bureau of Labor Statistics and Congressional Budget Office via Haver Analytics

Flirting with the Sahm-rule recession indicator

Sahm Rule

(Percentage points, 3-month MA of the unemployment rate less its 12-month low)

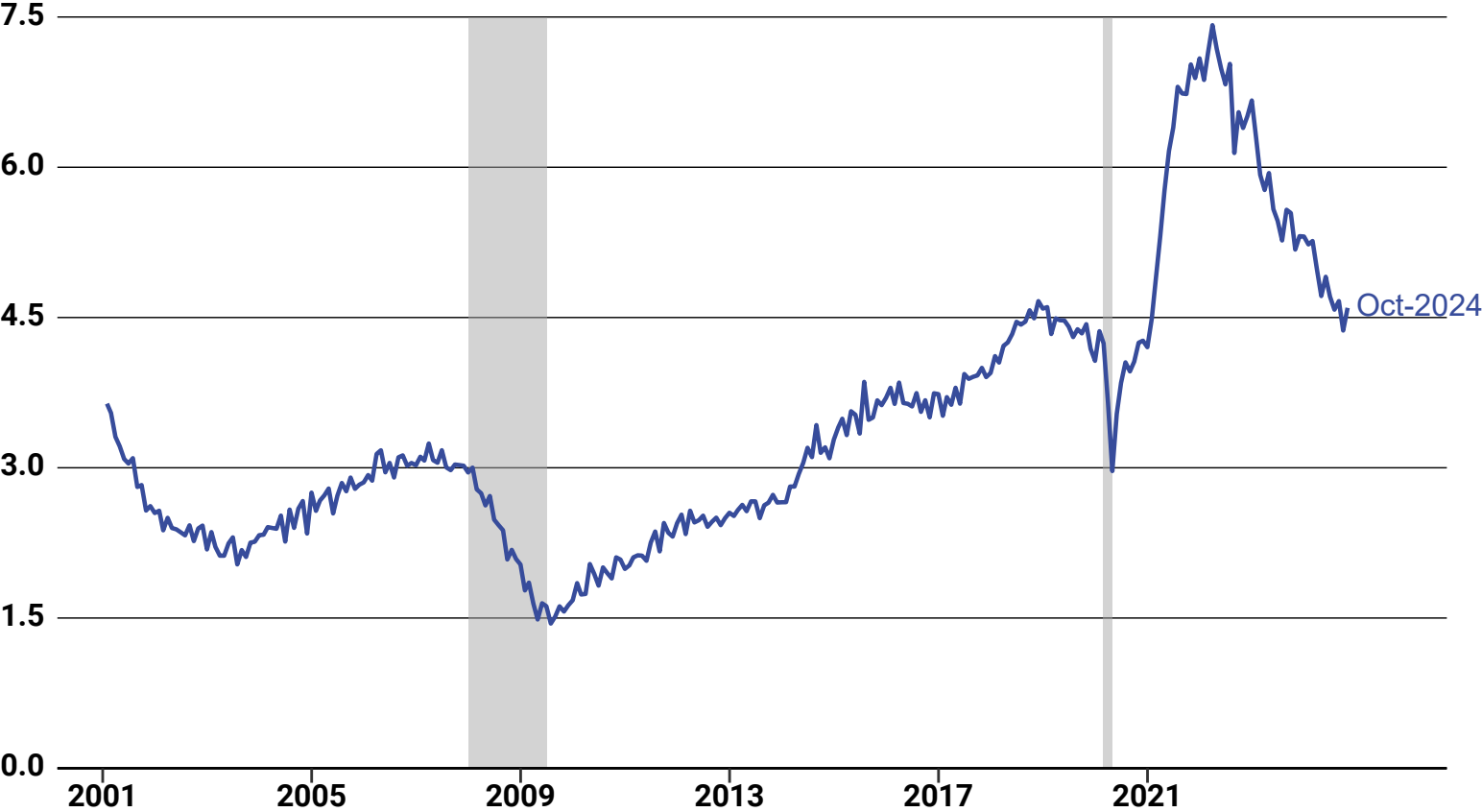


Source: Claudia Sahm via Haver Analytics

Job openings rate down substantially

Job Opening Rate

(Percent of employment, SA)

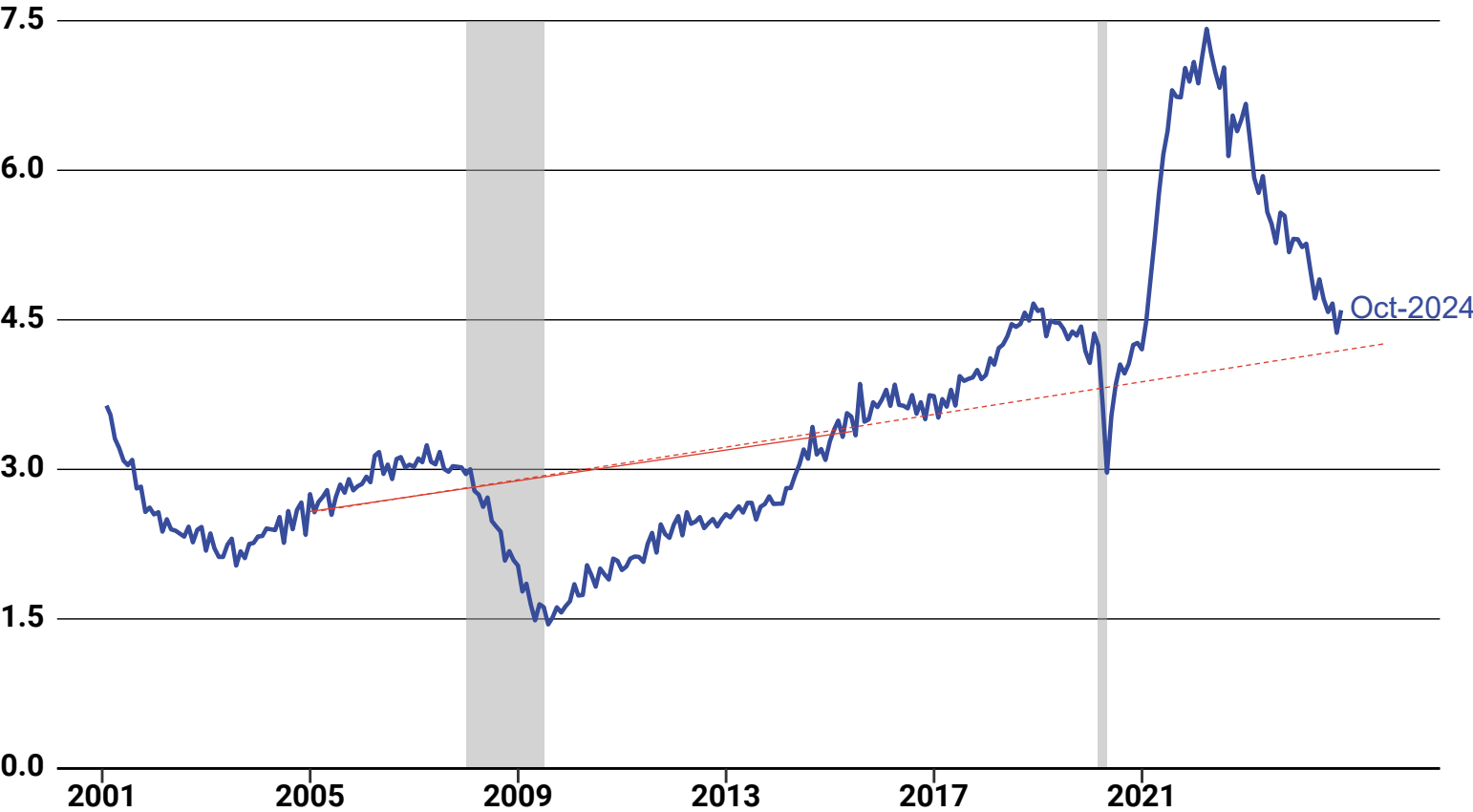


Source: Bureau of Labor Statistics via Haver Analytics

Job openings rate down relative to trend

Job Opening Rate

(Percent of employment, SA)

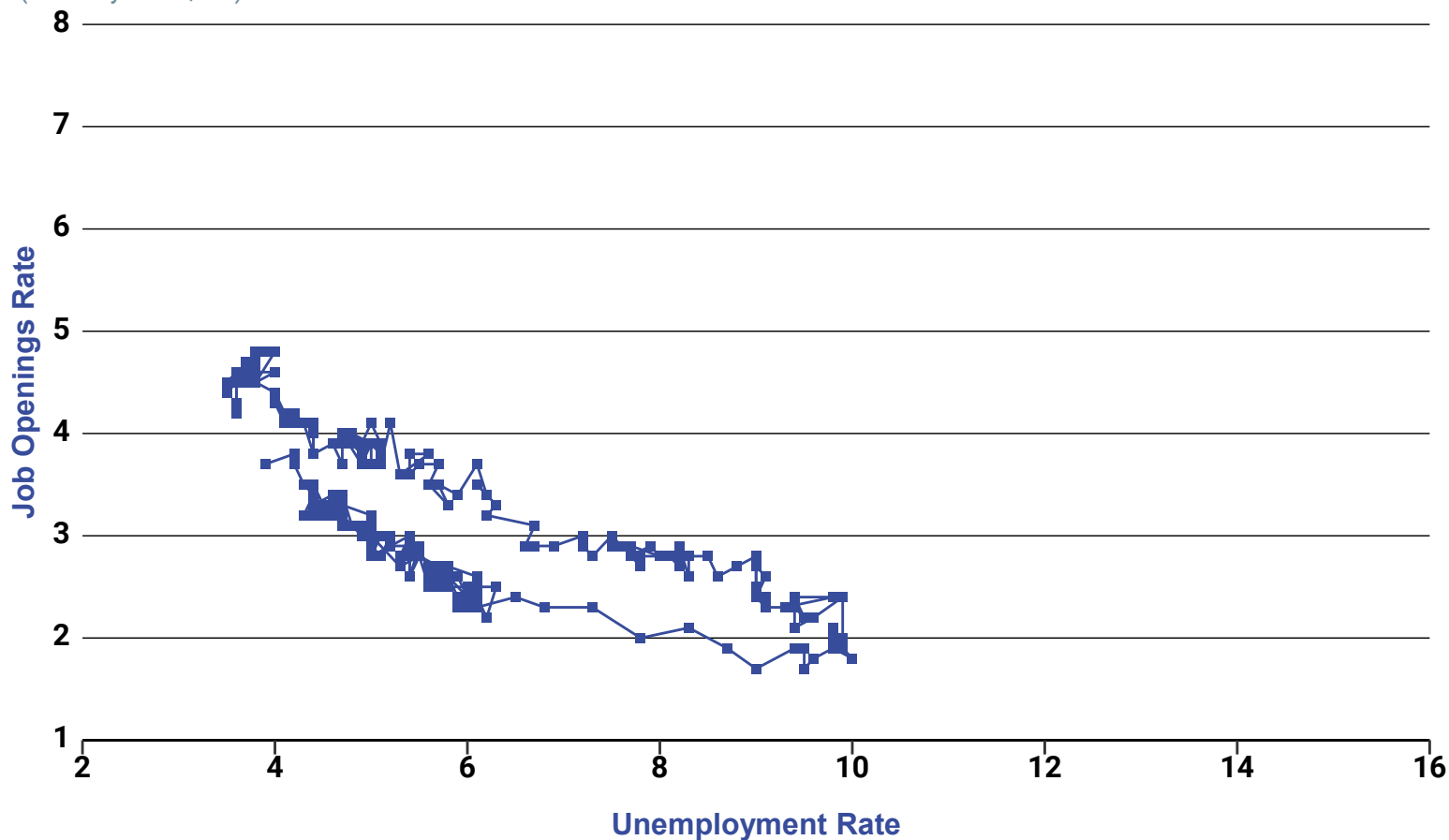


Source: Bureau of Labor Statistics via Haver Analytics

Pre-Pandemic Beveridge Curve

Beveridge Curve, Pre-pandemic

(monthly rates, SA)

