



# Economic and Labor Market Update

Leadership North Carolina  
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*Laura Dawson Ullrich, PhD*  
*Senior Regional Economist*  
*Research Department*  
*Federal Reserve Bank of Richmond*

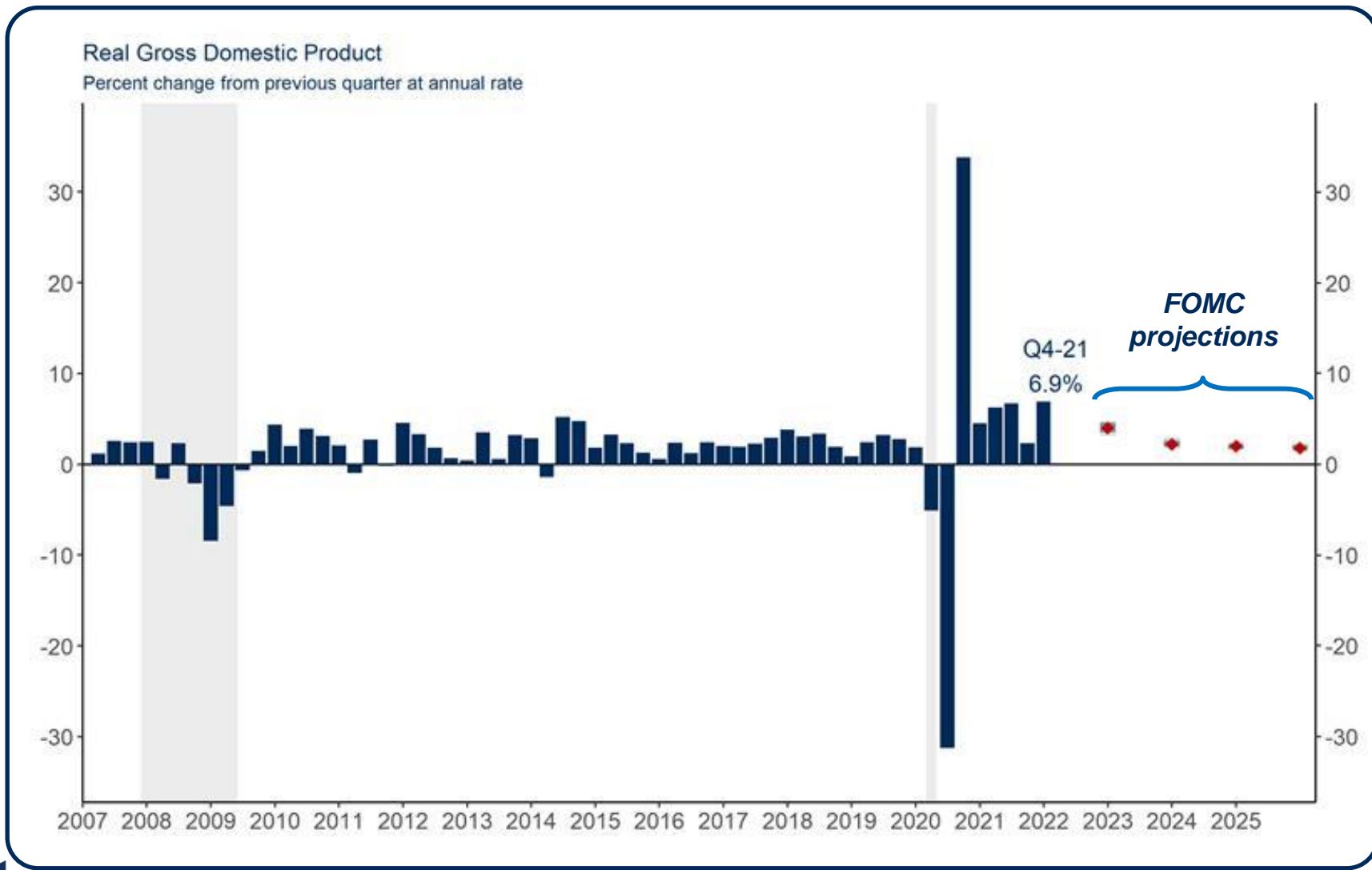


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# Where are we now?

- 2021 was a year of strong economic growth and recovery
  - We are still in a transition from spending on goods to spending on services
  - Some sectors continue to be hit harder than others
- GDP growth continues to outpace employment growth; labor shortages abound
  - The pace of job growth has slowed significantly in recent months
  - The quits rate has been at all time highs and job postings well exceed the number of available workers who are looking for jobs
  - The labor force participation rate remains well below pre-COVID levels, especially for some demographic groups
- Inflation remains well above the 2 percent average target
  - Continued labor shortages and supply chain issues have introduced continued upward pressure on prices, beyond transitory increases earlier in 2021
  - Inflation has become more broad-based in recent months
  - Recent FOMC meetings have indicated changes in policy and expectations

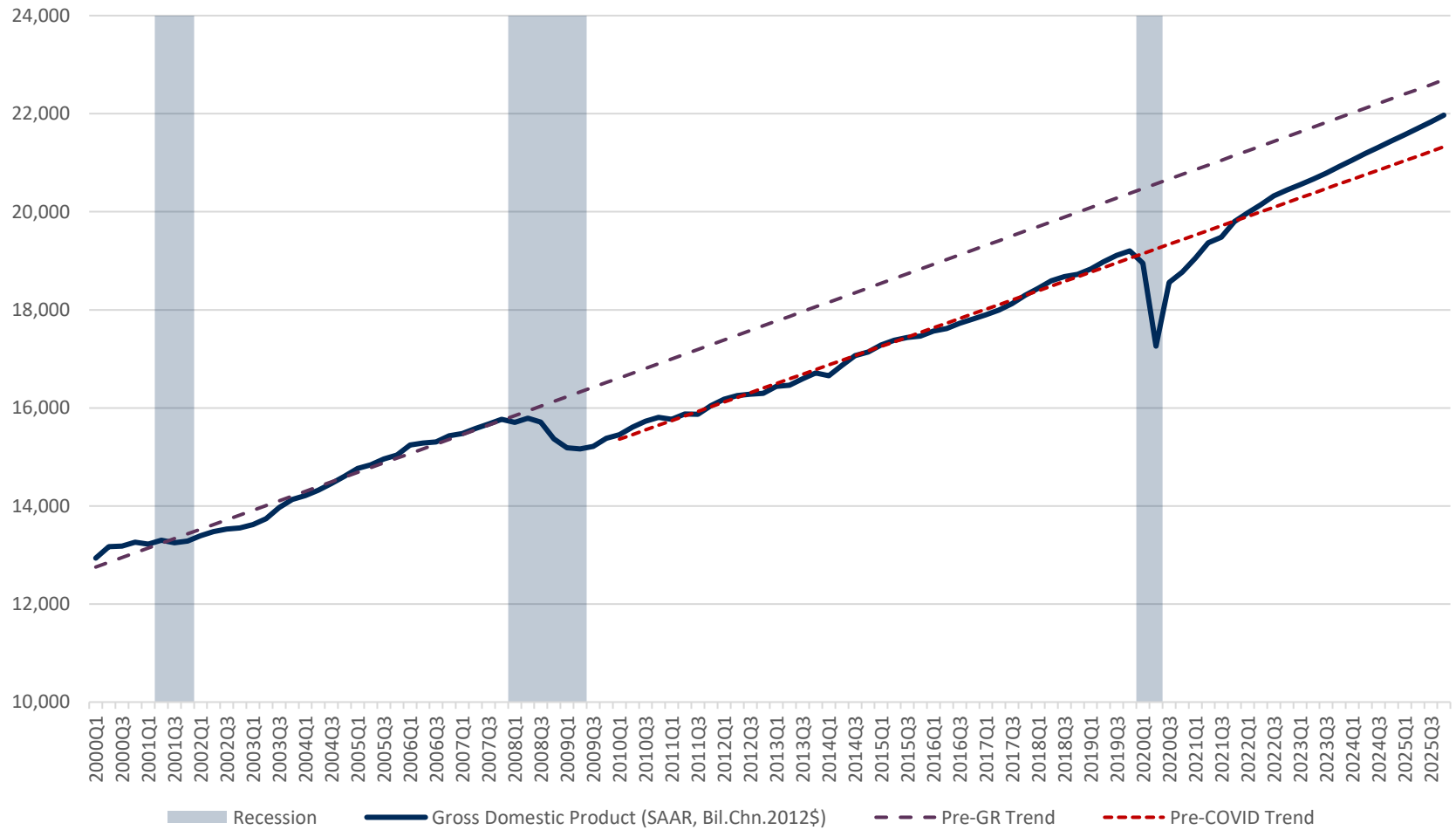
# GDP growth was strong in 2021 and in 2022 we are expecting more of the same



