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Macro Roundup Artcile

Headline: Labor Inelasticity

Article Link: https://fedguy.com/labor-inelasticity/

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Tweet: .@FedGuy12 argues slowing employment growth is consistent with an American economy that is at full employment and running out of workers. This works against Fed aims, as higher wages are needed to attract marginal workers into the labor force.

Summary: The pandemic was a significant negative labor supply shock because it led to a wave of early retirements. This sudden labor shortage led to a spike in wages, which appeared to draw in people who were otherwise not looking for a job. The prime-age labor force participation rate has risen to multi-year highs and is not too far from all-time highs last seen in the 1990s. This suggests that there is very little slack in the labor market and additional workers will be increasingly difficult and expensive to find. While that shock has been digested, workers continue to retire and place increasing demand on a stagnant worker pool. In this scenario, moderating employment growth reflects labor scarcity and would be accompanied by reacceleration of wages similar to that seen in the most recent non-farm payroll report. Related: “The Great Retirement Boom”: The Pandemic-Era Surge in Retirements and Implications for Future Labor Force Participation and Unions’ Inflation Warning?

Primary Topic: Business Cycle

Topics: Business Cycle, Database, GDP, Monetary Policy, Op-Ed/Blog Post, Unemployment/Participation, Weekly, Workforce

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