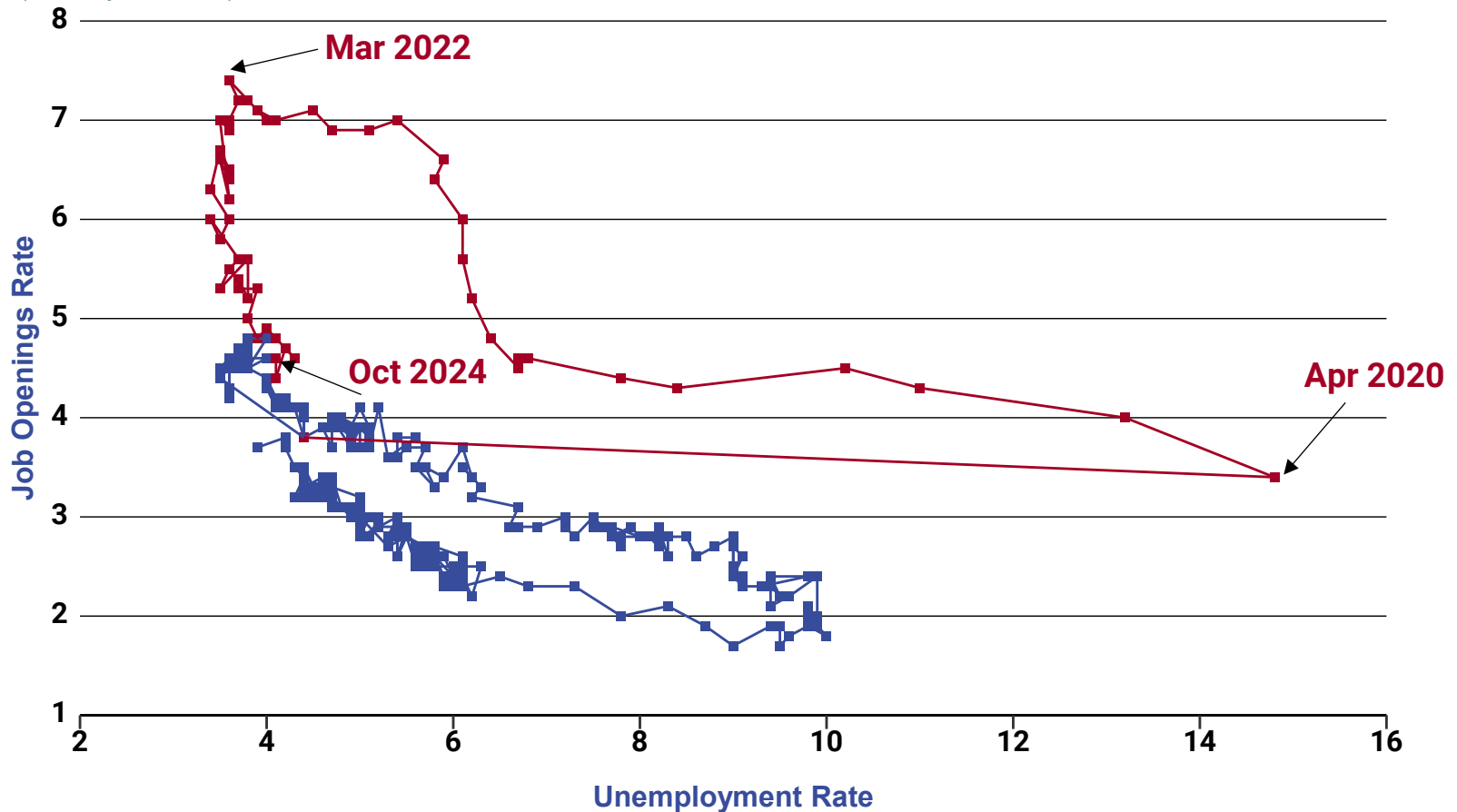


Source: Bureau of Labor Statistics, JOLTS, and Current Population Survey via Haver Analytics

Beveridge Curve shifted out, then back in

Beveridge Curve, 2001-Present

(Monthly rates, SA)

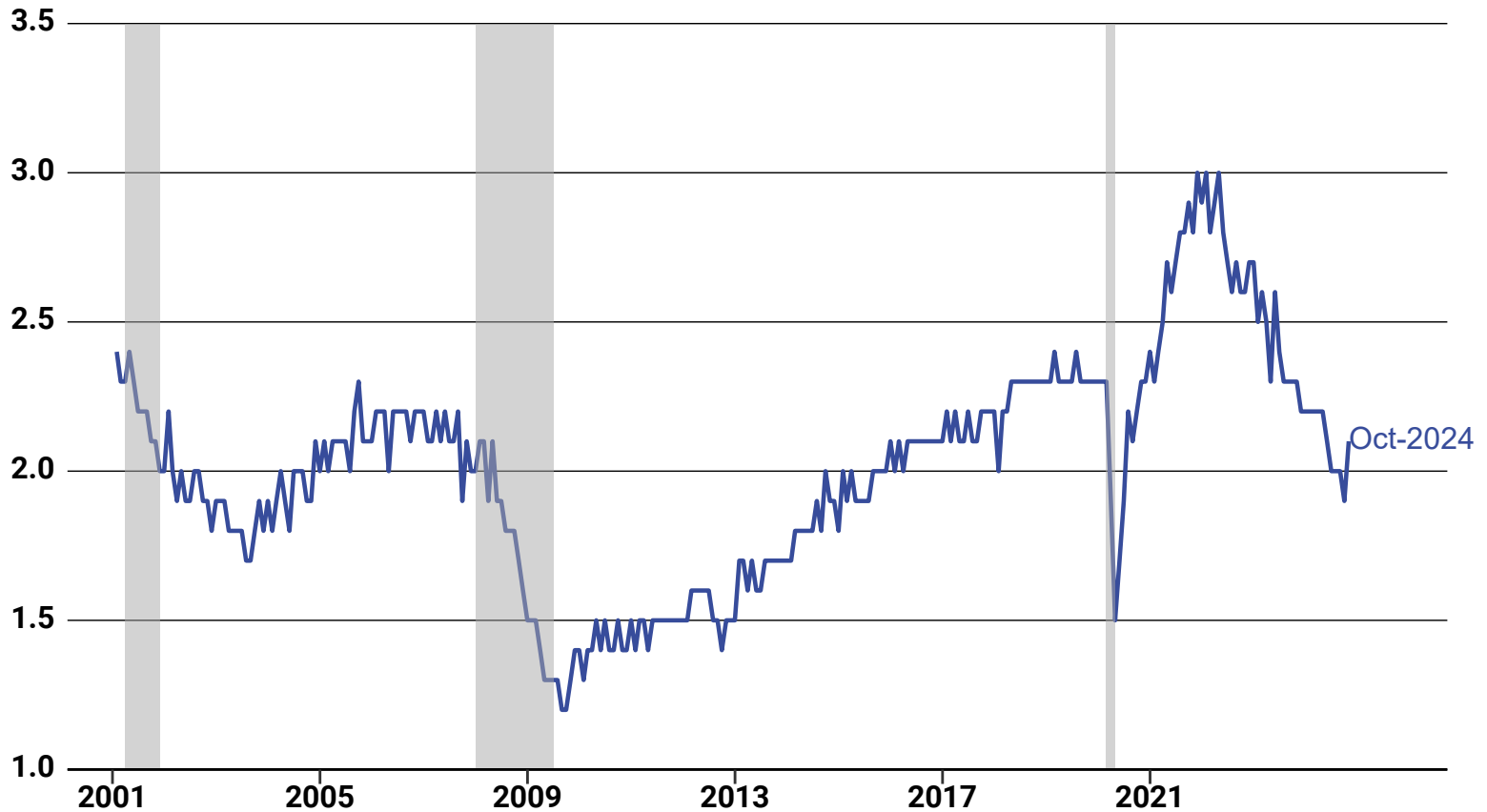


Source: Bureau of Labor Statistics, JOLTS, and Current Population Survey via Haver Analytics

Fewer workers quitting means fewer job openings

Quit Rate

(Percent of employment, SA)

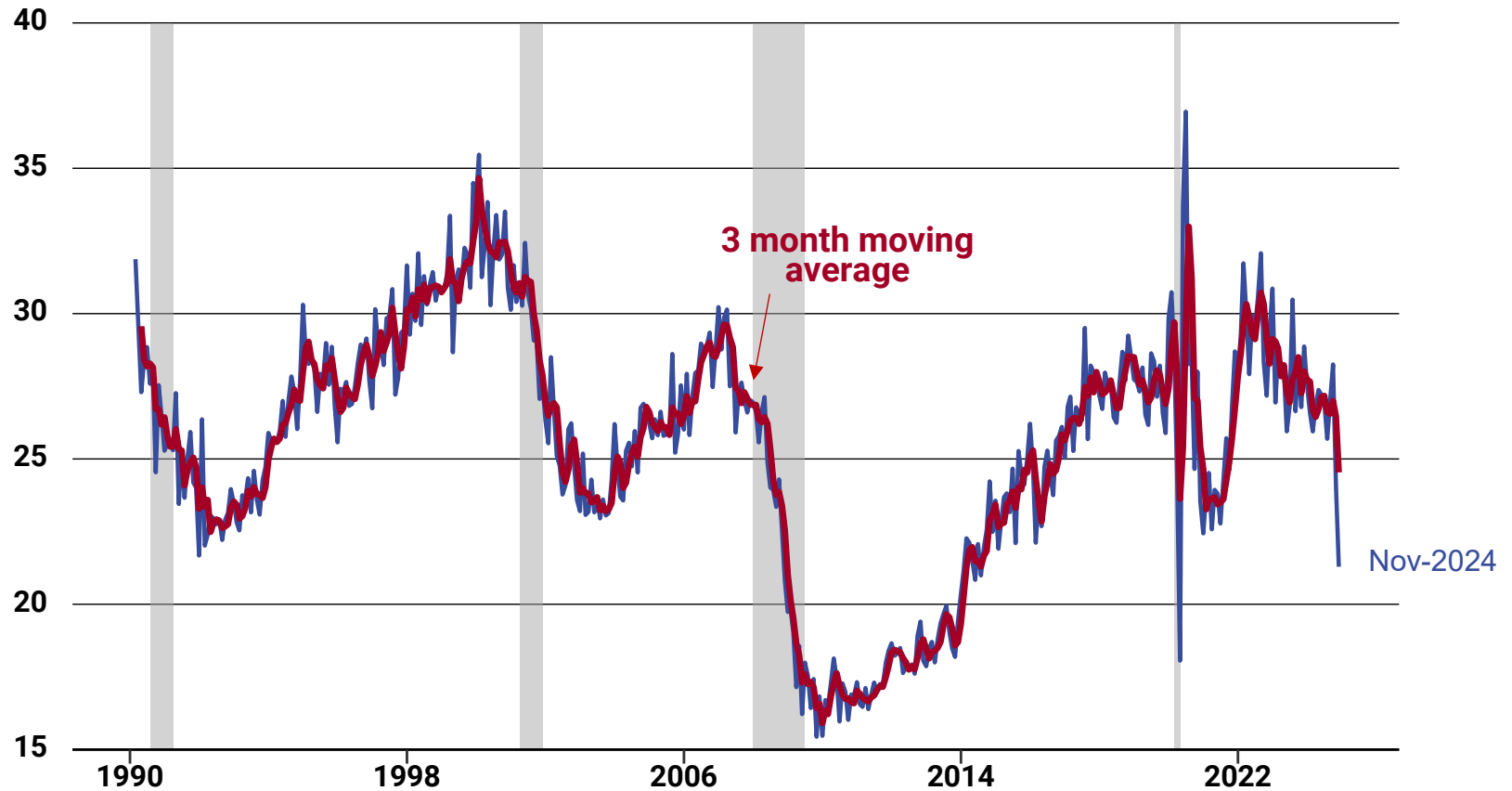


Source: Bureau of Labor Statistics via Haver Analytics

Unemployed workers taking longer to find jobs

Job Finding Rate for Unemployed Workers

(Percent)

