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Hibbs Outlook of East Texas

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The Labor Market: Where Did Workers Go?

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This issue of the **Hibbs Outlook of East Texas** discusses the labor shortage in the United States, the factors that exacerbated the imbalances in recent years and examines some regional figures for East Texas.

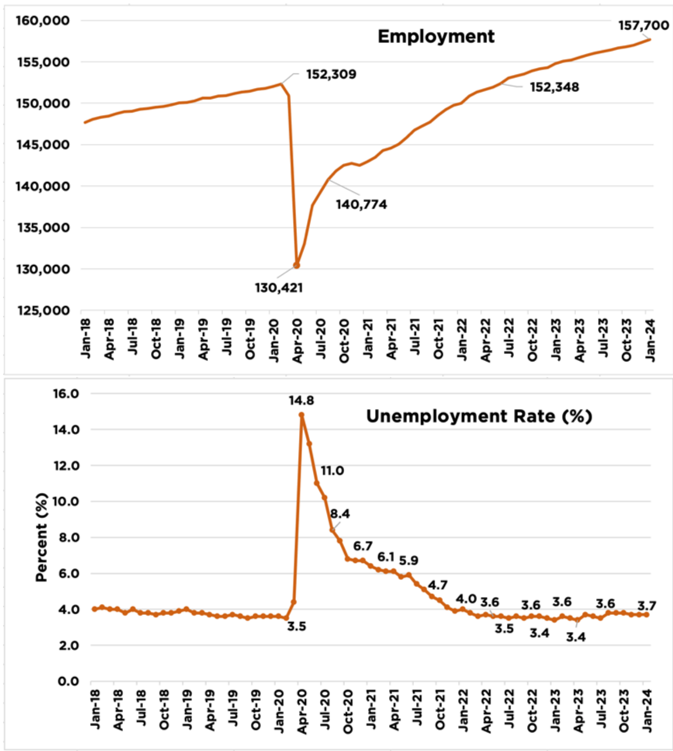
The Pandemic Effect

In March 2020, the COVID-19 pandemic caused a severe economic recession in the United States (and in many other countries in the world). This recession ended the largest business cycle expansion in the nation since these numbers were recorded (128 consecutive months).[1] The economic component that was more severely affected by this recession was employment. Nearly 22 million jobs were lost in two months, with an unemployment rate rising from 3.5% in February 2020 to 14.8% in April 2020 (**Figure 1**).

On March 27, 2020, President Trump signed a bill into law, the CARES Act, designed to recover from this severe recession that caused a massive loss of jobs. The CARES Act included funds and resources distributed nationwide to support small businesses, families, unemployed individuals, corporations, healthcare providers and local governments.[2] At the same time, the Federal Reserve Bank lowered the federal funds rate (commonly known as interest rates) as an expansionary policy (a common approach to stimulate the economy). The interest rate reduction was unprecedented, reaching its lowest point ever (0-0.25%). The two measures combined, the government's and the Fed's, helped the country recover nearly 50% of the jobs lost in an impressive and unexpectedly short period. By August 2020, four months after the massive loss of jobs, employment levels gained more than 10 million jobs nationwide, 47% of the two-month-loss in March and April (**Figure 1**). Meanwhile, economic output recovered substantially during these months[3], giving a big boost to businesses, which impelled the need for workers.

The U.S. economy continued growing during the following months and gradually recovered the pre-pandemic employment levels. By June 2022, the number of employed individuals exceeded the pre-pandemic numbers at the national level (**Figure 1**). However, the post-pandemic labor market was not prepared to accommodate the burgeoning economic growth experienced in the nation during the following years. The country was living in the most unusual job market in modern American history, a labor market shortage caused by a post-pandemic disruption.