Source: Bureau of Economic Analysis/Haver Analytics, Federal Reserve Board

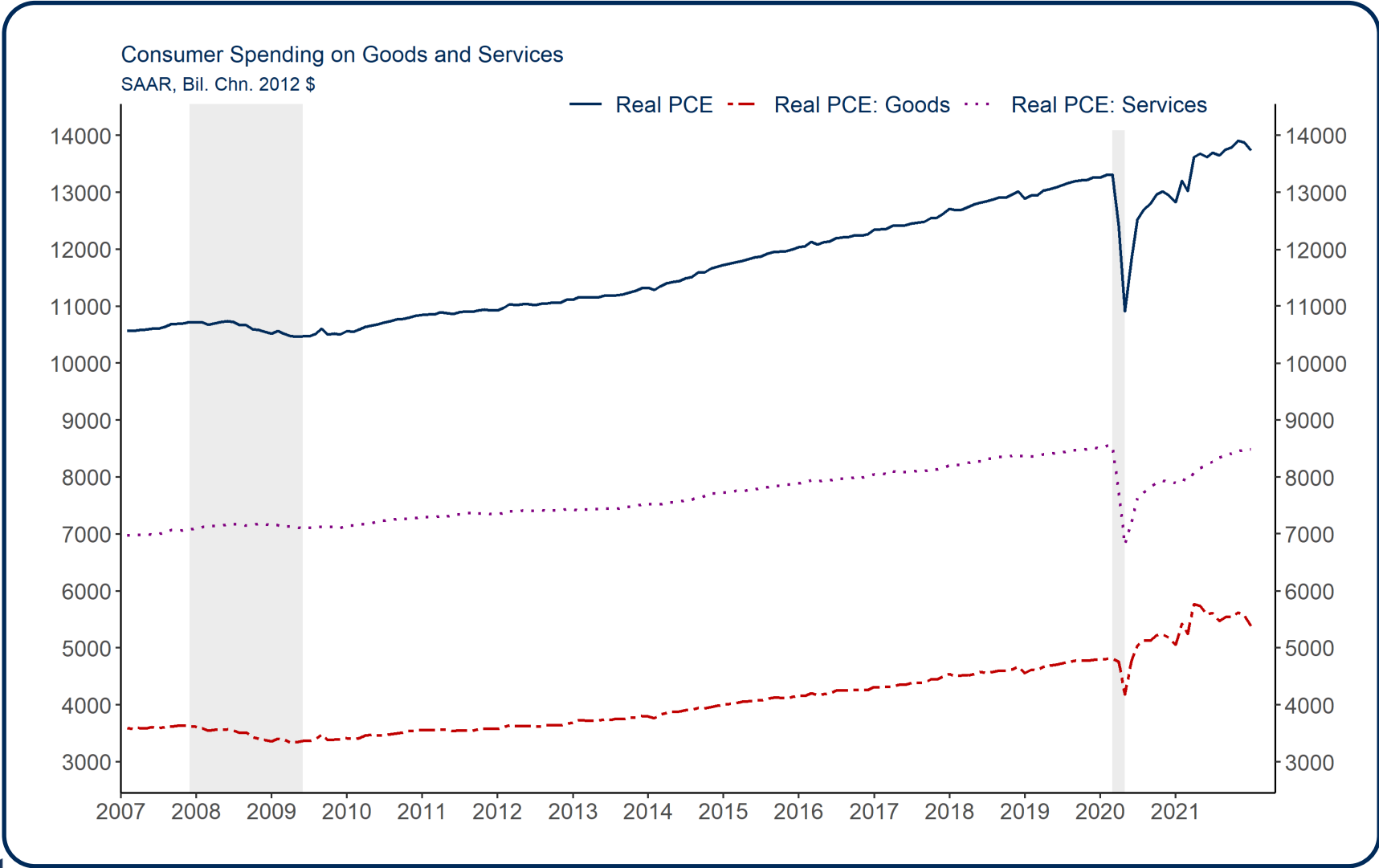
# Not only has GDP recovered, it is expected to soon be above pre-COVID trend

Unlike Previous Recessions, GDP To Exceed Pre-Crisis Trend



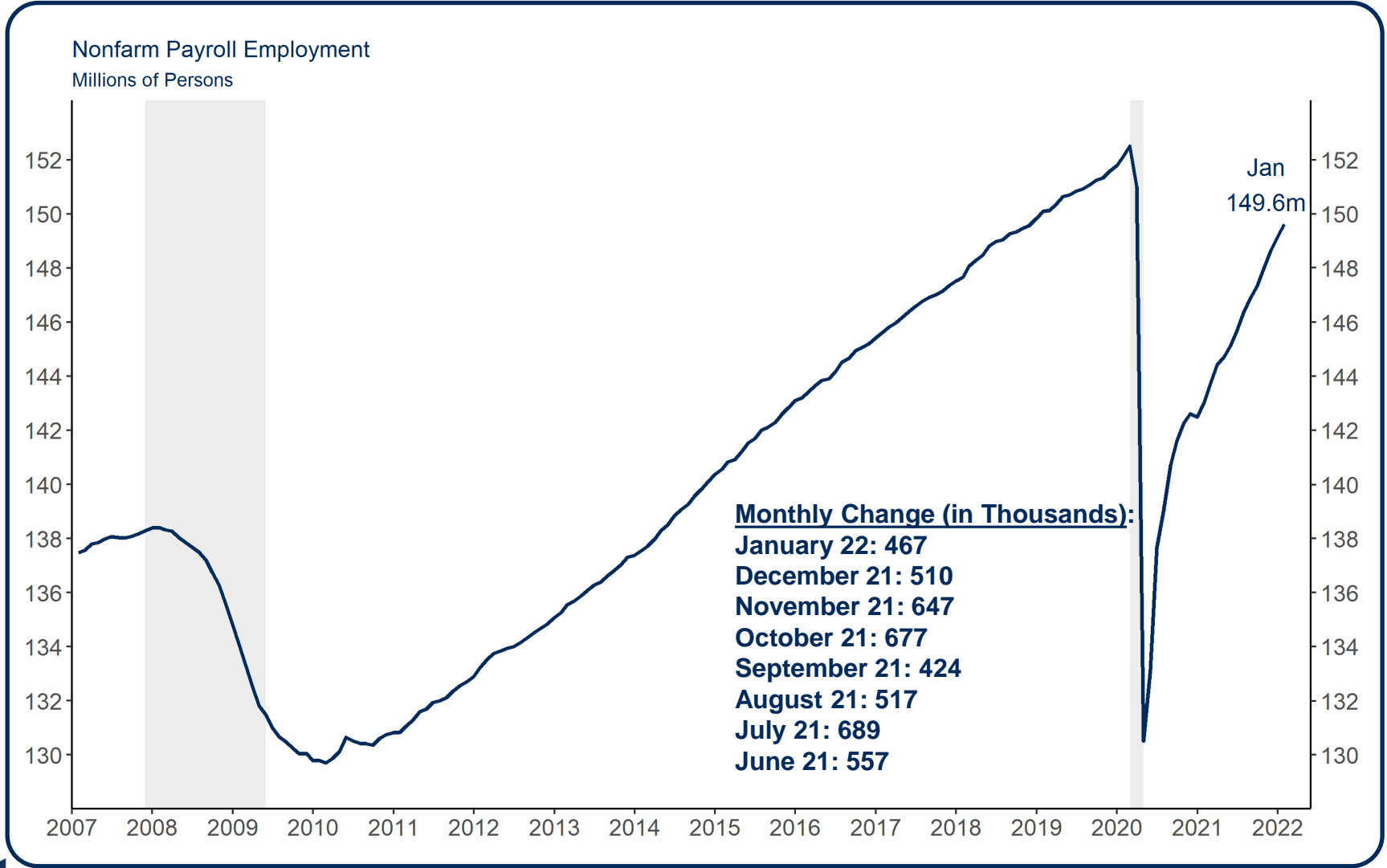
Source: Bureau of Economic Analysis & MacroAdvisers via Haver Analytics