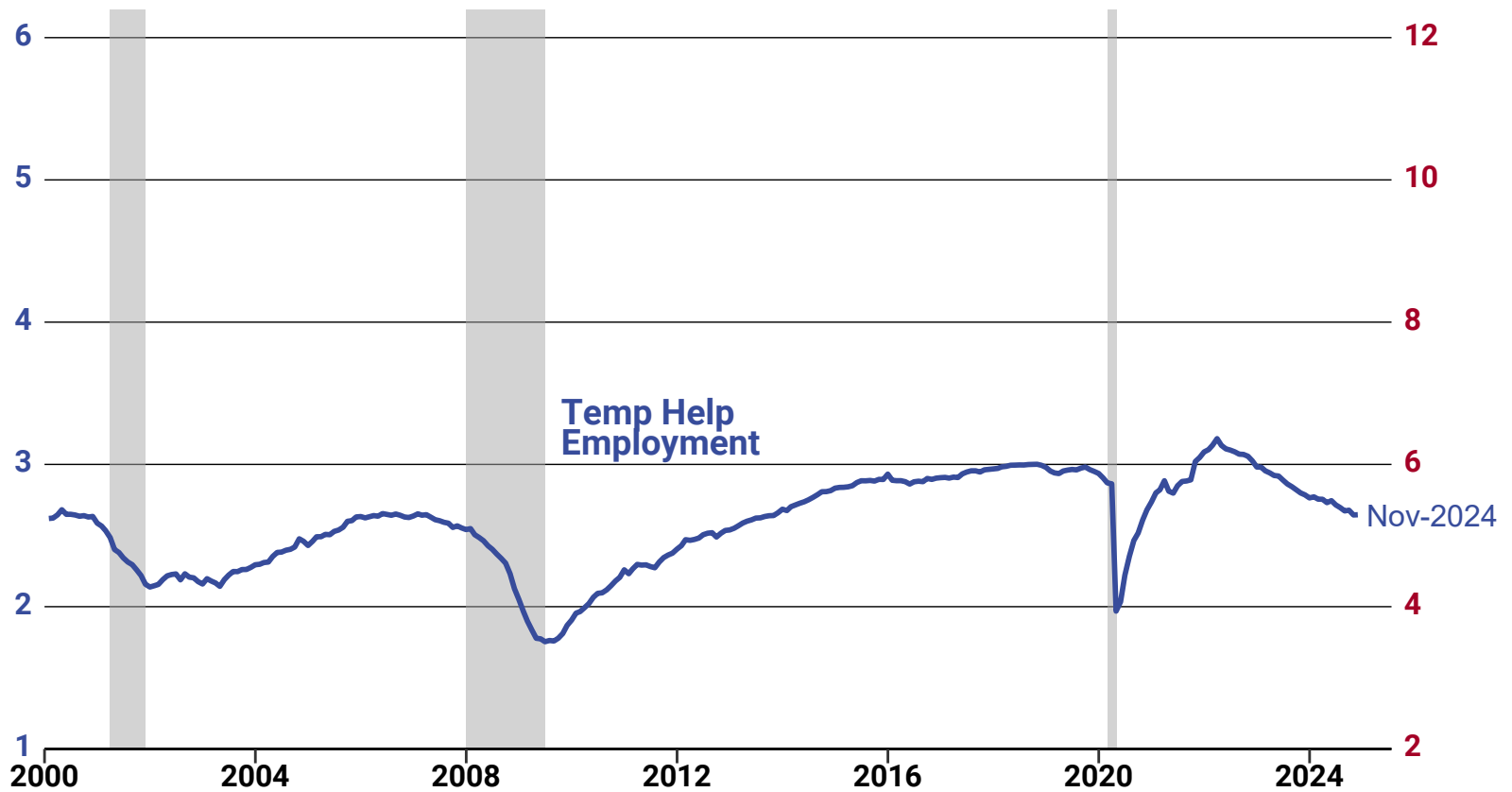


Source: Bureau of Labor Statistics via Haver Analytics

Temp services employment has been falling

Job Openings and Temporary Employment

(Million)

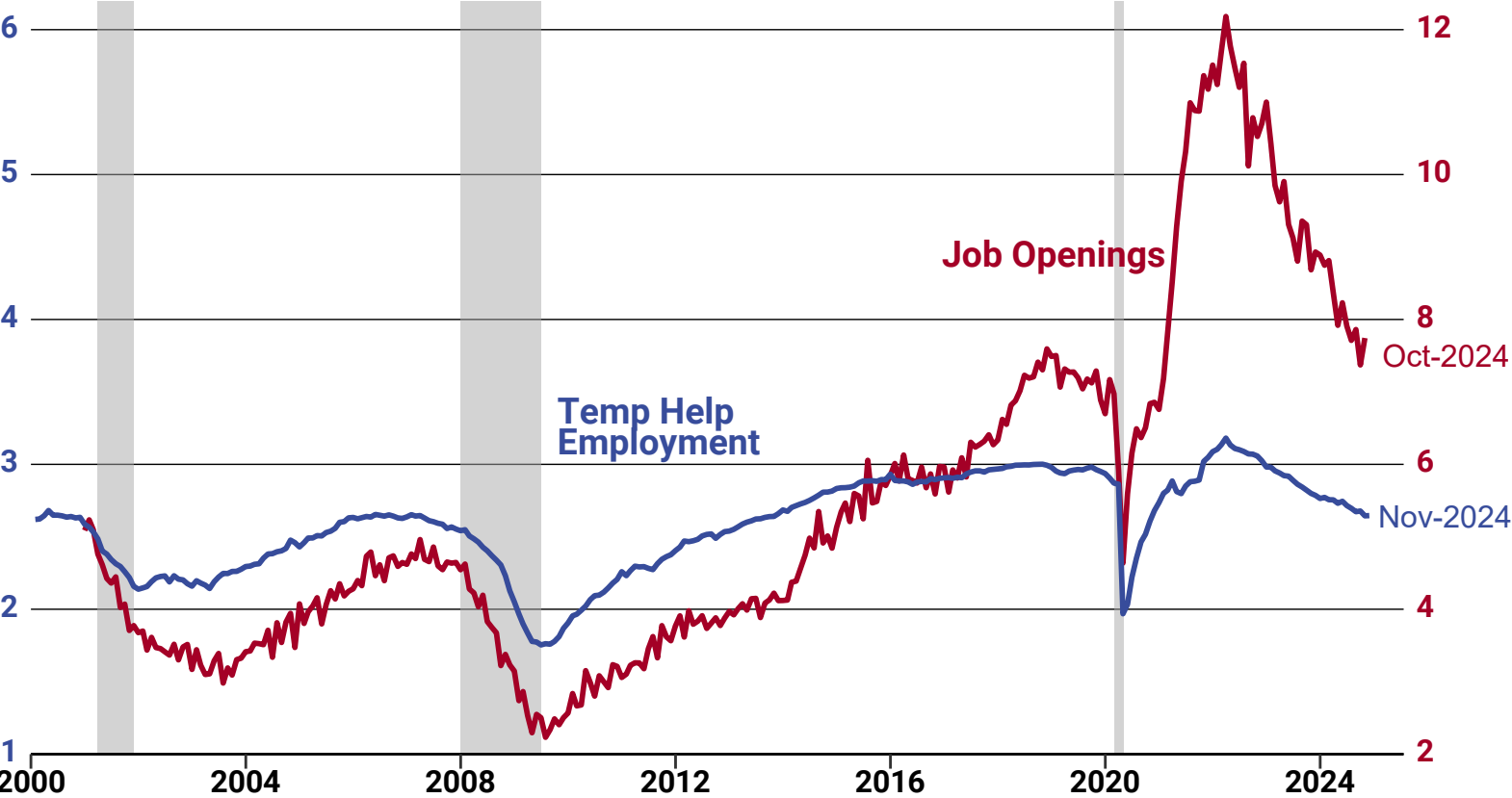


Source: BLS via Haver Analytics

Temp employment falling along with openings

Job Openings and Temporary Employment

(Million)

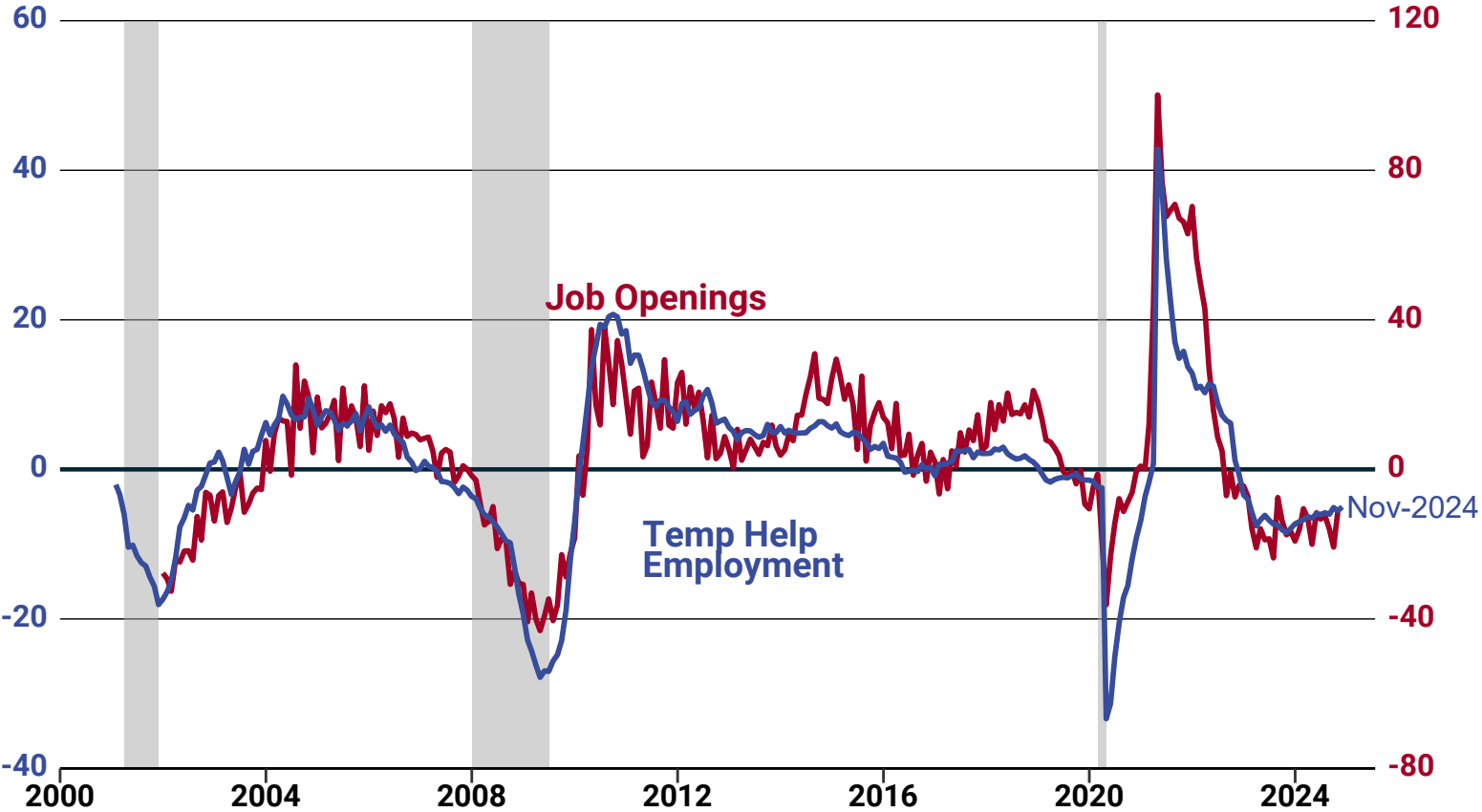


Source: BLS via Haver Analytics

Job openings and temp growth highly correlated

Job Openings and Temporary Employment

(12-month percent change)

