INSIGHTS

LABOR SHORTAGE CONUNDRUM

It's puzzling to see headlines reporting that wages are rising as employers struggle to fill vacant roles when the Bureau of Labor Statistics (BLS) reported earlier this month that there are still 7.7 million people who are unemployed.

The labor shortage facing employers has reflected a perfect storm of labor supply disincentives. These include generous federal unemployment insurance (UI) benefits, early retirements, population aging, a collapse in immigration, and increases in self-employment during the pandemic. Combined, these factors have lowered the pool of prospective employees by over 8 million through August. It is expected that after federal UI benefits expired in September, this figure will have fallen to 5.6 million people. The good news is that aside from retirees nearly all new labor force non-participants still view their exits as temporary and expect to start searching for work within the next year.

Below is a detailed breakdown of the factors which have contributed to the labor shortage:

Retirees: It is estimated that Covid-driven early retirees have reduced the pool of potential workers by 1.5 million. Combined with a regular annual rate of roughly 900k retirees, there are now roughly 2.4 million fewer workers available due to retirement.

Immigration: Visas issued to immigrants and temporary workers collapsed during the pandemic. These restrictions into the US have only recently been relaxed. It is estimated that the labor force has been reduced by 700k workers as a result of the clampdown on foreign workers.

Self-employment: This increased by over 800k during the pandemic. Although some of the increase in self-employment will likely prove temporary—for example, the 200k increase in self-employment in the transportation sector may reflect an increase in ride-sharing and delivery drivers that reverses as normal jobs return—the increases are fairly broad-based across industries and therefore it is expected that self-employment will remain elevated going forward.

Virus Concerns: Over 3 million respondents to the Census Household Pulse Survey still say that concerns about getting or spreading COVID-19 are their main reason for not working.

Child Care Concerns: As schools re-open, this should become less of a factor, but many low-income parents could not afford childcare during Covid.

Job Mismatches: Labor shortages could also reflect a mismatch between the jobs workers are looking for and the jobs that are available. While mismatch across industries increased during

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the pandemic, mismatch across geography soared to an all-time high as labor demand has shifted away from urban areas (think remote work opportunities and moving to areas with a lower cost of living). Mismatch should moderate as offices and cities continue to reopen but will likely remain elevated as some of the pandemic-driven shifts in economic activity prove persistent.

As mentioned earlier, though the pandemic will have caused some structural changes to the labor market, most of the shortages are expected to be short-lived, with many analysts of the opinion that these anomalies will have worked their way out of the system by spring of next year. That bodes well for wage inflation and the overall inflation picture, as well as the prospect for more hands on deck to get the global supply chain moving again.

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