# We continue to see a shift in spending on goods towards spending on services



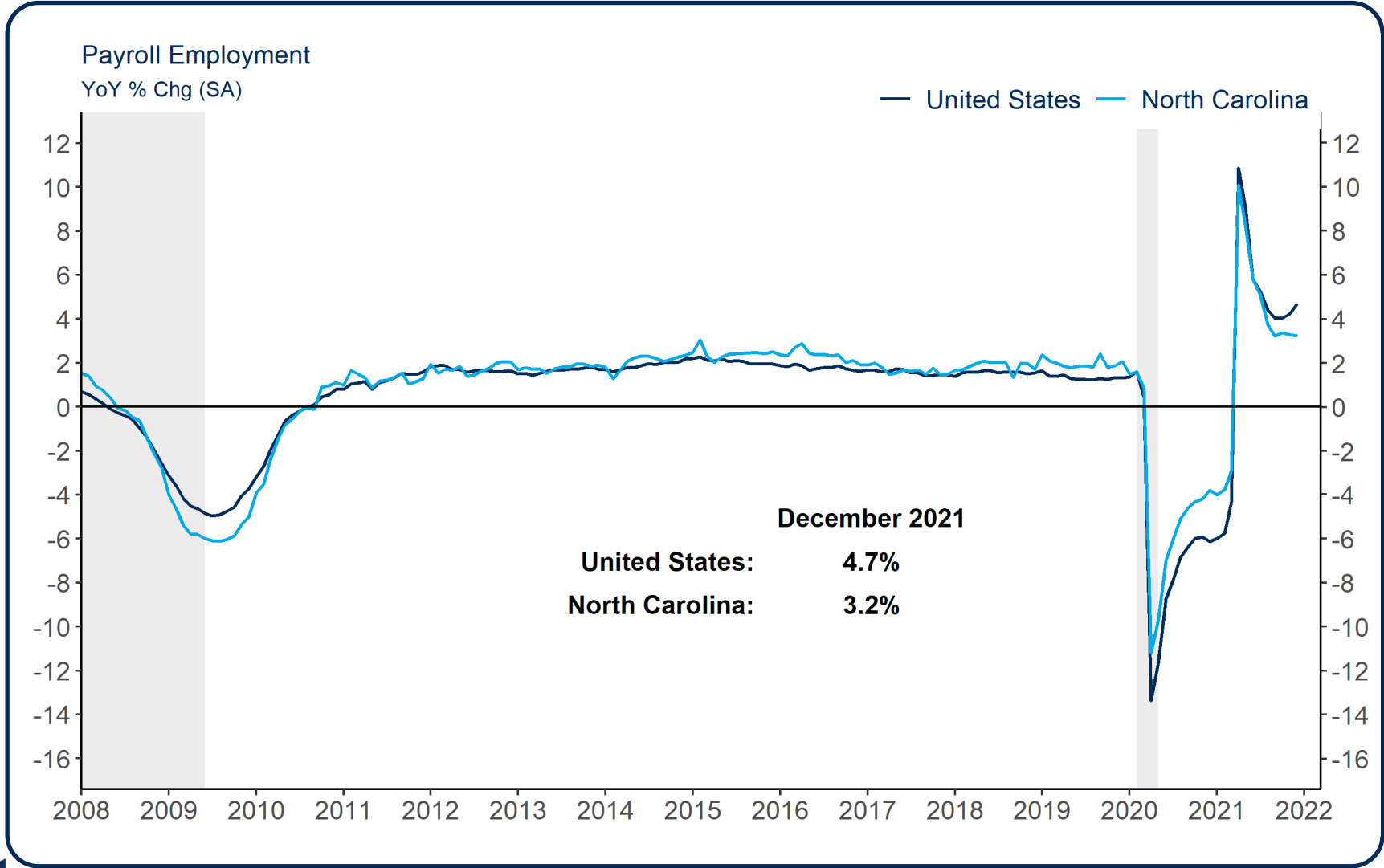
Source: Bureau of Economic Analysis

# Employment remains 2.9 million jobs below pre-pandemic levels



Source: Bureau of Labor Statistics/Haver Analytics

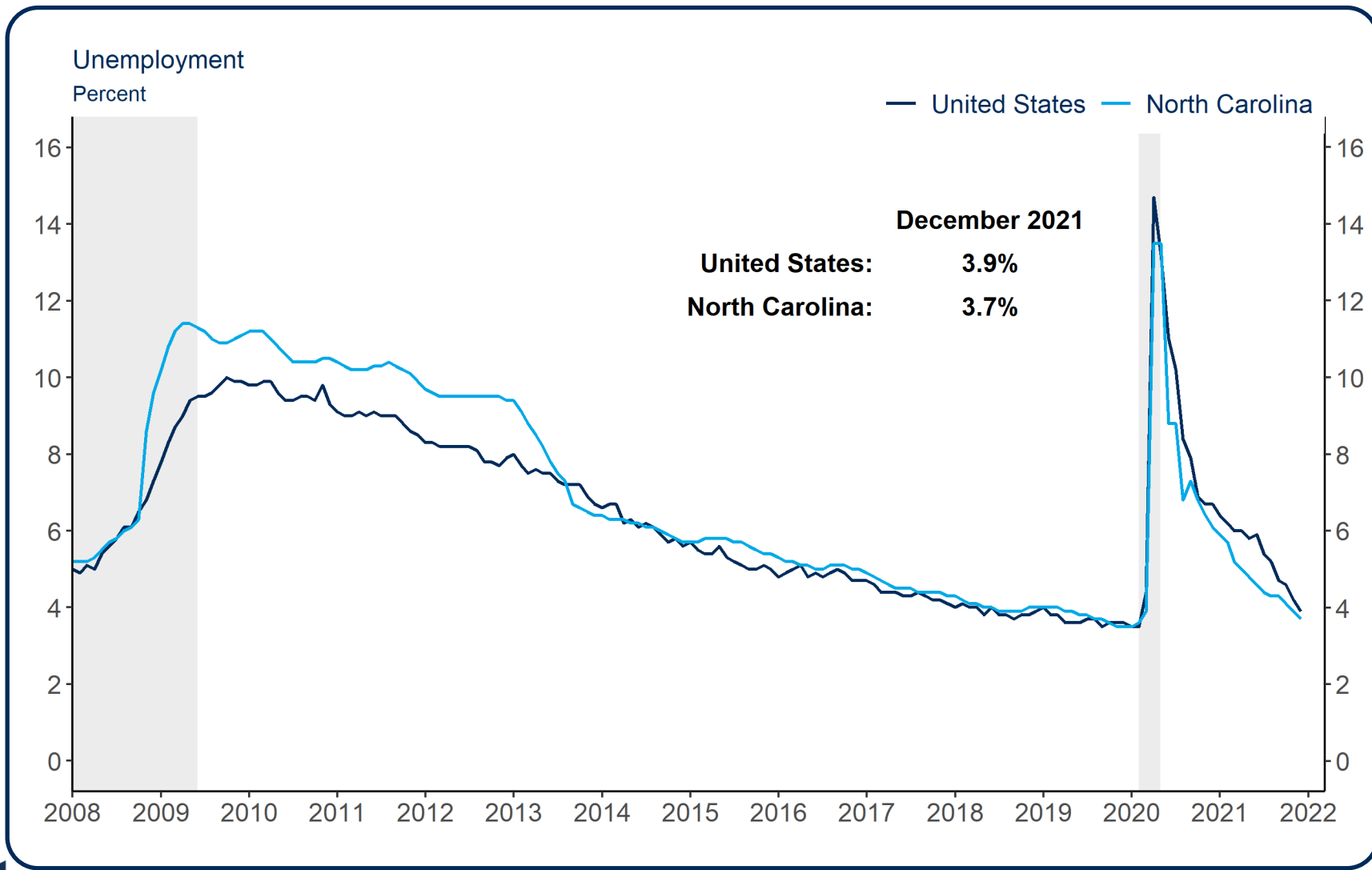
# Contrary to the previous recession, NC has outpaced the US as a whole for most of the pandemic



