Global Economic Research

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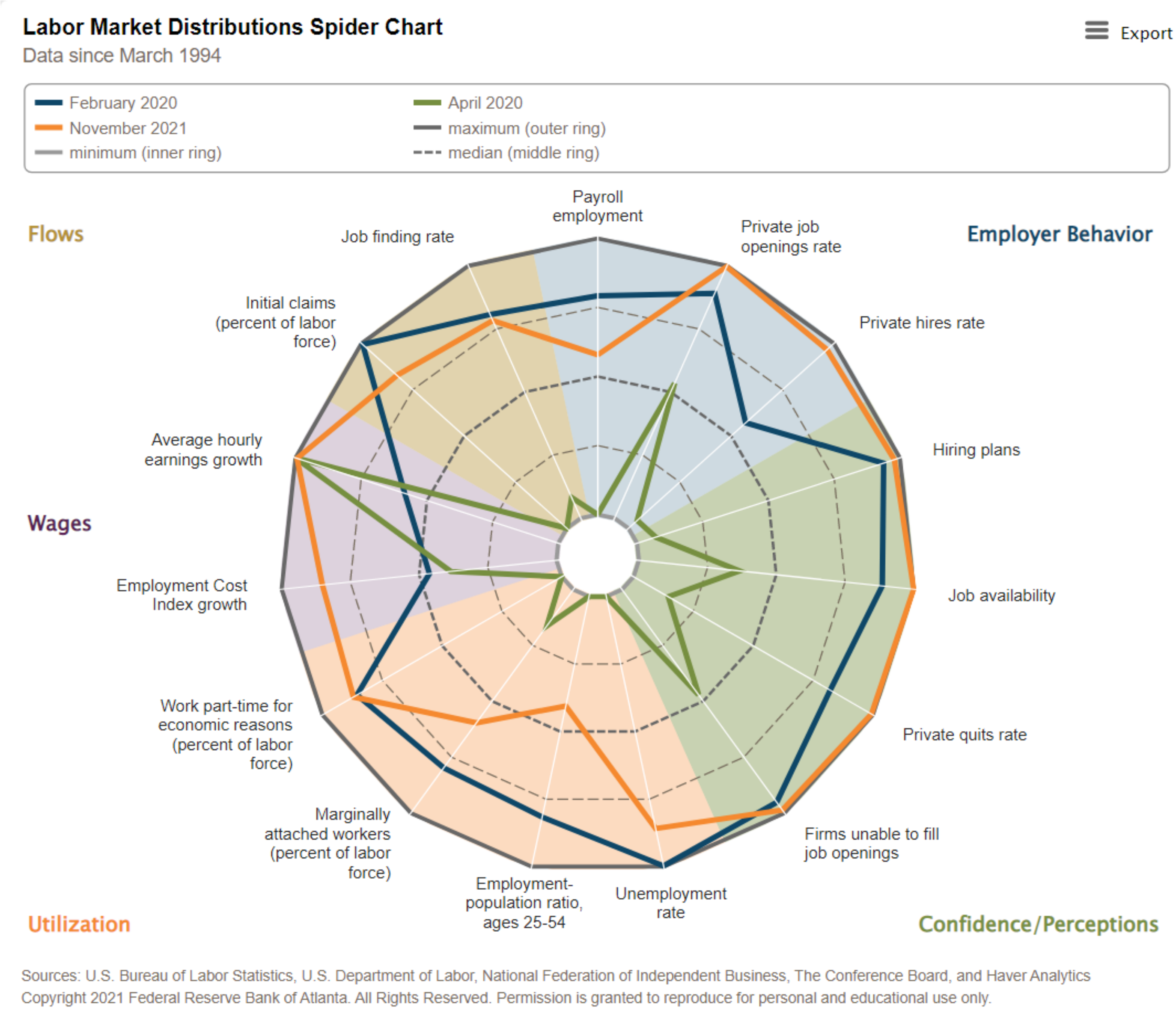
U.S. Labor Market Dashboard

Employment metrics support the Fed's change of course.

By Ryan James Boyle

The first dashboards were simply boards affixed to the front of carriages to shield against dirt and debris that was kicked, or *dashed*, up by the horses in front. The name continued into the automotive world, with the panel being used to display pertinent gauges to the driver. Federal Reserve officials also track a dashboard to assess the state of labor markets. Recent readings supported the change of direction they communicated this week.

Several of the regional reserve banks publish these data compilations, such as this elaborate view from the **Atlanta Fed**:



The dashboard tells the story of a labor market that has improved dramatically but is not yet at equilibrium. The blue line represents readings prior to the pandemic; the green in the interior represents the trough in April 2020; and the orange line shows where things stand today. Lines closer to the perimeter represent higher measures. Below, we dissect each of the components.