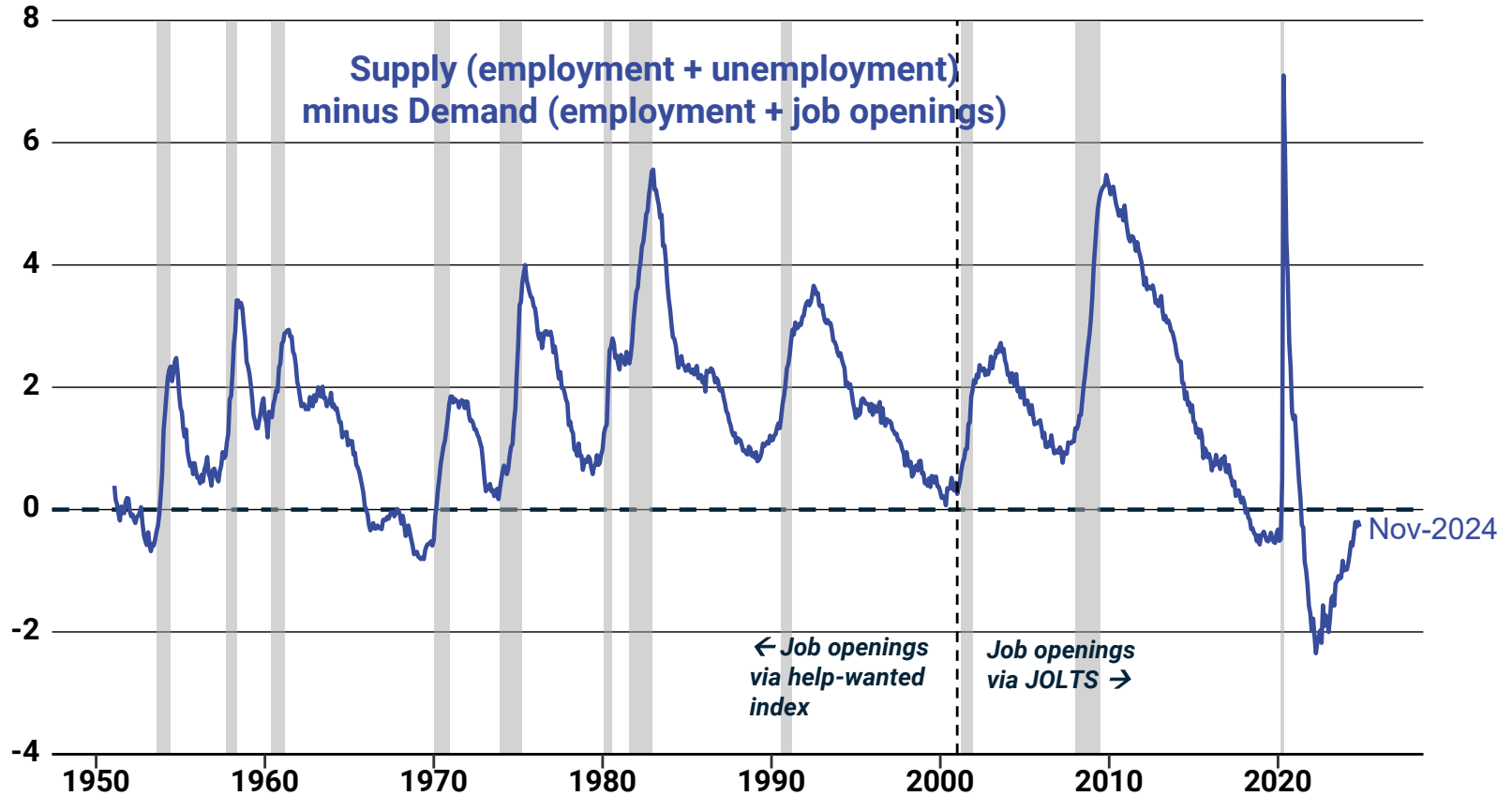


Source: BLS via Haver Analytics

Labor demand and supply nearer to balance

Unemployed Workers Minus Job Openings

(Percent of civilian noninstitutional population)

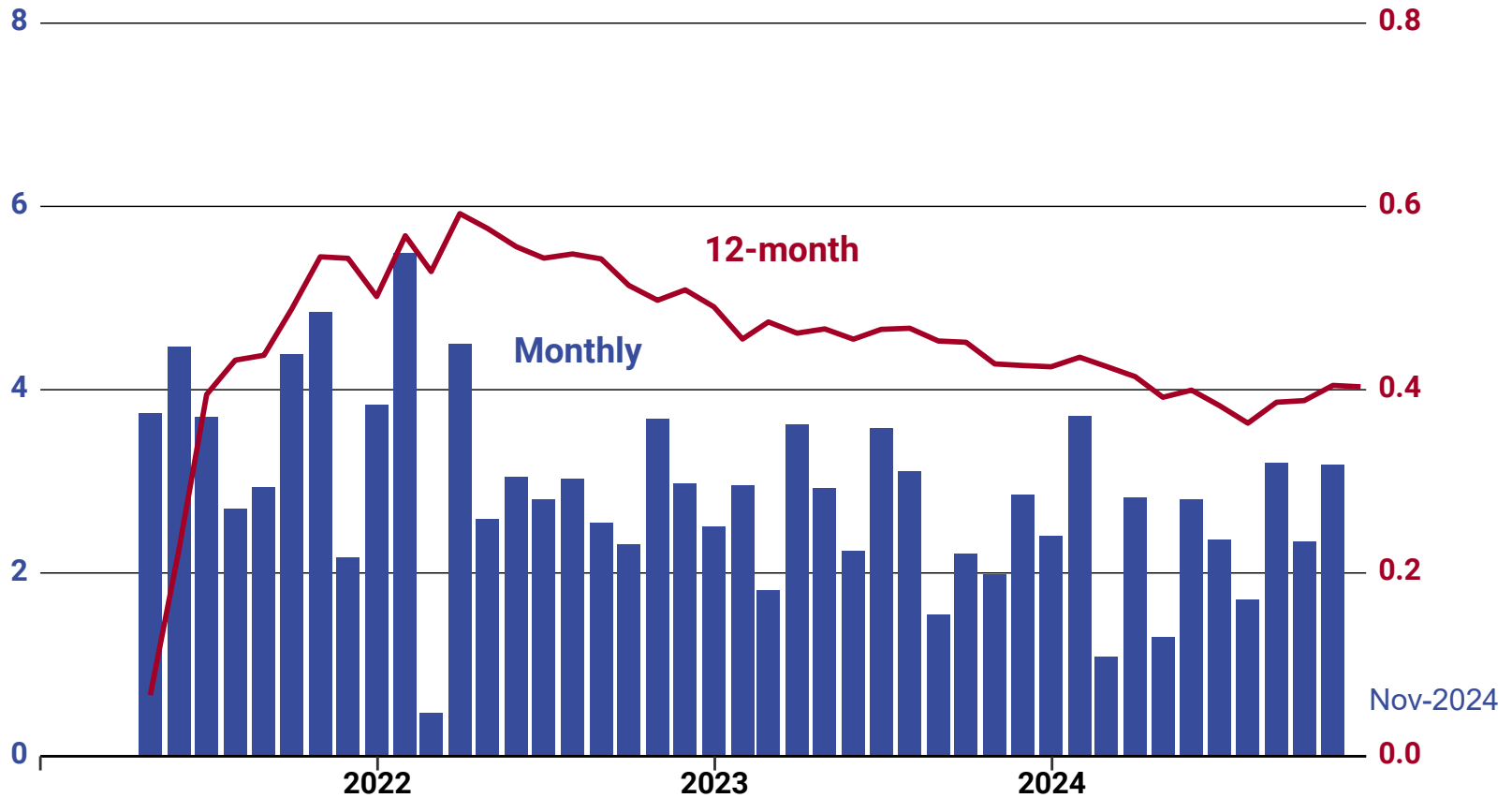


Source: Bureau of Labor Statistics via Haver Analytics; pre-2001 job openings data extrapolated from help-wanted index via Barnichon (2010)

Nominal wage growth still somewhat elevated

Average Hourly Earnings: Private Sector

(Percent change)