Source: Bureau of Labor Statistics/Haver Analytics

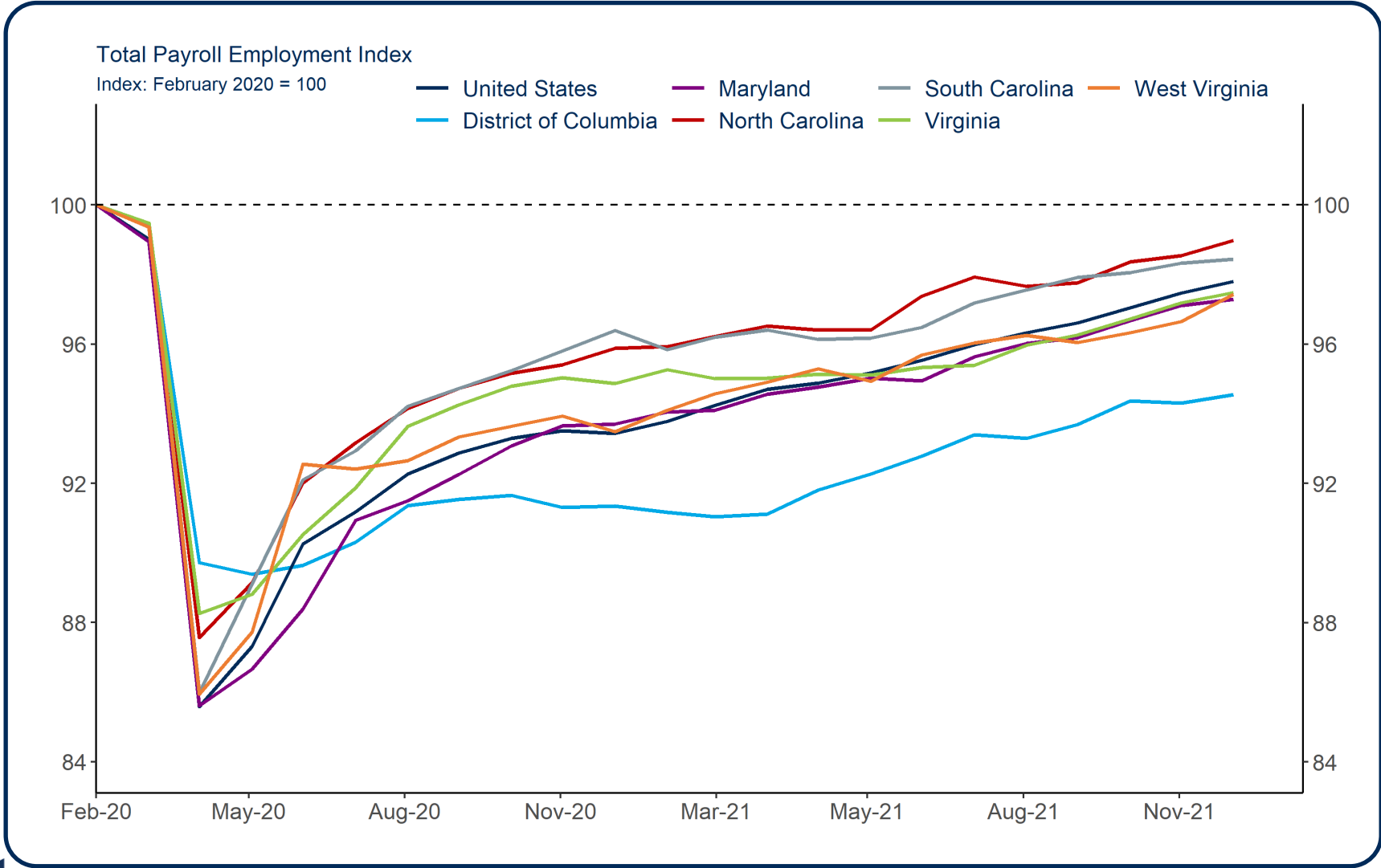


# Similar patterns are evident in unemployment rates



Source: Bureau of Labor Statistics/Haver Analytics

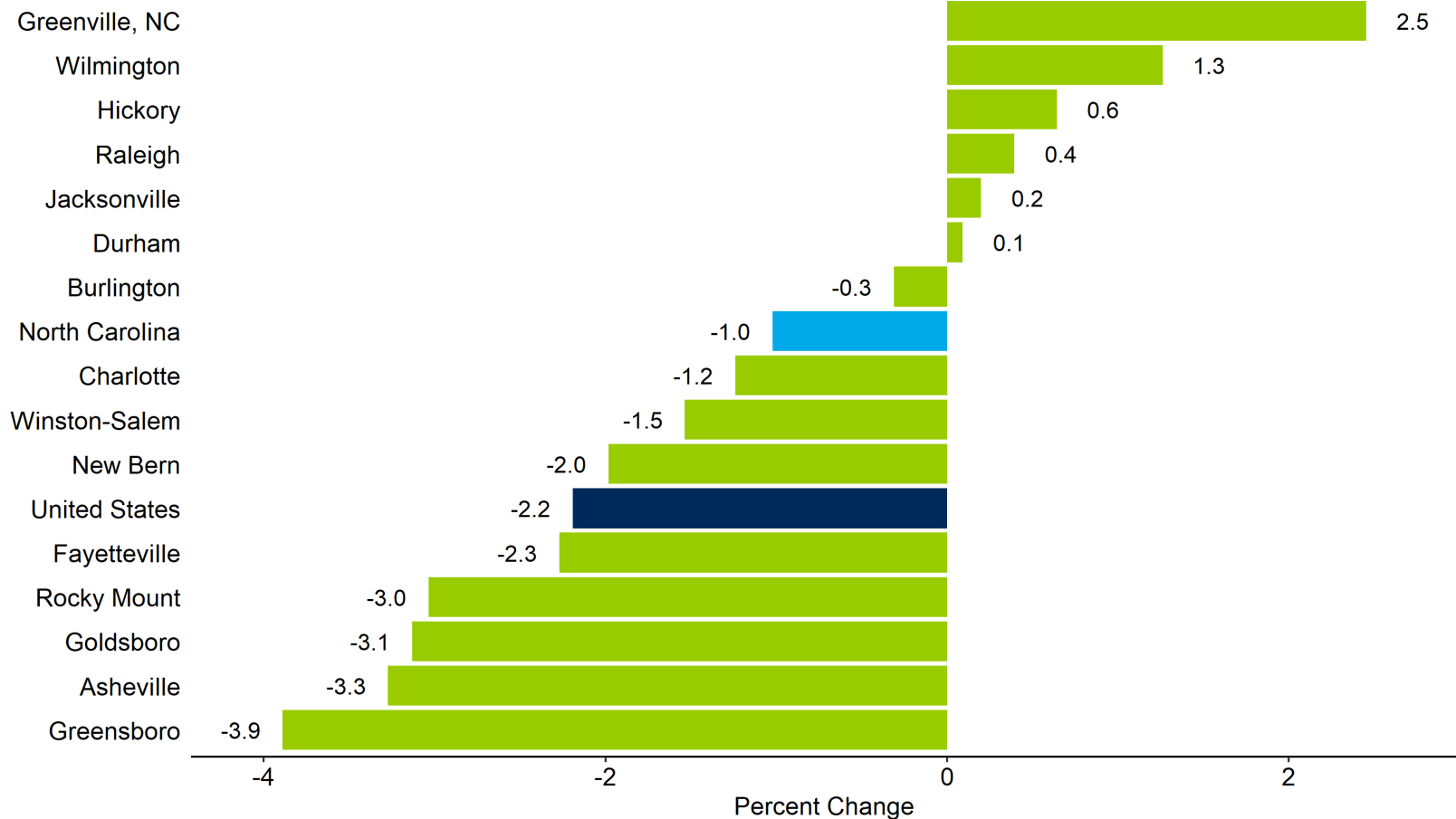
# The Carolinas are clearly leading the employment recovery in the Fifth District



Source: Bureau of Labor Statistics/Haver Analytics

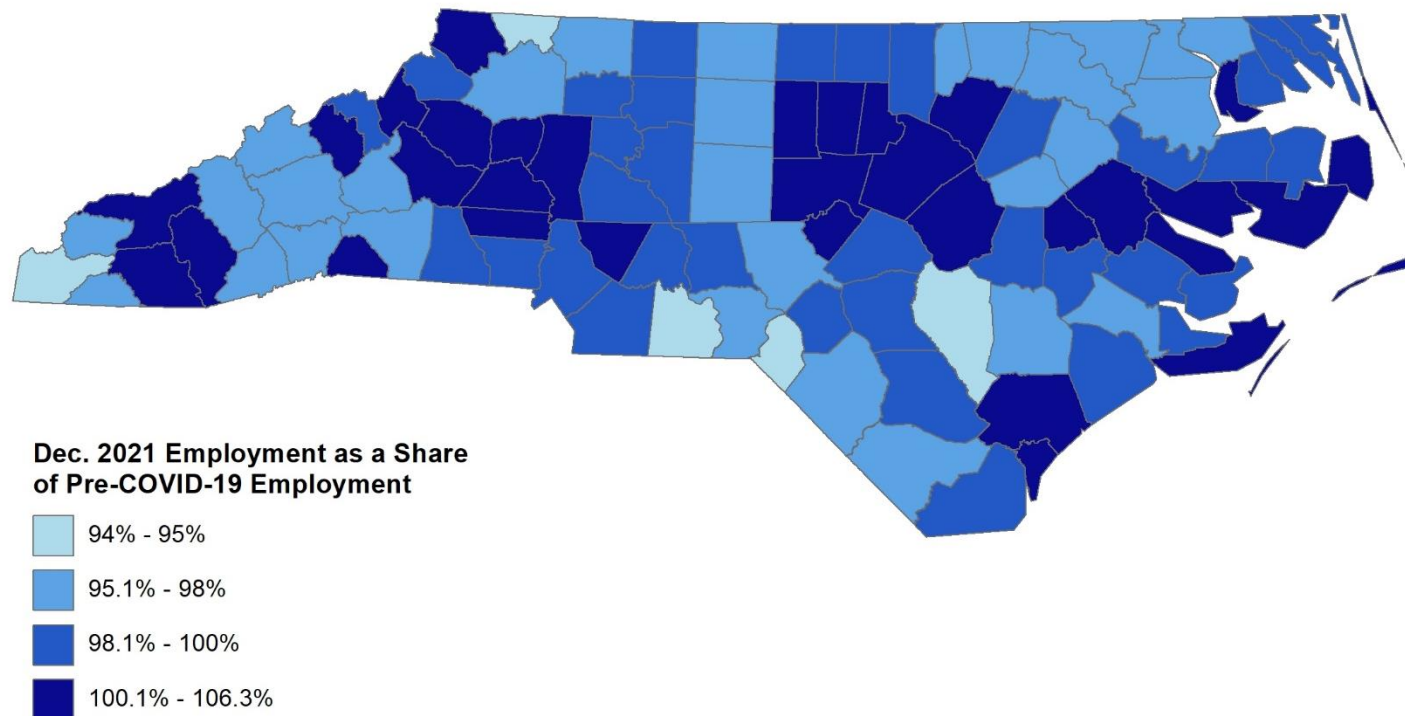
# Several NC MSAs have recovered all jobs lost during the pandemic, while others continue to struggle

Change in Employment Since Feb 2020



Source: Bureau of Labor Statistics/Haver Analytics

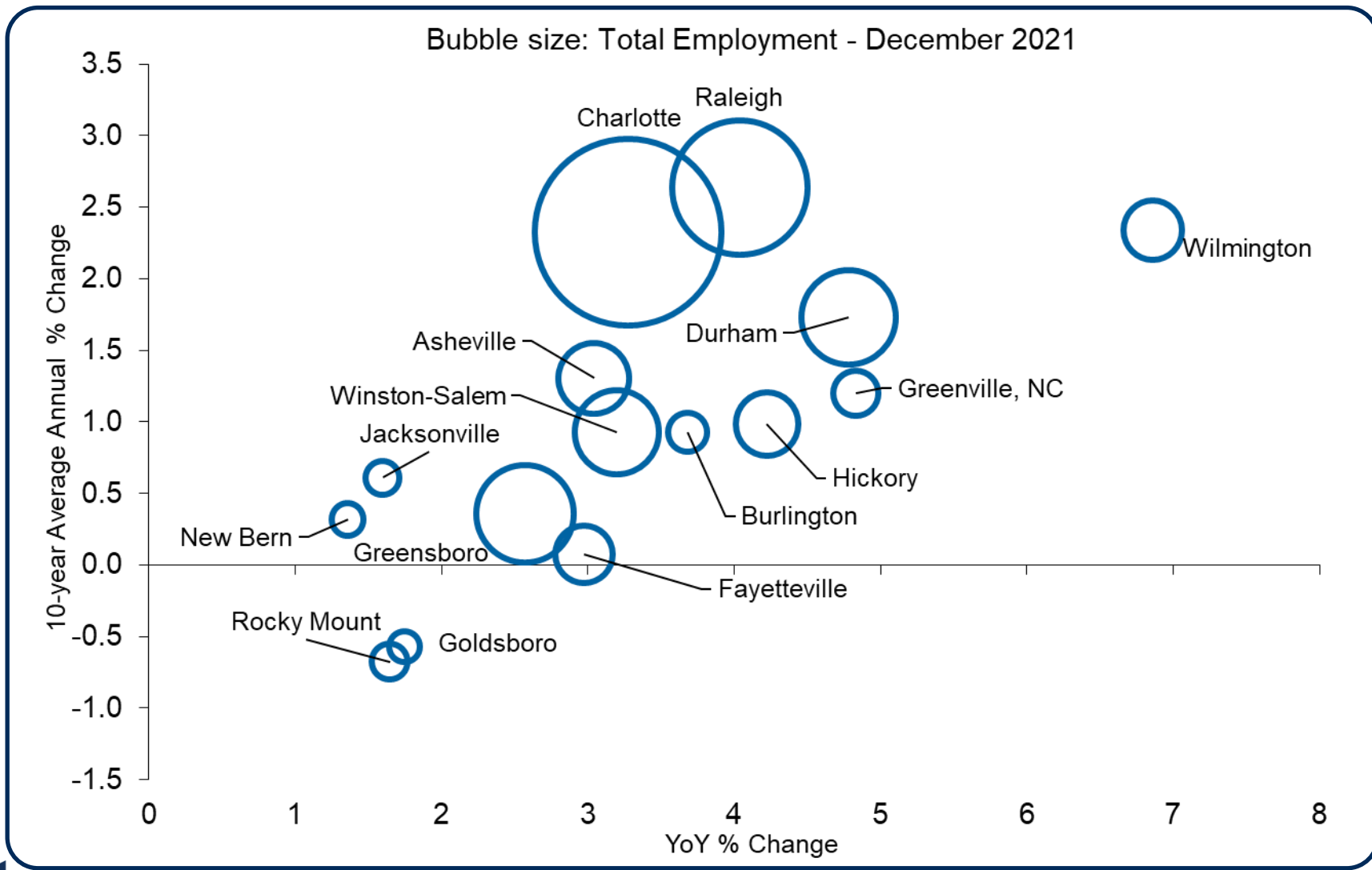
# The same is true when we look at the data at the county level



Source: Bureau of Labor Statistics Local Area Unemployment Statistics, Civilian Employment

Note: "Pre-COVID-19 Employment" is Feb. 2020 employment.