Figure 1. Employment Levels in Thousands of Jobs (Top) and Unemployment Rates (Bottom) in the U.S. (January 2018 – January 2024)



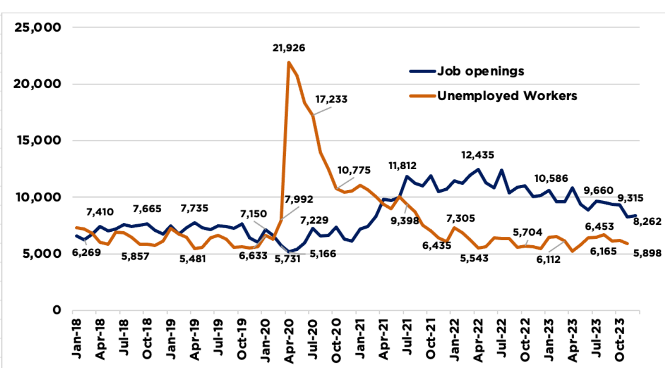
Source: Bureau of Labor Statistics.

The Recovery and the Labor Shortage

The economic incentives implemented by the Federal Government and the Federal Reserve Bank promoted an impressive recovery with a growing number of job opportunities in the labor market. However, the workforce was not able to keep the pace of this economic expansion, which resulted in a labor shortage by mid-year 2021. A labor shortage occurs when the number of vacancies in the labor market exceeds the number of workers available. As a result of this difference, employers struggle to find, hire and retain workers, which eventually leads to higher wages; however, these wage adjustments (higher costs to employers) are typically transferred to the customers, bursting inflation.

A practical and elemental way to assess the presence of a labor shortage in a labor market (or a labor surplus if it is the case) is by displaying job openings and unemployed workers together in a graph and evaluating the gap between the two lines. **Figure 2** depicts job openings (in blue) and unemployed workers (red line) in the U.S. from January 2018 to November 2023. Before the pandemic, the labor market was relatively balanced, with the blue and red lines very close to each other and crossing during different portions of the year. Then, the recession caused by the pandemic created a big surplus gap where unemployed workers substantially exceeded the number of job opportunities in the market. However, by mid-year 2021, the growing number of job opportunities surpasses the decreasing number of unemployed workers, leaving a gap in the labor market (a labor shortage). This shortage continues to widen until April 2022, when the gap reaches its maximum number (12,435 job openings and 5,543 unemployed workers). This difference implies that there were about 2.2 jobs available for every unemployed worker. Although the number of job openings has decreased during the past few months due to a deliberate economic deceleration, the labor shortage persists to an average of 1.45 jobs available per unemployed individual in the past six months.

Figure 2. Job Openings and Unemployed Workers in the U.S. (In Thousands) (January 2018 – November 2023)



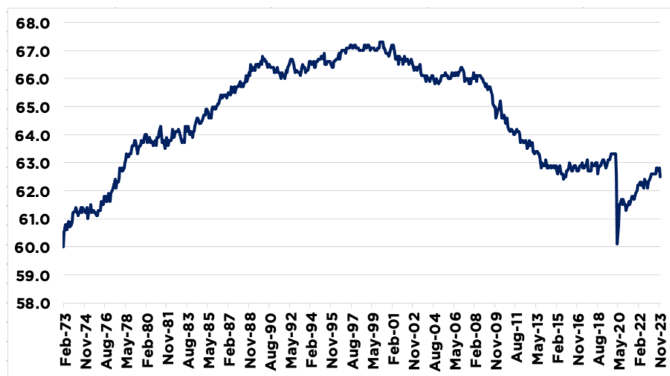
Source: Bureau of Labor Statistics.

Fewer People Available or Willing to Work

The Labor Force Participation Rate (LFPR) is an indicator frequently used to identify the number of people who are considered in the workforce. It measures the percentage of employed and unemployed[4] workers concerning the working-age population. It is advantageous to have a high LFPR because it facilitates growth during expansion cycles. The U.S. LFPR reached its peak in 2000, with Baby Boomers largely active and productive and Generation X reaching its working age. Then, LFPR gradually decreased during the following years and stabilized in 2013 with values around 63%. However, it fell considerably during the second quarter of 2020 due to the pandemic (**Figure 3**).

