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Fitch: U.S. Labor Demand Will Weaken on Rising Interest Rates, South Dominated Jobs Recovery

Fitch Ratings-New York-14 February 2023: Fitch Ratings expects the U.S. labor market to weaken as aggregate demand stagnates over the course of the year in response to the lagged effects of higher interest rates, according to a new Fitch report.

“The 517K payroll growth number for January 2023 was an upside surprise that is likely not going to be sustained.” said Olu Sonola, Head of U.S. Regional Economics. “Job growth has decelerated in five of the last six months. U.S. labor market conditions are still very strong, but they look set to continue the cooling trend in 2023.”

Employment recovery in 2022 was dominated by the South, particularly in high wage industries, such as information, and professional and business services. Four states in the South (Texas, Florida, North Carolina and Georgia) accounted for approximately 50% of job growth in the information, and professional and business services sectors, relative to pre-pandemic levels. Weakness in these sectors in 2023 will likely be a drag on job growth in these four states.

The state median jobs recovery rate is 100%, up two percentage points from 3Q22. Twenty-seven states recovered all job losses resulting from the onset of the pandemic.

States recouping 100% of 2020 employment losses include Indiana, Nebraska, Missouri, Maine, New Hampshire, New Jersey, Alabama, Arkansas, Florida, Georgia, Kentucky, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, Arizona, California, Colorado, Idaho, Montana, Nevada, Oregon, South Dakota, Utah and Washington.

The labor demand and supply imbalance remains stubbornly persistent, equal to approximately 3.1%, or approximately 5.1 million, of the labor force. The labor supply is still notably below pre-pandemic levels and may not fully recover.

For more information, a special report titled “U.S. States – Labor Market Quarterly Tracker – 4Q22” is available at www.fitchratings.com.

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