...but long-term growth amongst SC MSAs remains entirely positive, even considering COVID declines



Source: Bureau of Labor Statistics/Haver Analytics

# While some industries have more than fully recovered, others still lag pre-COVID levels considerably

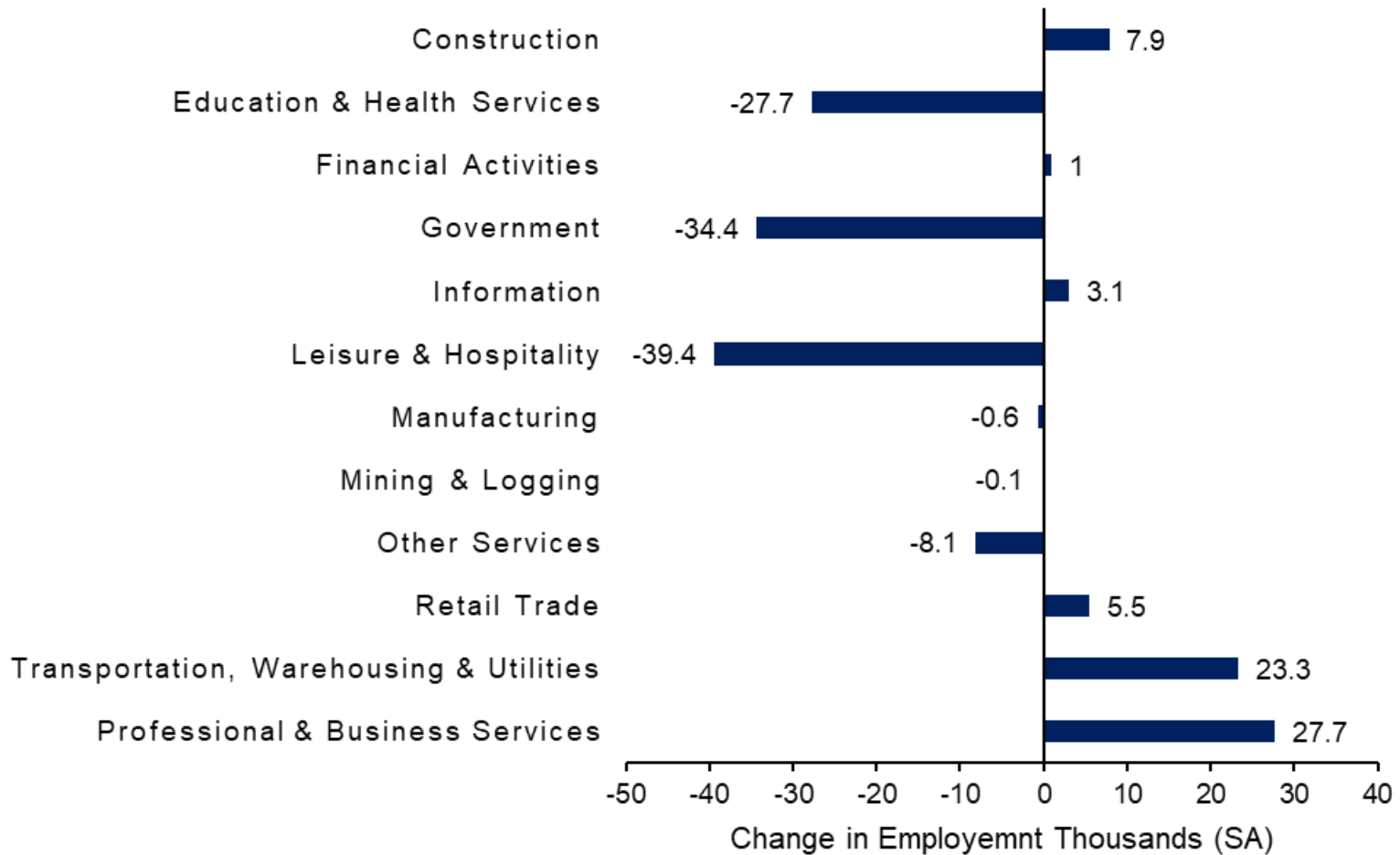
## United States Employment Change February 20 to December 21



Source: Bureau of Labor Statistics/Haver Analytics

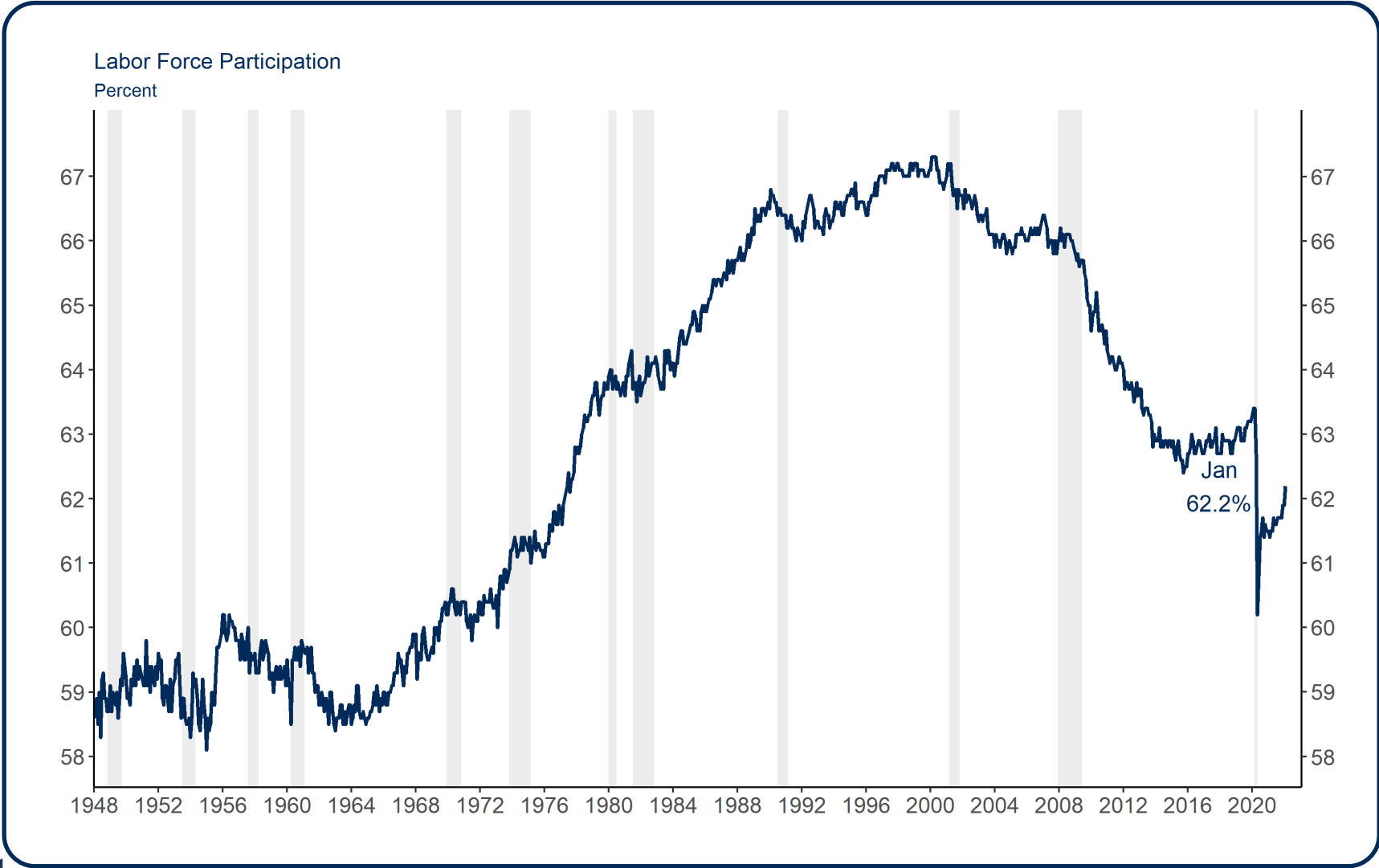
# The same is true for NC industries, though many have now more than fully recovered

North Carolina Employment change February 20 to December 21



Source: Bureau of Labor Statistics/Haver Analytics

# Many industries have rebounded, but the recovery looks less impressive when considering labor force participation (LFP)



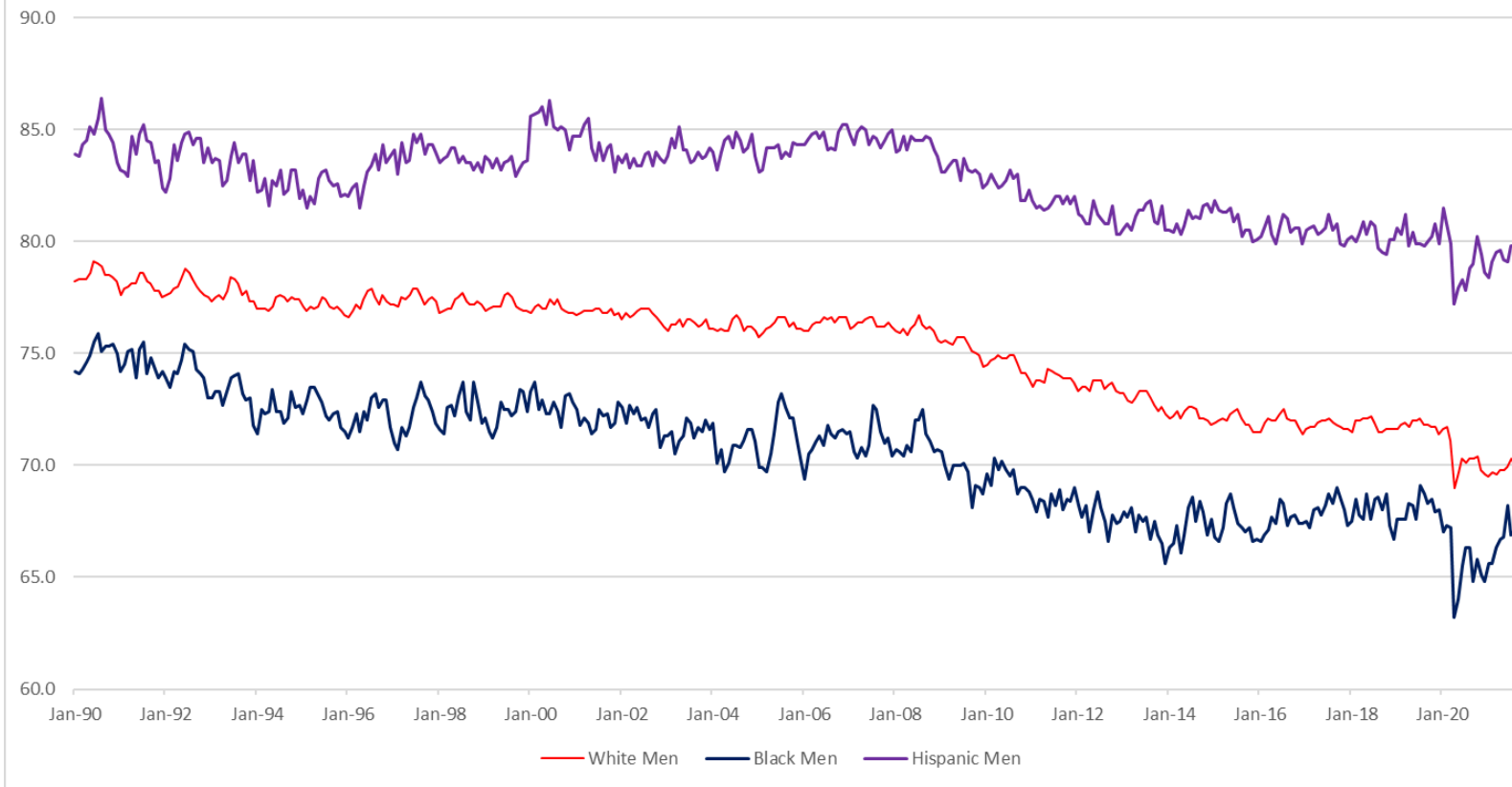
Source: Bureau of Labor Statistics/Haver Analytics