LFPR progressively recovered later in 2020 and during the following months, reaching 62.6% by July 2023 (about 0.5% below its pre-pandemic levels). This 0.5% may sound negligible, but it represents about 1.2 million workers. In other words, there are 1.2 million fewer workers available in the labor market than the month before the pandemic spread in the nation.

Figure 3. Labor Force Participation Rate in the U.S. (January 1973 – November 2023)



Source: Federal Reserve Economic Date (FRED).

The number of available workers includes individuals who are willing to work but cannot find a job at the time. LFPR may also decrease due to a rise of discouraged workers (individuals who are no longer trying to get a job). Some segments of the workforce have decided to step out of the labor market during the economic recovery, which resulted in a decrease in the total number of available workers. A worker may get discouraged for several reasons. The following are some of these segments:

A. Early Retirees. Several individuals 55 years and older decided to retire early. While some of these intended to avoid crowded spaces to reduce the risk of contagion, others reached their retirement funds goals due to a booming stock market and real estate investments during 2021 and 2022.[5]

B. Female Work. After the pandemic, mothers who tried to go back to the workforce faced an elevated cost of childcare, which discouraged them from pursuing a job and decided to stay at home.[6]

C. Young Professionals. Alternative sources of income, particularly associated with online means, became increasingly popular among young professionals. With an economy moving forward into a more digitalized world, young people found paid jobs developing content for social media, gaming and day trading stock activities. These alternative jobs discouraged them from looking for a traditional job in their local labor market.[7]

D. Workers' Skills Mismatch. During the post-pandemic recovery, some industries grew faster than others because some consumption patterns changed. As a result, workers experienced a skill mismatch; trained workers in lagging industries struggle to find jobs in growing industries.[8]

E. Emergency Unemployment Claim Worker. Some worker protection programs by the federal government provided emergency funds to individuals who lost their jobs and struggled economically during the pandemic. These funds discouraged some low-paid workers from going back to the labor market because the difference between the emergency fund and their actual or potential wages was not substantial enough to motivate them to get a job.[9]

Although some workers within these segments have rejoined the workforce (particularly the emergency unemployment claim worker), the workforce remains below the pre-pandemic numbers, while the need for more workers keeps growing.

The labor force participation rate in the United States was considerably reduced during the pandemic aftermath, but the problem did not begin then. The number of people available and willing to work has gradually decreased since the early 2000s. Demographic factors have also impacted the decrease in working-age individuals, both in absolute numbers and as a percentage of the total population. On one hand, fertility rates have decreased considerably over the past few decades. On the other hand, individuals live longer these days, which also makes the labor force participation rate drop. Remote work, domestic migration patterns and international migration policies are some additional factors that also have an impact on the labor force participation rate at the regional levels.

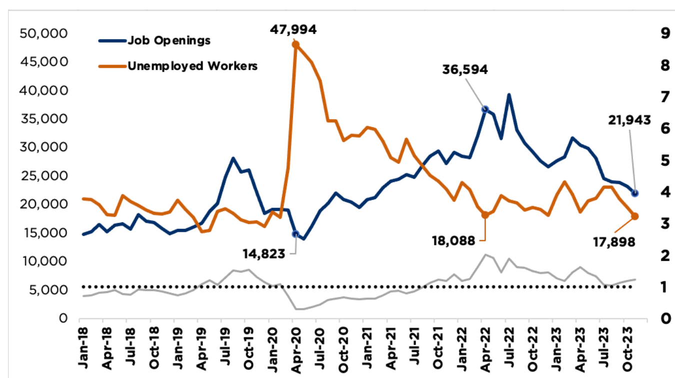
Labor Shortages in East Texas

The magnitude of the labor shortage, as well as its impact, varies geographically, similar to the regional economic conditions and demography among different states, counties or cities. Multiple factors contribute to the workforce condition in different locations. Thus, the number of job openings and their specifications, as well as the worker characteristics, may be different in California compared to Texas, Miami compared to Dallas, etc.