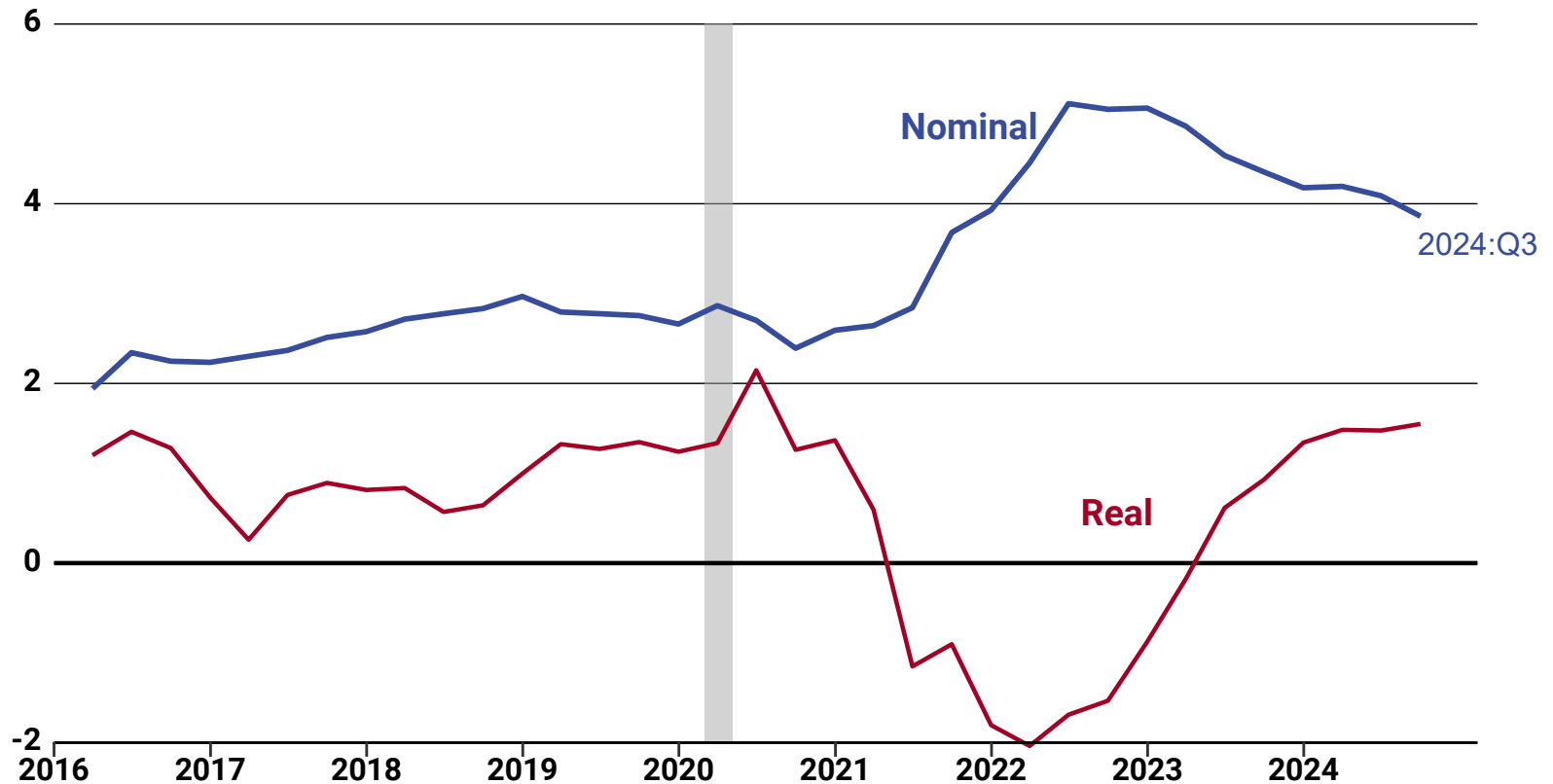


Source: BLS via Haver

Nominal wage growth has been moderating

Employment Cost Index: Civilian Workers

(12-month percent change)



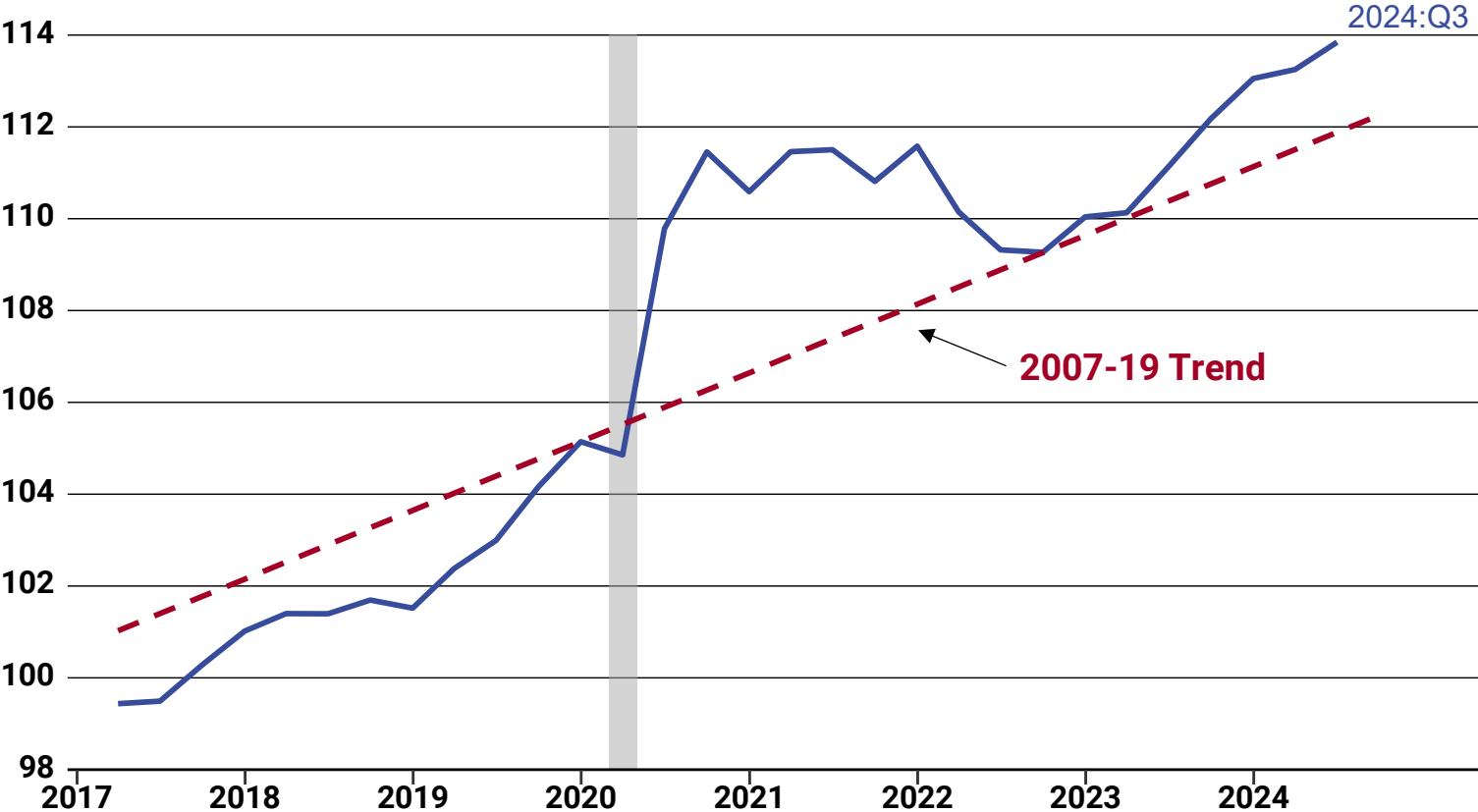
Note: Real ECI is nominal ECI deflated by the price index for total personal consumption expenditures.

Source: Bureau of Labor Statistics via Haver Analytics

Productivity has surged recently

Nonfarm Business Sector Productivity vs. Trend

(Index, 2017 = 100)



Note: Trend calculated from 2007:Q1 to 2019:Q4
Source: BLS via Haver Analytics; staff calculations

Wage growth adjusted for productivity

Unit Labor Costs: Nonfarm Business Sector

(Percent change, annualized rate)

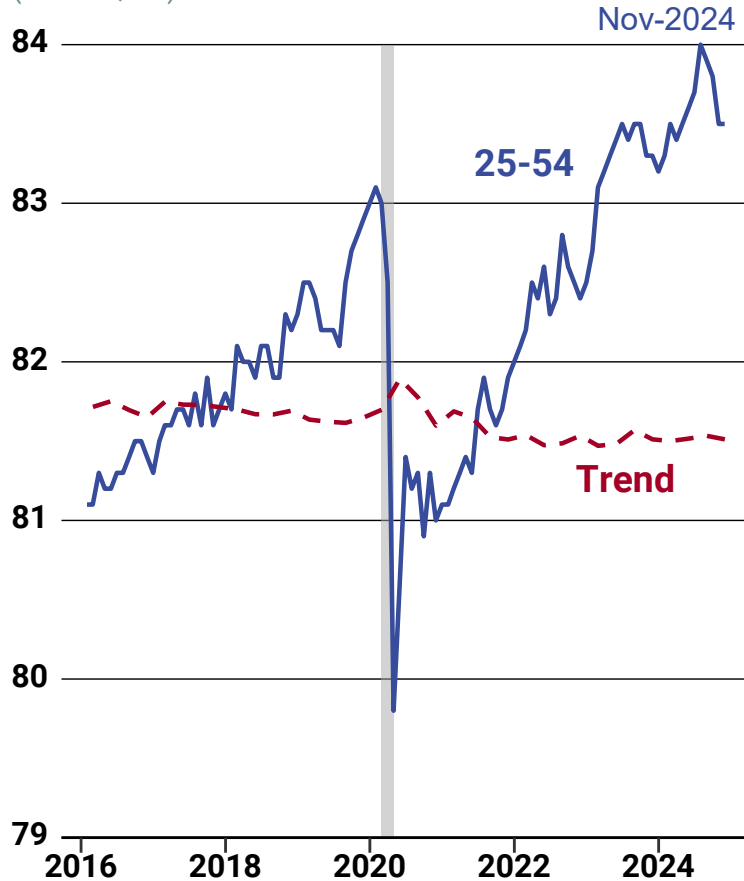


Source: Bureau of Labor Statistics via Haver Analytics

Prime age labor force participation has risen

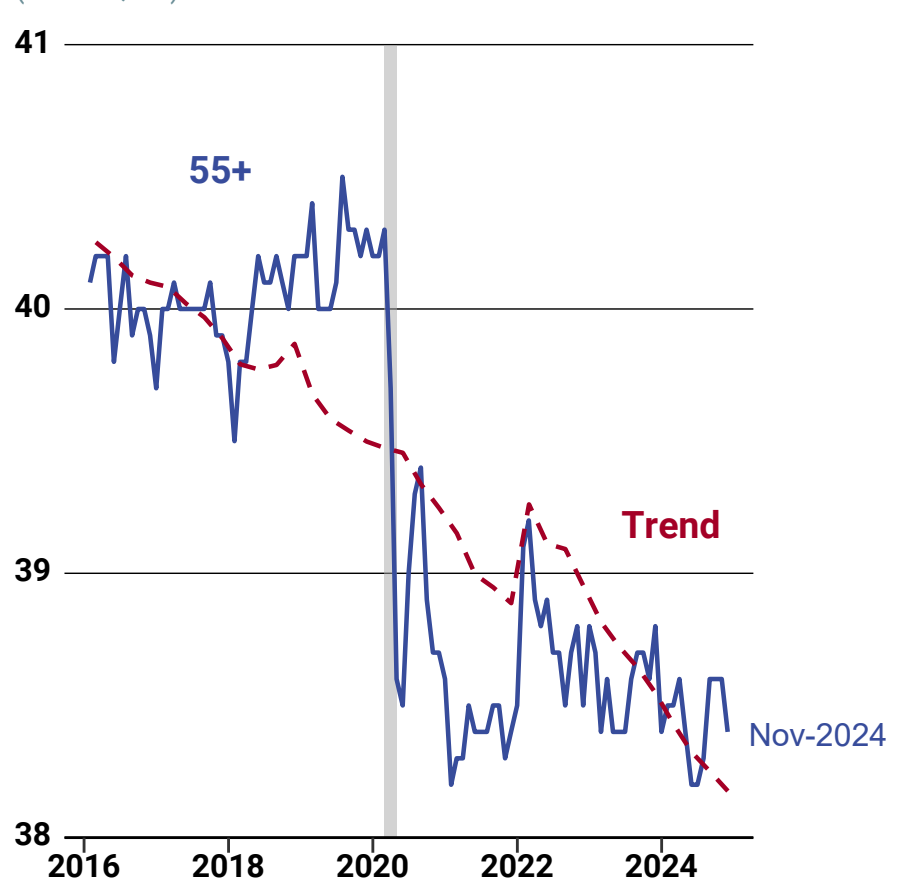
Prime Age LFP Rate

(Percent, SA)