# The recovery of male labor force participation varies by race, with white male recovery lagging minority males



Male Labor Force Participation, Age 20+

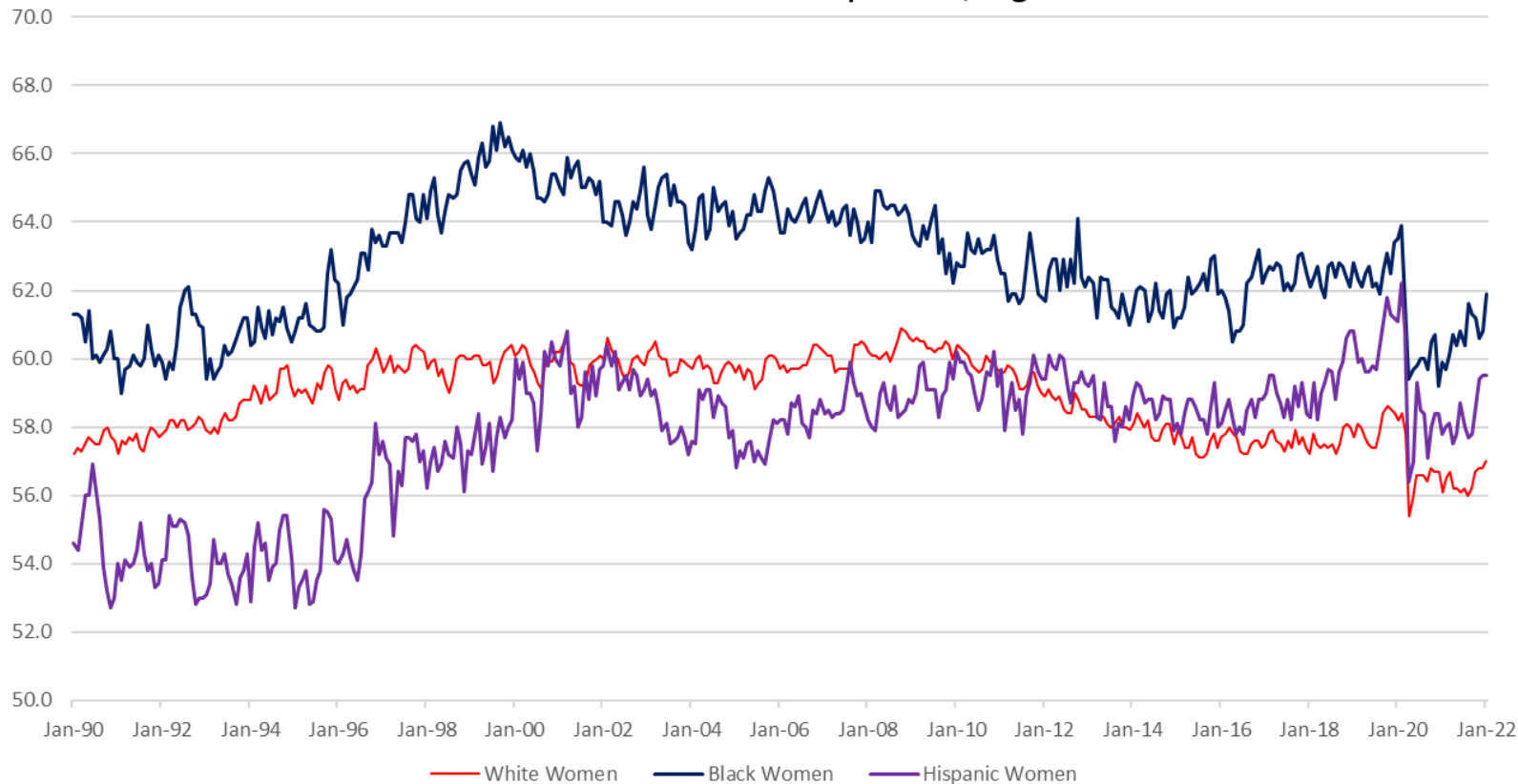


	White	Black	Hispanic
Percent of Feb-Apr Decline Recovered as of January 2022	37.04%	92.68%	72.22%
Percent Decline Since February 2020	-2.37%	-0.45%	-1.24%

Source: Bureau of Labor Statistics, Current Population Survey

# Female LFP recovery lags that of males, with minority females seeing larger declines compared to pre-COVID

*Female Labor Force Participation, Age 20+*

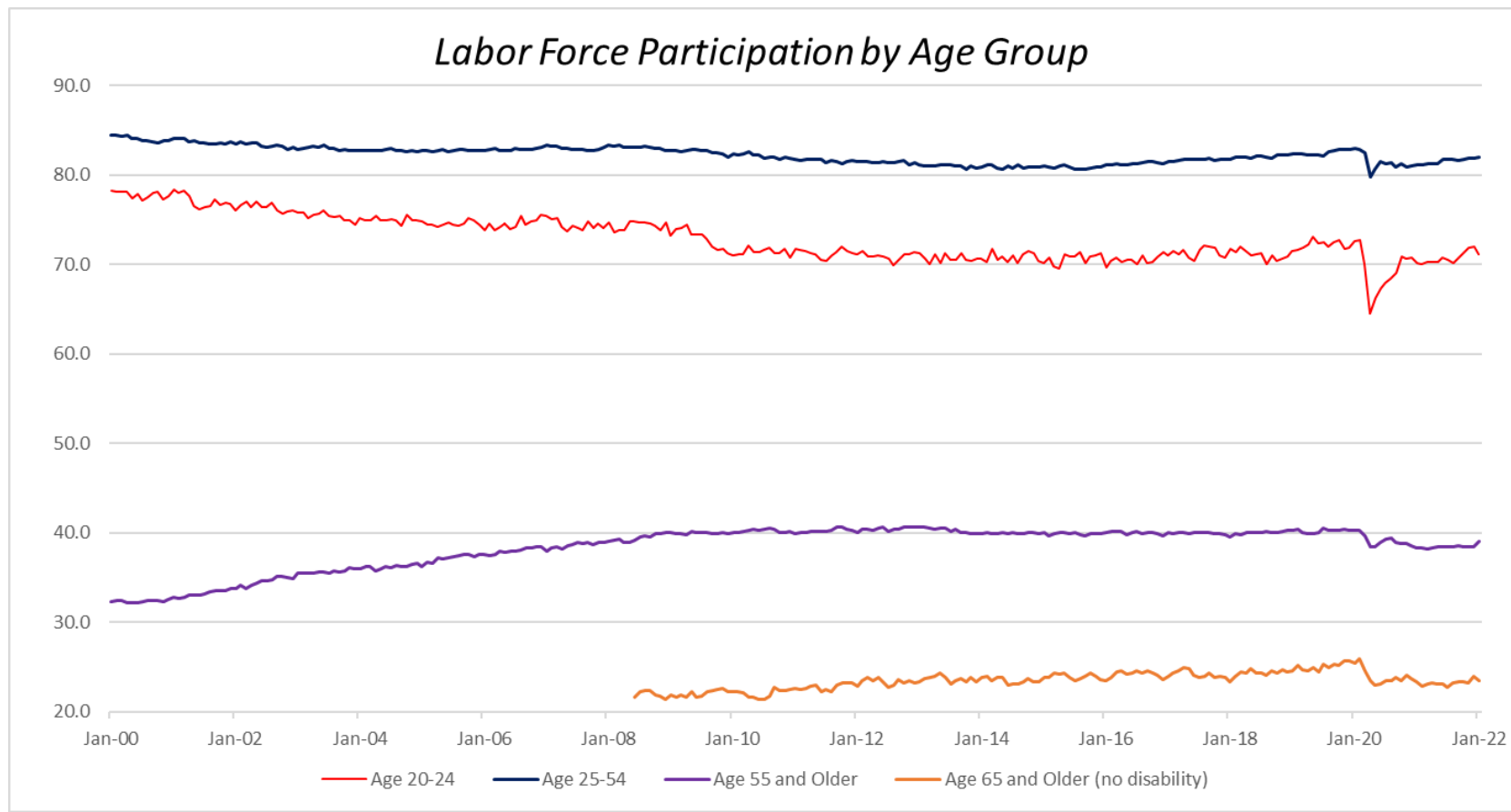


	White	Black	Hispanic
Percent of Feb-Apr Decline Recovered as of January 2022	53.33%	55.56%	53.45%
Percent Decline Since February 2020	-2.40%	-3.13%	-4.34%