For the reader's convenience, **Figure 4** displays two different sets of variables. The upper portion shows the need for workers expressed by job openings (demand), in blue, and the number of unemployed workers (supply), in red, for East Texas. The gap between the two quantities represents the labor market imbalances. The lower portion of **Figure 4** **(gray line)** shows the labor market condition, surplus or shortage, calculated as a rate. This rate illustrates the magnitude of the shortage (or surplus). While a rate of 1 (dotted line) implies that there is the same number of job openings for unemployed workers, the movements around the dotted line reflect a shortage (above) or surplus (below) of workers.[10] See **Figure 4**.

East Texas experienced a labor shortage in 2019. Job openings in East Texas exceeded the number of unemployed workers even before the pandemic (top of **Figure 4**). This suggests that the region was growing during this period. Later, the pandemic recession in 2020 caused a surplus of workers of more than 33,000 individuals (the number of unemployed workers skyrocketed due to the massive layoffs). This surplus was gradually corrected in 2021, during the economic recovery, and became a shortage by September of that year. This shortage (gap) peaked in April 2022 with 18,500, which was equivalent to 2.02 jobs available for each unemployed individual (bottom of **Figure 4**).

Figure 4. Job Openings and Unemployed Workers (Top) and Labor Shortage Rate (Bottom) in East Texas (January 2018 – November 2023)



Source: Bureau of Labor Statistics and WorkInTexas.com.

In summary, the need for workers in East Texas persists today. Although relevant contractionary policies have been implemented in the nation to reduce inflation, currently, there are about 1.5 jobs available for every unemployed individual in the region. This situation is noticeable for local businesses that have struggled to find, hire, and retain workers for the past 18 months or so.[10] And it is more likely to occur among low-educated workers who labor at physically intense jobs in the manufacturing, construction, agriculture, maintenance or food service industries.

The following months will be crucial to local businesses and regional economies in general. Policies implemented by the federal government and the Federal Reserve Bank will be instrumental in determining the future conditions of the labor market and the overall growth of the national economy.

End Notes

[1]The NBER's Business Cycle Dating Committee maintains a chronology of US business cycles. The chronology identifies the dates of peaks and troughs that frame economic recessions and expansions.
https://www.nber.org/research/business-cycle-dating

[2] S.3548 - CARES Act. **https://www.congress.gov/bill/116th-congress/senate-bill/3548/text**

[3] The economic output, typically expressed as Real Gross Domestic Product (rGDP), increased 34% by the end of Quarter 3 (July-September) from the preceding period (April – June).

[4] Labor economics makes a distinction between unemployed workers who are actively looking for a job opportunity, and discouraged unemployed workers, who although also lack of a job they are no longer looking for one.

[5] In August 2021, there were slightly over 2.4 million excess retirements due to COVID-19, which is more than half of the 4.2 million people who left the labor force from the beginning of the pandemic to the second quarter of 2021.
https://research.stlouisfed.org/publications/economic-synopses/2021/10/15/the-covid-retirement-boom

[6] See Alon et. Al (2020). This Time It's Different: The Role of Women's Employment in a Pandemic Recession.
https://www.nber.org/system/files/working_papers/w27660/w27660.pdf

[7] See some of these statements on The influencer economy: Why do youth desire to be social media influencers?
https://medium.com/@nidya.ramalia/the-influencer-economy-why-do-youth-desire-to-be-social-media-influencers-e2fc8fd1da80

[8] See recent evidence about labor market mismatch. **https://www.elibrary.imf.org/view/journals/001/2022/005/article-A001-en.xml**

[9] Read U.S. Unemployment insurance through the Covid-19 crisis to learn more about this topic.
https://www.ncbi.nlm.nih.gov/pmc/articles/PMC10131886/

[10] In theory, if the market has the same number of job openings than unemployed workers, an invisible hand should eventually allocate these workers appropriately. In practice, often times the different skillsets (required and provided) delay the adjusting period of the labor market to find a complete balance.

[11] As Texas booms, local governments — especially in small towns — struggle to find workers.
https://www.texastribune.org/2023/02/14/texas-local-government-hiring-trouble-economy/