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Fitch: Significant Job Loss Expected in 2023 as U.S. Labor Market Rebalances

Fitch Ratings-New York/London-21 November 2022: U.S. labor market imbalances are currently adding to wage and inflation pressures, but labor demand will fall significantly next year as Fed tightening weighs on economic activity, according to Fitch Ratings.

Labor demand – as measured by employment plus job openings – currently exceeds labour supply by around 5 million. This imbalance is unlikely to recede through a labor supply recovery, but the economic downturn expected in 2023 will likely result in lower labor demand through both job losses and falling job openings.

“The lagged impact of aggressive Fed tightening, the drag on real wages from high inflation, and knock-on impacts from the downturn in Europe will drive the U.S. economy into recession territory next year – with the unemployment rate increasing to 4.7% at the end of 2023, and peaking at 5.3% in 2024,” said Olu Sonola, head of U.S. Regional Economics.

“As a result, the job openings rate (job openings as a percent of employment plus job openings) is expected to decline from the current rate of 6.5% to 5.2% in 2024, reducing job openings by 2.1 million. This would reduce the job openings to unemployment ratio to approximately 1.0 in 2024 from its currently elevated level of 1.86”, says Sonola.

The U.S. labor market imbalance peaked in March 2022 at approximately 3.5%, or 5.9 million jobs. At the end of September 2022, labor demand exceeded labor supply by approximately 2.9% of the labor force, or 5 million jobs.

While the U.S. civilian labor force has recently returned to pre-COVID levels, it remains more than 4 million people below the pre-COVID trend. Excess retirements during the pandemic, lower immigration, lingering impact of COVID on work absenteeism, and the entrenched trend of the aging U.S. labor force have all contributed to the lack of recovery in the participation rate.

For more information, a special report titled “Economics Dashboard: U.S. Labor Market Imbalances Won’t Ease Without Job Losses” is available at www.fitchratings.com.

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