Source: Bureau of Labor Statistics, Current Population Survey

While the youngest age group saw the most extreme decline in the early days of the pandemic, they have nearly fully recovered

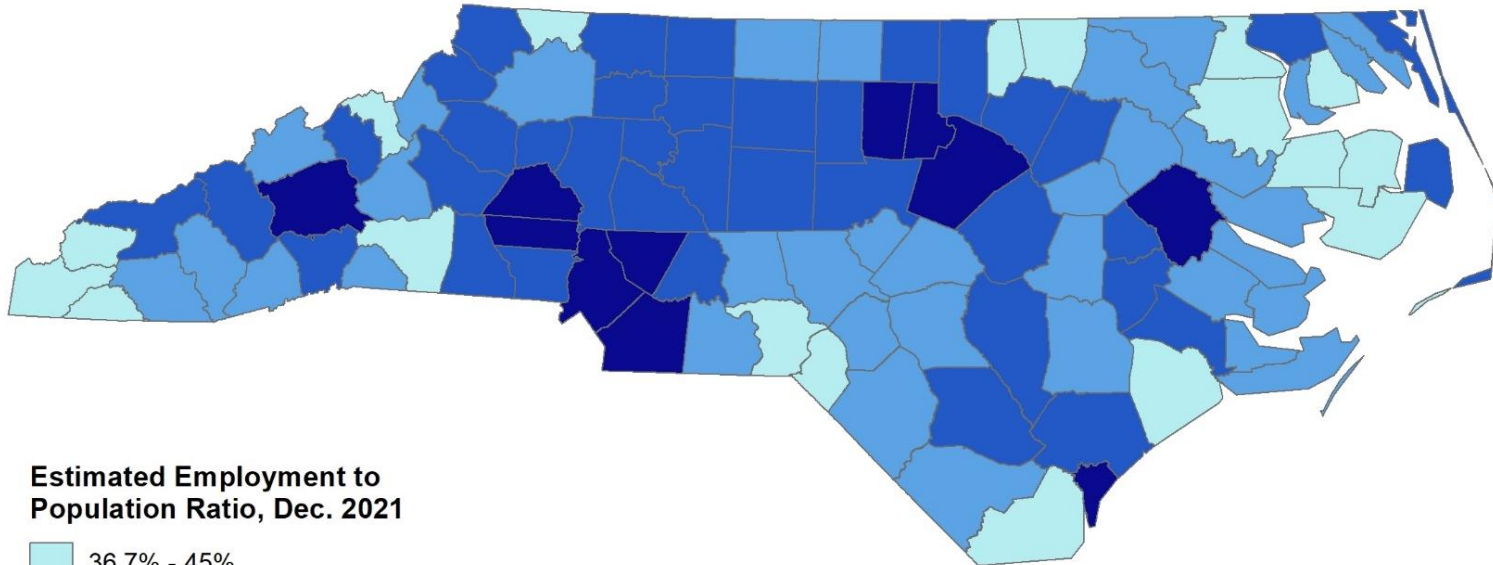
Labor Force Participation by Age Group



	Age 20 - 24	Age 25 - 54	Age 55 and Older	Age 65 and Older (no disability)
Percent of Feb-Apr Decline Recovered as of January 2022	79.52%	70.97%	33.33%	0.00%
Percent Decline Since February 2020	-2.34%	-1.09%	-2.98%	-9.62%

Source: Bureau of Labor Statistics/Haver Analytics  
Data are Seasonally Adjusted

# Employment to population ratios vary rather significantly across the state



**Estimated Employment to Population Ratio, Dec. 2021**

- 36.7% - 45%
- 45.1% - 52%
- 52.1% - 60%
- 60.1% - 68.2%

Source: Bureau of Labor Statistics Local Area Unemployment Statistics, Civilian Employment and Census Bureau 2020 population estimates.

Note: This map shows an estimated employment/population ratio as it uses December 2021 employment data but 2020 population estimates.

# Will Labor Force Participation Recover?

- For some demographic groups, maybe.
- A recent EMSI report highlights three trends that existed pre-COVID that indicate that the overall answer is likely 'no'. These issues may have been accelerated by COVID and are unlikely to reverse in the near term.
  - 1) **Baby Boomer retirements**
  - 2) **Change in attitudes/norms around work**
  - 3) **The 50-year baby bust**
- The bad news is that this is truly a global issue. The good news for us is that the Carolinas will fare better than the majority of the U.S.
- In addition, there are things that can be done to change the landscape in the longer run.

# Baby Boomer Retirements

- Labor force participation rates have declined since February 2020 by 4.47 percent for those over age 55. The number of employed Americans over age 55 has declined by 948,000 during that same time.
  - There has been very little movement in labor force participation rates in the oldest age groups in recent months. Because of the generation's wealth and the rules associated with Social Security, it is unlikely that a large percentage will rejoin the labor force in the near term.
  - Some of these early retirees will be sensitive to stock market corrections (if they occur).
- The wealth of Baby Boomers is also impacting their children's attitude around work and has led to smaller subsequent generations.

# Attitudes/norms around work

- The Millennial generation has represented the majority of workers since around 2014. Millennials are typically children of Baby Boomers and are currently between 25 and 40 years old.
- There had been a serious decline in prime-age male labor force participation prior to COVID.

1980: 94%

2019: 89%



***This represents 3 million missing workers***

- The data show that younger men have increasingly preferred part-time work over full-time work, and more than ever are simply not working at all.
  - This change began with the Great Recession, when many were forced into part-time work. The trend never reversed.
    - Work by Aguiar et al. shows that work hours for men ages 21 to 30 declined 12 percent between 2000 and 2015. In addition, 15 percent of the men in this age group did not work a single week in 2014.
    - They estimate that 75 percent of the increase in leisure hours from reduced work were spent playing video and computer games.

# The 50 year 'baby bust'

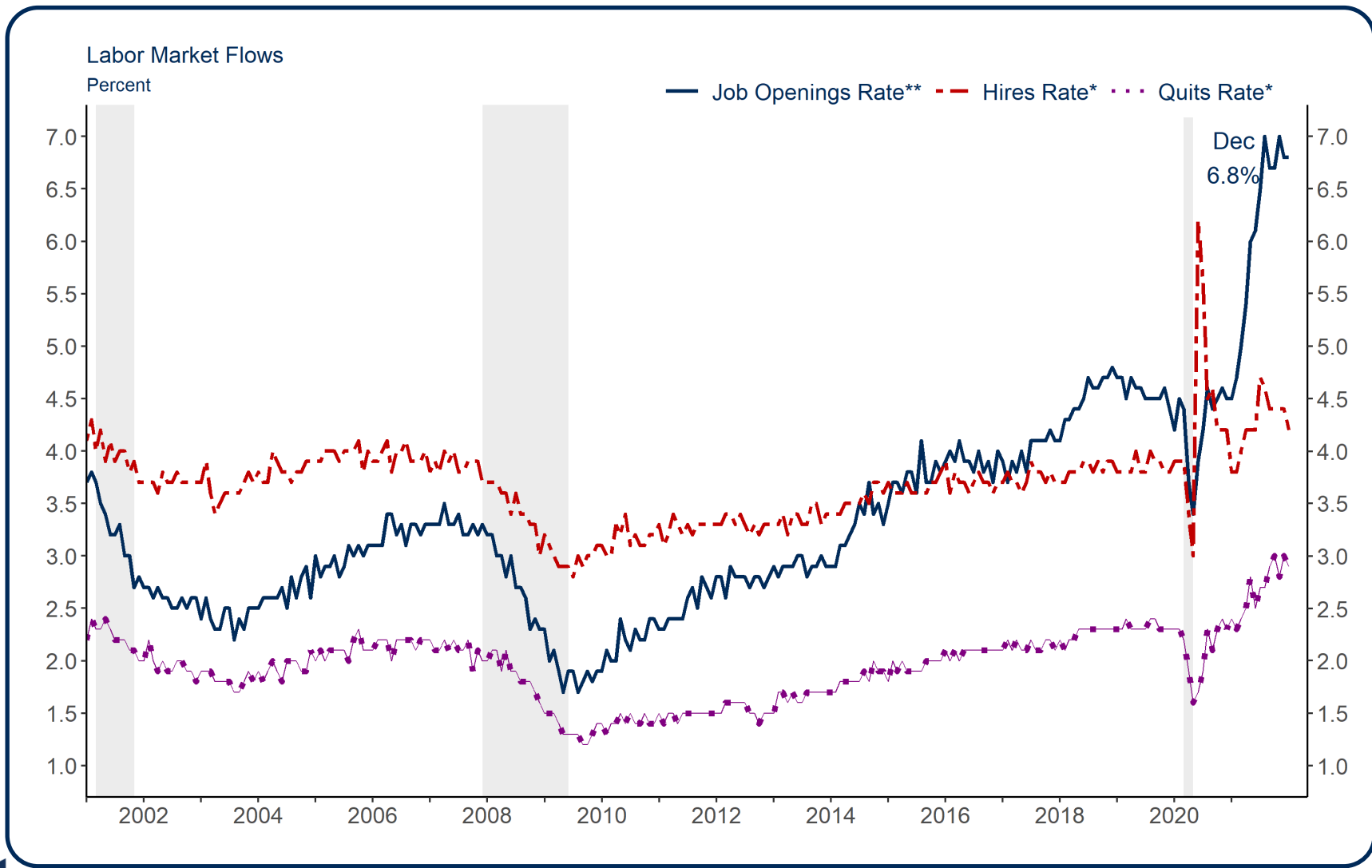
- The delayed movement into adulthood is also impacting fertility rates (along with many other factors).
- Prior to COVID we knew we had a population growth issue in the U.S.
  - Korn Ferry predicted a 6 million person worker shortage by 2028 back in 2018.
  - While Baby Boomers were born into families with an average of 4 children, they only had 1.8 children on average. The Millennials are having even fewer children and the fertility rate has been below the replacement rate since 1970.
  - The U.S. population will begin to shrink in around 2062.
- COVID exacerbated this issue. It is believed that there were around 500,000 fewer babies born in 2020 than were predicted prior to COVID. The population growth rate in 2020 was the lowest it has been since at least 1900.
- Why are people having fewer children?
  - Urbanization
  - Delay and Decline of Marriage
  - Increased Reliance on Women's Work
  - Childcare Costs
  - Student Debt
  - Secularization