Employer Behavior	2010-19 Average	February 2020	Latest Reading	Status
Payroll Employment	140,422	152,523	148,611	Not Recovered
Job Openings Rate	3.5%	4.4%	6.7%	Overheated
Hires Rate	3.5%	3.9%	4.4%	Overheated

No single measure tells the full story of labor markets.

Starting at the top of the circle chart, we can see the startling drop in employment (more than 22 million jobs) that occurred during the first two months of the pandemic. We've recovered most of the way, but the number of jobs today remains almost four million lower than its pre-COVID peak. More progress is needed. Encouragingly, the job market is hyperactive, with the rates of openings and hires well above their pre-crisis norms. People who want to find jobs can get them.

Confidence and Perceptions	2010-19 Average	February 2020	Latest Reading	Status
Firms Planning to Hire	10.6%	21.0%	25.0%	Recovered
Jobs Availability	21.0%	46.5%	58.0%	Recovered
Quits Rate	1.9%	2.2%	3.0%	Overheated
Firms Unable to Fill Openings	24.4%	38.0%	48.0%	Overheated

Views of both the supply and demand of labor show a competitive market. An outsized share of small business owners polled by the National Federation of Independent Business report that they intend to hire, but finding qualified applicants for their openings is difficult. The Conference Board's monthly Consumer Confidence Survey asks respondents if they perceive that jobs are easy to find, and a majority perceive jobs as plentiful. **Quits are also elevated**; workers tend to leave their jobs when they have a better offer or are confident they will find one.

Utilization and Flows	2010-19 Average	February 2020	Latest Reading	Status
Unemployment Rate	6.2%	3.5%	4.2%	Recovering
Prime-Age Employment-Population Ratio	77.2%	80.4%	78.8%	Recovering
Marginally Attached Workers (% of Labor Force)	1.3%	0.9%	1.0%	Recovered
Part-Time for Economic Reasons (% of Labor Force)	4.3%	2.7%	2.6%	Recovered
Initial Unemployment Claims (% of Labor Force)	0.2%	0.1%	0.1%	Recovered

The view of labor flows illustrates where the recovery is incomplete. While the unemployment rate has fallen to an encouraging 4.2%, it is still shy of the 3.5% seen before the crisis. The prime-age (25-54) employment to population ratio still has a ways to go before matching its prior peak.

There is encouraging news in these metrics. The share of marginally attached workers (those who can work but have recently stopped searching) and those working part-time for economic reasons are close to their pre-crisis levels. When these rates are elevated, they suggest job gains are shallow, with people unable to find appropriate work. And the steady decline in unemployment insurance claims, especially since the expiration of expanded unemployment programs in September, shows that people who have jobs are at a low risk of layoffs.

Wages and Compensation	2010-19 Average	February 2020	Latest Reading	Status
Employment Cost Index	2.2%	2.8%	3.7%	Overheated
Average Hourly Earnings	2.4%	3.0%	4.8%	Overheated

The U.S. may reach full employment much faster than previously thought.

Lastly, the costs of labor are growing quickly. Both average hourly earnings and the employment cost index (which includes wages, salaries, and employer costs of benefits) are growing well above their old norms. Early in the recovery, higher wage growth was a sign of job gains accruing to higher-paid workers while those in the service sector faced a slower return to work. The continued high growth suggests workers are benefitting from higher wage offers to attract and retain workers, but if sustained, these gains can set the stage for an inflationary **wage-price spiral**.

The bad news for labor markets is that the absolute recovery in jobs is incomplete. More people still need to return to work, and some workers may never return. The good news is that jobs are ample and workers are confident, setting the stage for continued hiring. As the supply of labor expands, the overheated sections of the dashboard, like wages and turnover, are likely to settle.

A Fed governor reading this report would likely determine that the labor market is on a good course. But with several signs suggesting overheating, broad employment conditions support the Fed's decision to pivot away from stimulus. Fed officials should be grateful for the dashboard keeping them informed—and helping them to head off messes before anything gets splashed back in their faces.

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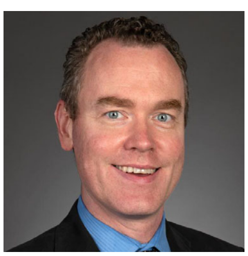

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Ryan James Boyle is a Vice President and Senior Economist within the Global Risk Management division of Northern Trust. In this role, Ryan is responsible for briefing clients and partners on the economy and business conditions, supporting internal stress testing and capital allocation processes, and publishing economic commentaries.

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