Age 55+ LFP Rate

(Percent, SA)

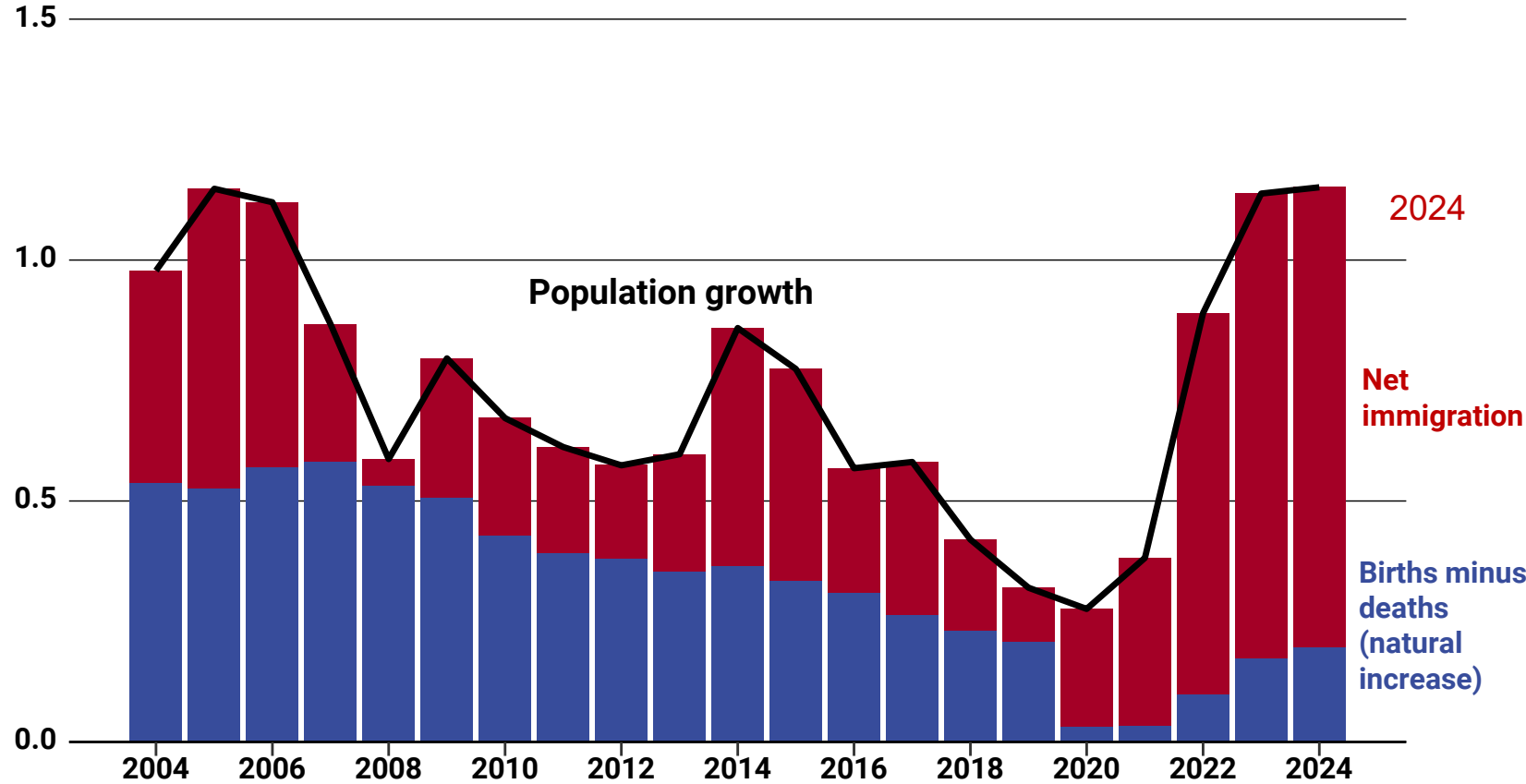


Source: Bureau of Labor Statistics from Haver Analytics; Daniel Aaronson, Luojia Hu, Arian Seifoddini, Daniel G. Sullivan. 2015. 'Changing Labor Force Composition and the Natural Rate of Unemployment'. *Chicago Fed Letter*, No. 338, 2015. <https://www.chicagofed.org/publications/chicago-fed-letter/2015/338>

Immigration appears to have jumped sharply

CBO Estimates of Contributions to 16+ Population Growth Rate

(Percent)



Source: Congressional Budget Office

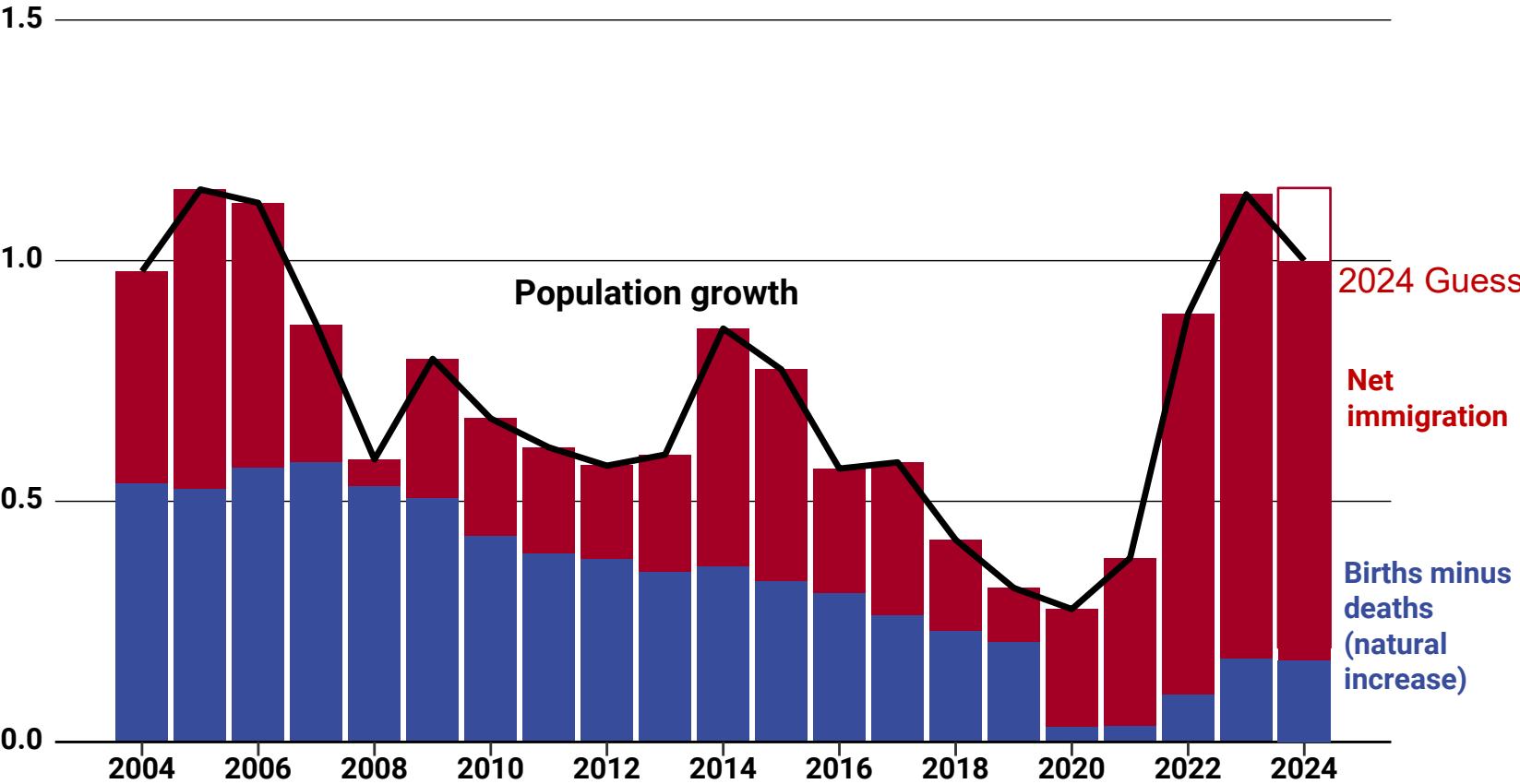
Census estimates lower population growth

- **Census Bureau estimates of net immigration largely derived from their American Community Survey**
 - These likely are *too low* for recent years
 - Census should eventually get things right, but it will take time
 - They will not quickly reflect a sharp fall in net immigration either
 - Census estimates of population growth may be *too high* in coming years
- **This implies the household survey measure of employment growth is likely (way) too low**
 - Survey directly estimates employment-to-population ratio
 - Employment level obtained by multiplying by Census Bureau's population estimate, which is likely too low

Immigration appears to have slowed somewhat

CBO Estimates of Contributions to 16+ Population Growth Rate Plus 2024 Guess

(Percent)



Source: Congressional Budget Office

What's coming next? Less immigration

- **Lower levels of net immigration => less employment growth**
 - Brookings High scenario: 1.3 million net immigration in 2025
 - With 0.2 %-point decline in LFP => 50K/month payroll increases
 - With constant LFP => 90K/month
 - Brookings Low scenario: -0.6 million net immigration in 2025
 - With 0.2 %-point decline in LFP => 45K/month payroll decreases
 - With constant LFP => 0K/month payroll change
 - Low scenario becomes less extreme after 2025
- **Wages?**
 - Reduced labor supply suggests higher wages
 - But lower immigration implies less labor demand as well
 - Likely not a big net effect on wages (remember the Mariel boatlift)

What's coming next? Higher tariffs

- **Higher tariffs likely benefit some U.S. industries**
 - Those that compete with imported finished products
- **Higher tariffs likely hurt some U.S. industries**
 - Those that import inputs to produce their products
 - Those that export anything
- **Suggests that higher tariffs will force reallocation of labor**
 - More layoffs by those that are hurt and more hiring by those that are helped
 - Suggests an outward shift of the Beveridge curve: higher job vacancies and higher unemployment
 - Likely negative for average labor productivity