# What can we do to reverse trends?

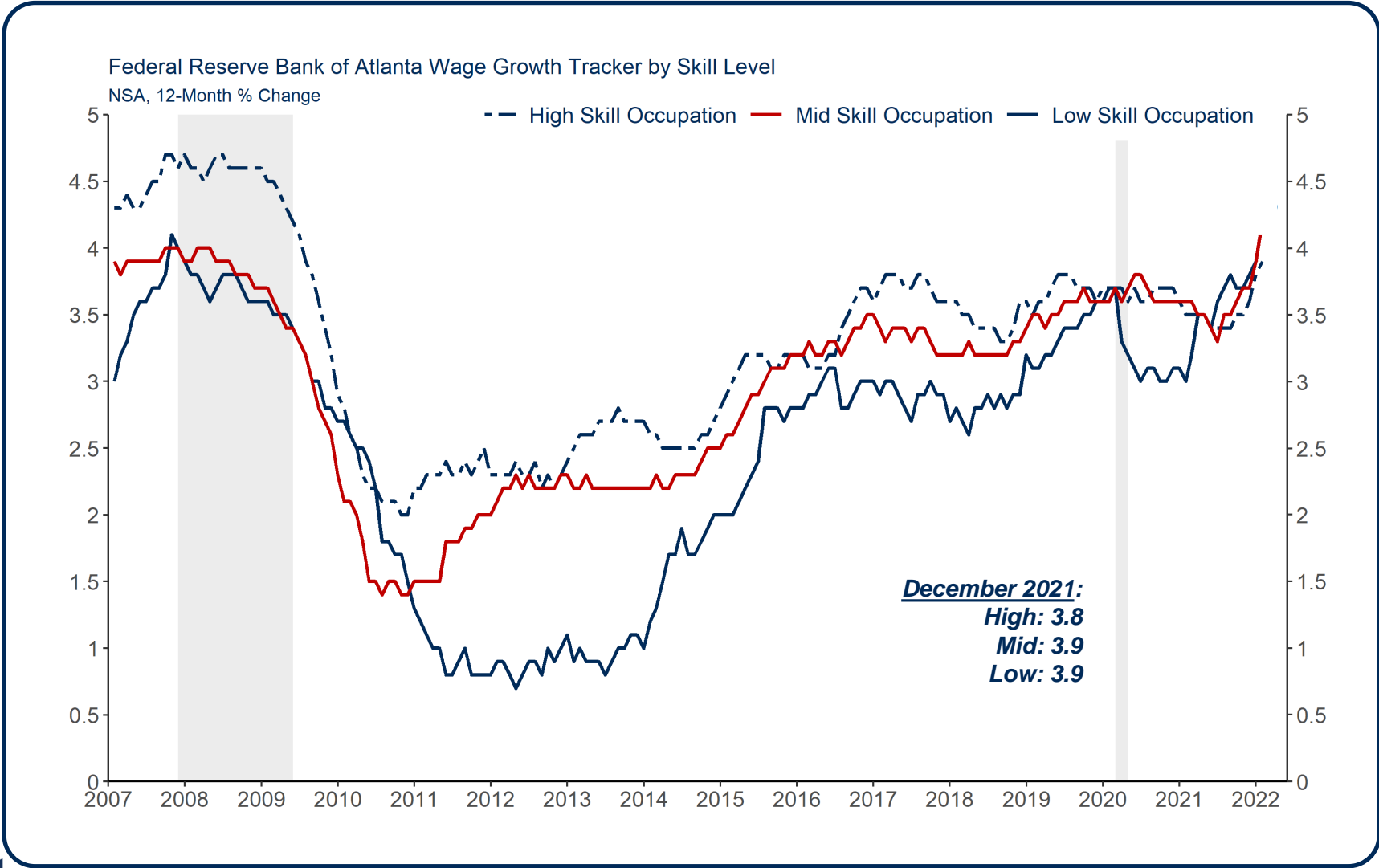
- What might make a difference in the availability of workers? What could get people back into the labor force?
  - Flexibility:
    - According to LinkedIn, workers are 2.5 times more likely to apply for jobs that are remote.
    - Flexibility in terms of location, hours worked, etc. can help workers with young children or those with other care responsibilities.
  - Immigration:
    - While these issues are global, the desire to relocate to the U.S. remains strong. The bonus here is that immigrants typically have higher labor force participation and fertility rates.
  - Fertility Incentives:
    - Other countries, such as Germany, Sweden and Japan, have tried incentives to increase their fertility rate.
    - This could include anything from enhanced child tax credits, to subsidized childcare, to direct cash payments.
  - Changes in Recruiting Philosophies:
    - As the working population shrinks (as a percent of total population), employers will have to evaluate how and who they recruit.
    - Is a college degree really necessary for the job? Could the position be more flexible in the future? Is there a way to directly recruit older workers?

# Job openings and quits are at record highs...



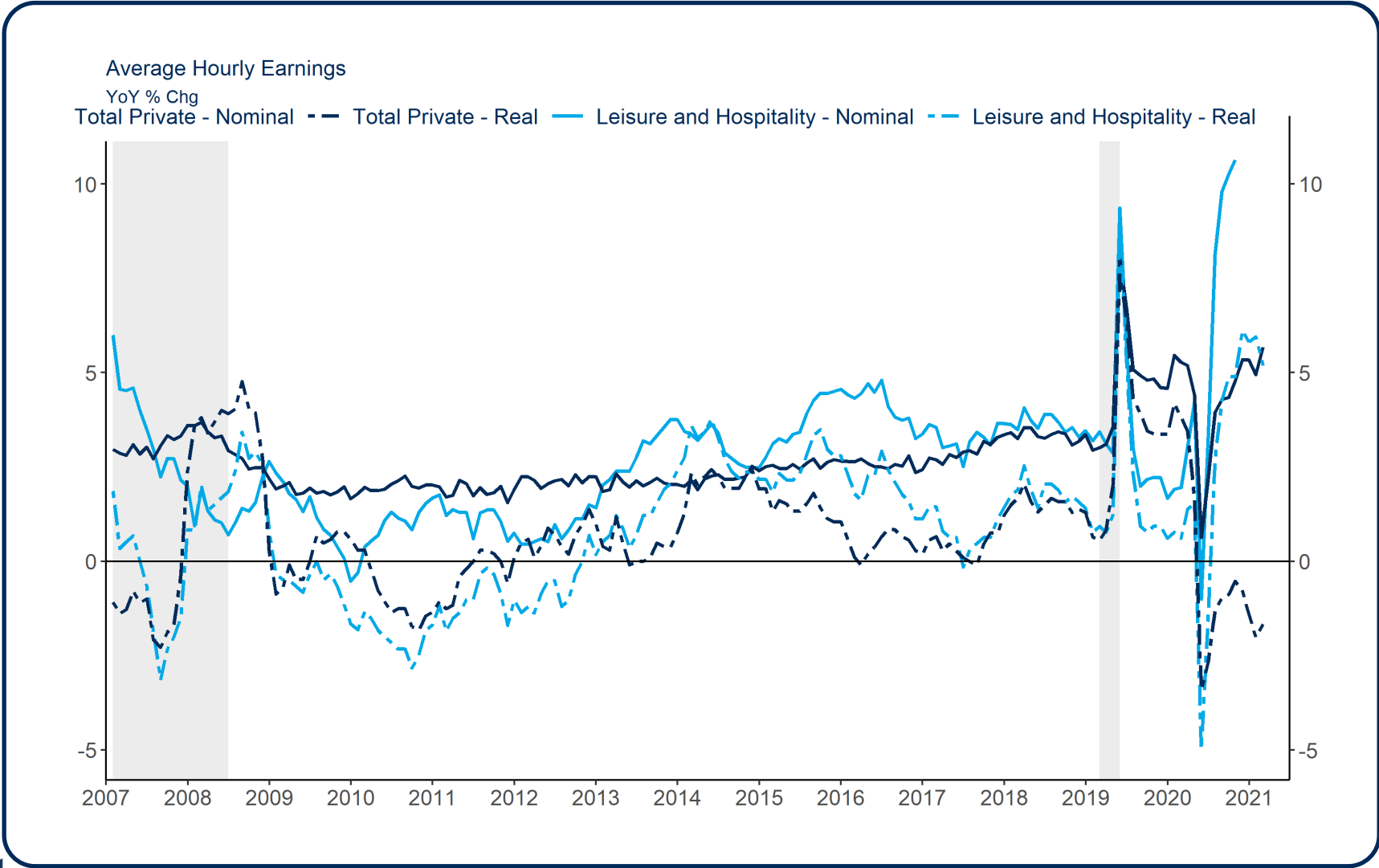
Source: Bureau of Labor Statistics/Haver Analytics

# The result...wages are rising, and low skill wages are increasing just as fast as high skill occupations



Source: FRB Atlanta via Haver Analytics

# When considering the real change in wages we see a decline for Total Private, but an increase in Leisure and Hospitality



Source: Bureau of Labor Statistics/Haver Analytics

# Where do we go from here?

- National and regional growth prospects remain strong for 2022 with some potential speedbumps:
  - Geo-political issues
  - A COVID variant that evades vaccines and is more severe
  - Inflation that significantly exceeds current policymakers' expectations
  - Anything that makes supply chain issues even worse
- Labor force participation and employment remains a concern and this year will provide more clarity regarding its future path.
- Are we at maximum employment? Are we close?
  - It depends on how you define it
- The Fed is poised to address inflation and many members of the committee have communicated that they believe it has peaked or is close to peaking.

*Questions/Comments?*

*Laura.Ullrich@rich.frb.org*