Summing up

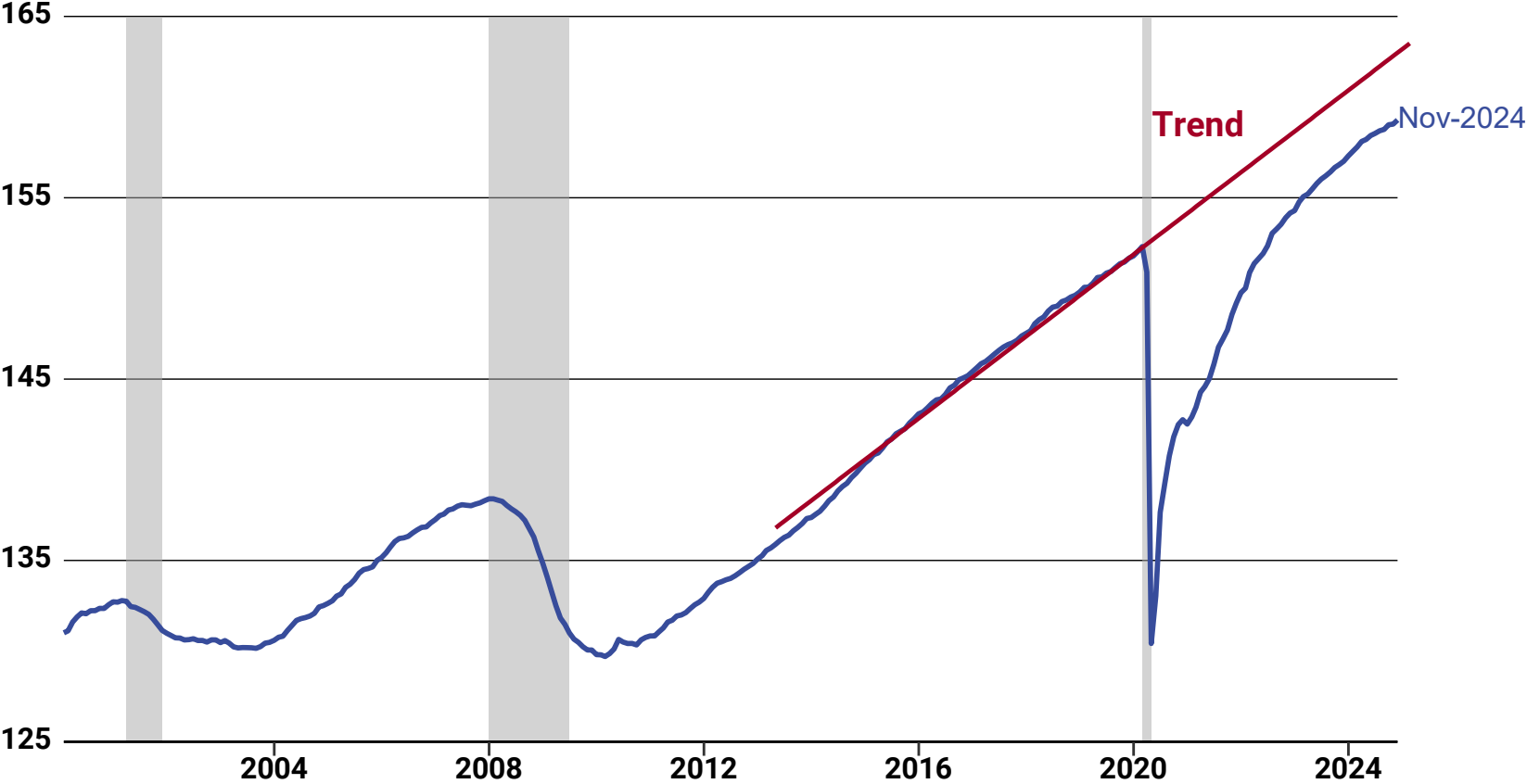
- **The labor market has softened, but remains relatively healthy**
 - Small rise in unemployment, but a bigger drop in job openings
 - Quits are down and it's harder for unemployed workers to find jobs
- **Wage growth is headed towards levels consistent with 2% inflation**
- **The benchmark for employment growth (needed to keep the unemployment rate steady) has been moving around**
 - And will likely drop next year by an uncertain amount
 - Suggests putting more weight on changes in the unemployment rate and other CPS ratios as indicators of labor market health
- **Much uncertainty about the possible extent and implications of lower net immigration and higher tariffs**

Appendix

Employment somewhat below 2015-19 trend

Total Nonfarm Payroll Employment

(Millions, SA)

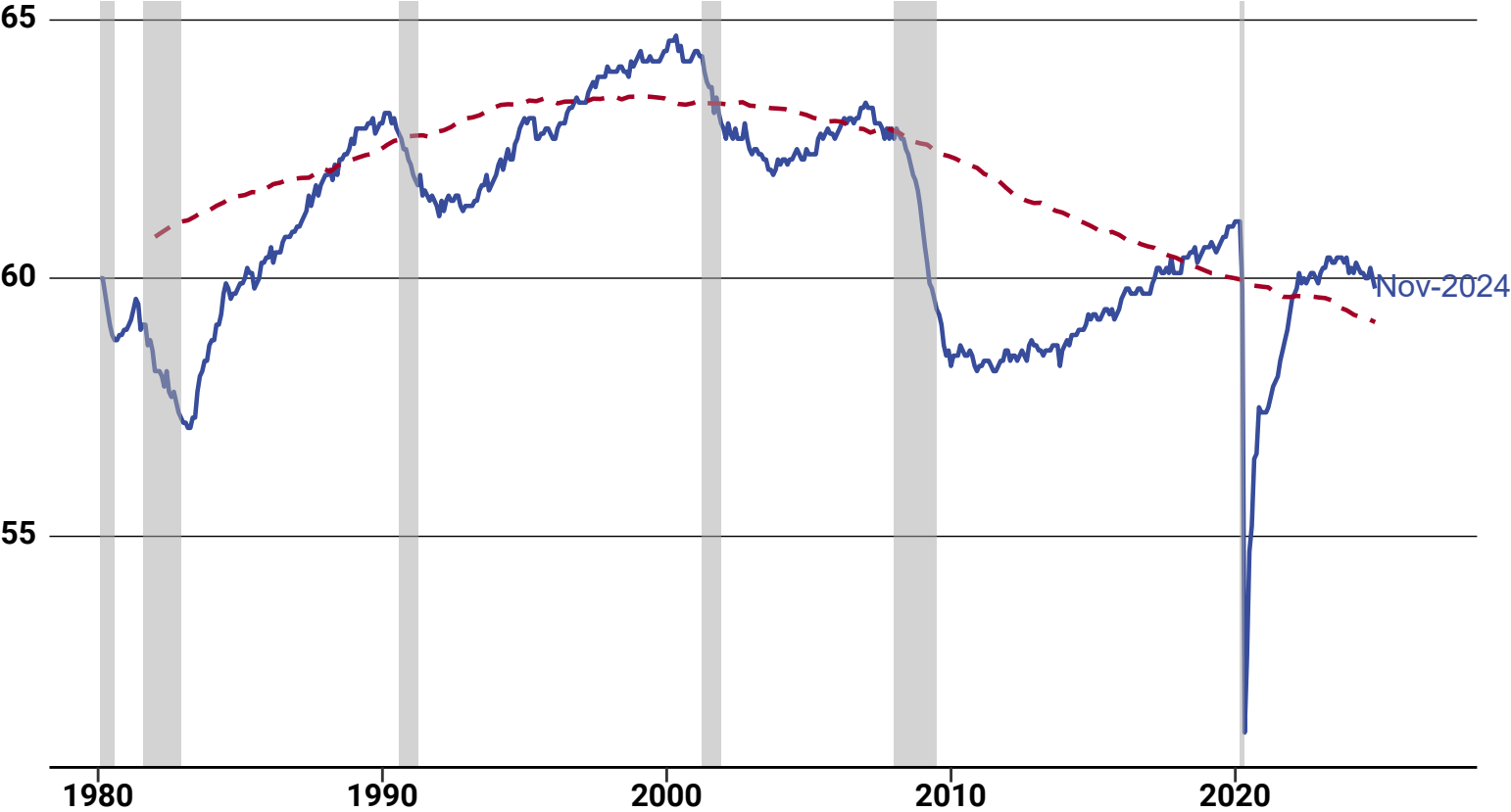


Source: Bureau of Labor Statistics via Haver Analytics

Employment Rate falling in line with trend

Employment-Population Ratio

(Percent, SA)

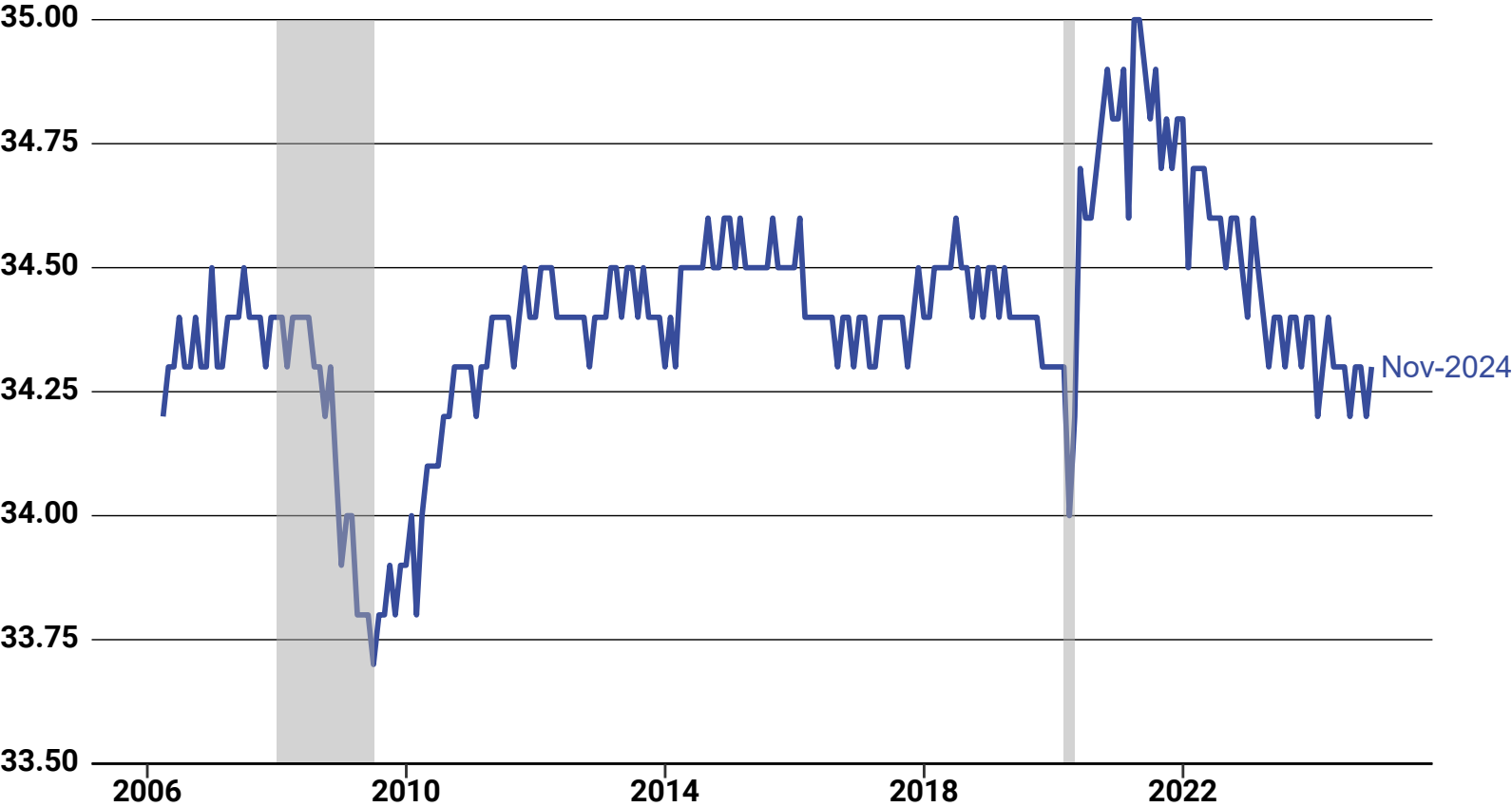


Source: Bureau of Labor Statistics via Haver Analytics; staff calculations

Hours worked per week have fallen

Average Weekly Hours: Total Private Industries

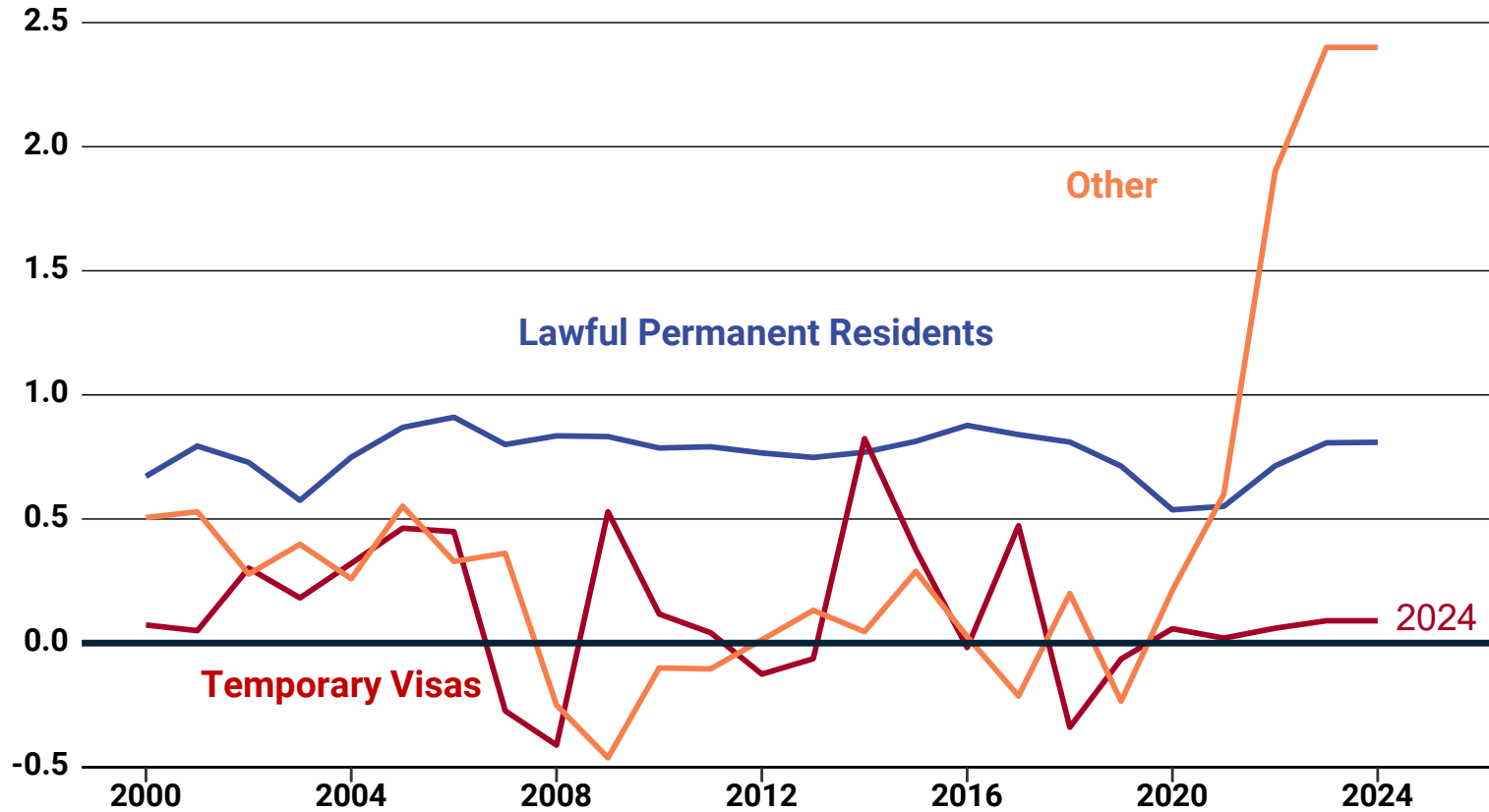
(Hours, SA)



Source: BLS via Haver Analytics

Estimates of Net Immigration by Category, National Encounters

(Millions of people)

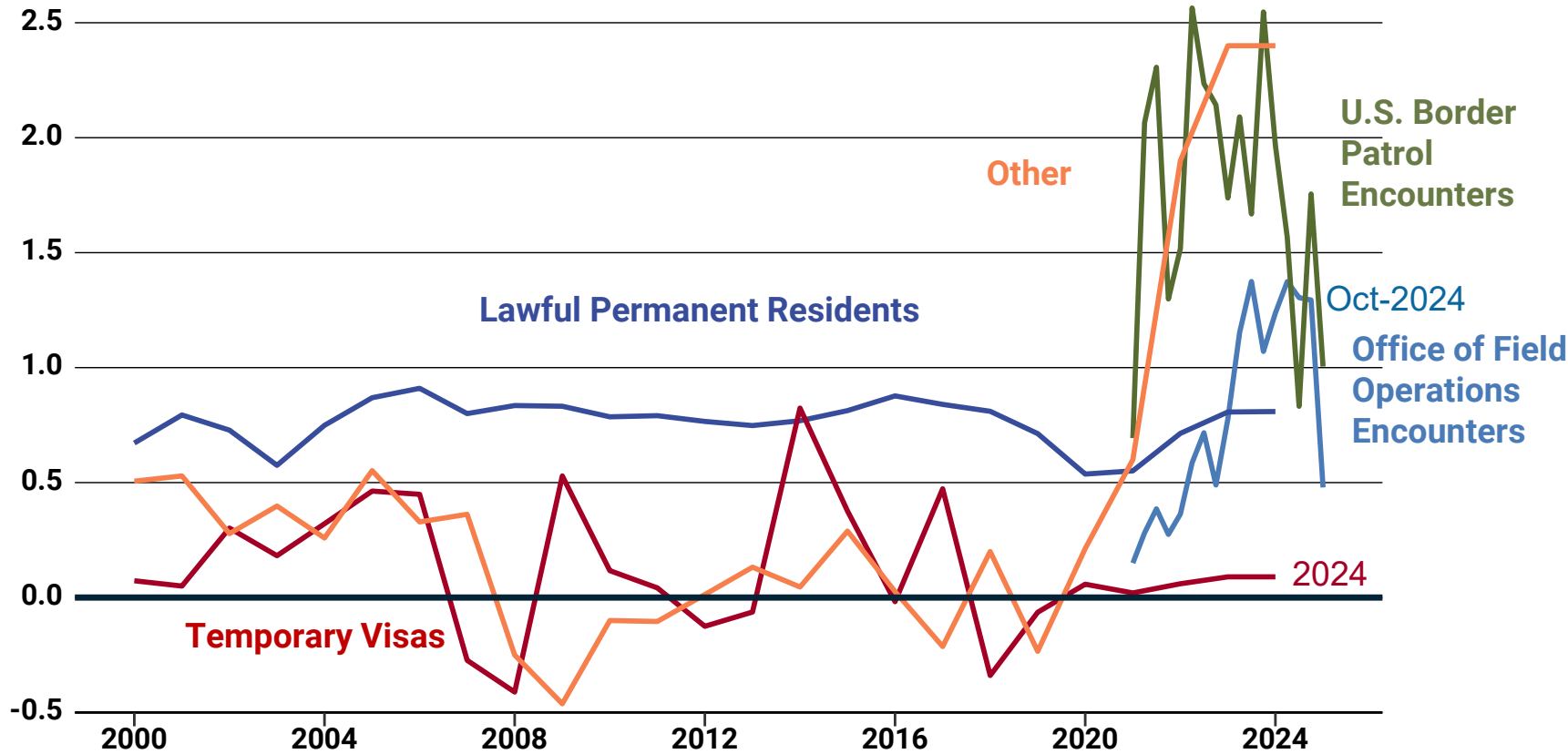


Source: CBO, U.S. Border Patrol

Irregular border encounters declined mid 2024

CBO Estimates of Net Immigration by Category, National Encounters

(Millions of people)

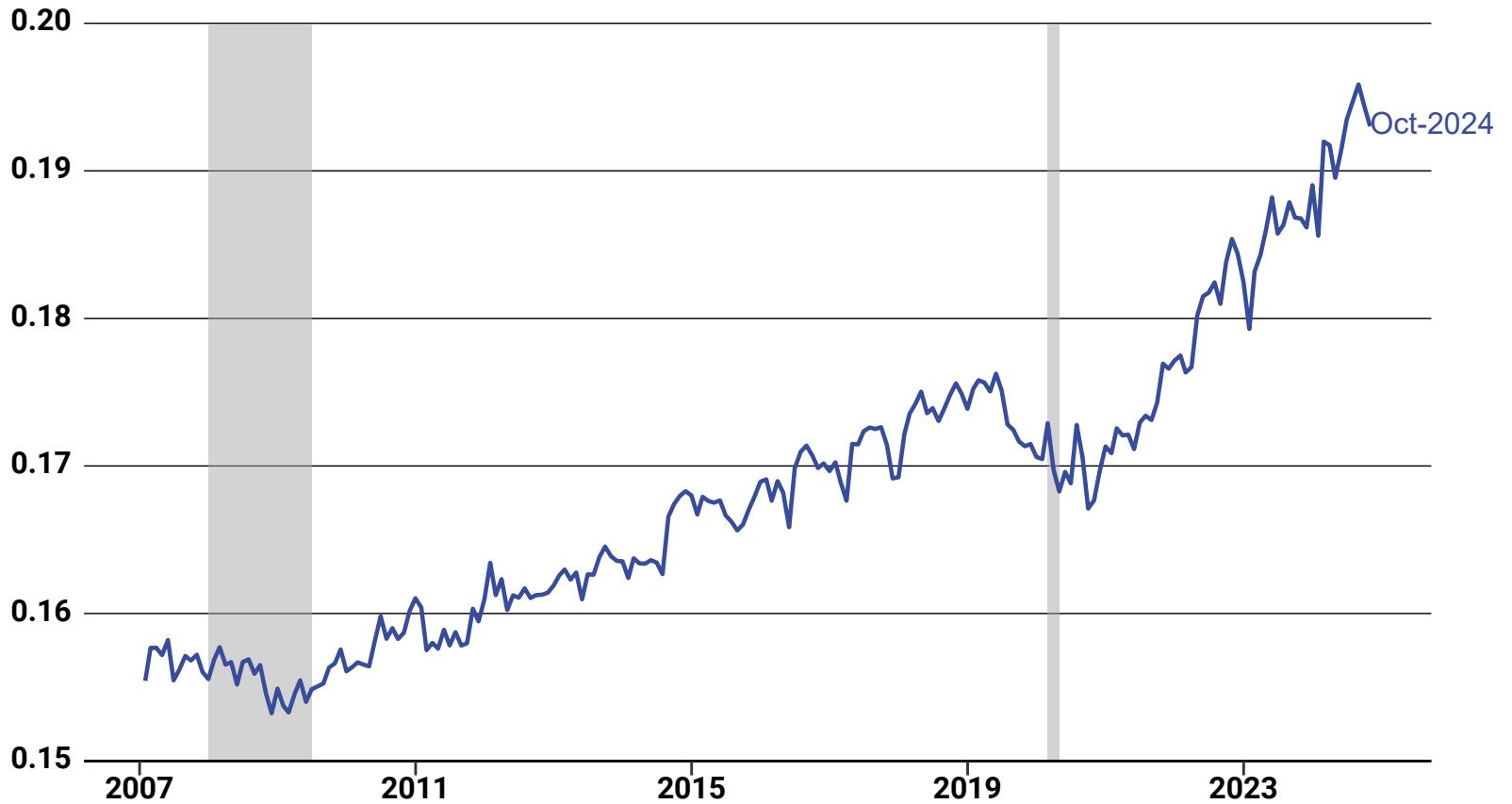


Source: CBO, U.S. Border Patrol

Foreign born share of labor force

Foreign-born Share of Labor Force

(Percent, SA)



Source: Bureau of Labor Statistics via Haver Analytics