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Fitch: Labor Demand Shows Clear Signs of Cooling, but Slow Pace Continues

Fitch Ratings-New York-16 May 2023: Despite unemployment being at a 54-year low, the labor market will weaken as aggregate demand stagnates in response to higher interest rates and tightening credit conditions, exacerbated by stress in the banking sector, according to Fitch Ratings.

"Labor demand still exceeds supply, but this imbalance is declining, now at approximately 2.3 percent of the labor force in first-quarter 2023 compared with 3.2 percent last quarter," said Olu Sonola, Fitch Head of U.S. Regional Economics. "Job openings have also declined by 1.6 million from peak levels. Wage growth year-over-year has decelerated significantly since last quarter in a number of states."

The labor market remains relatively tight, even though the job openings to unemployed ratio is now down to 1.6 from the peak of 2.0 in March 2022. Thirty-five states have non-farm payrolls at or above pre-pandemic levels in first-quarter 2023.

Employment levels now exceed pre-pandemic levels in all but fifteen states, while the unemployment rate is below pre-pandemic levels in 30 states. Slower recovery in leisure and hospitality is a drag on Nevada, Oregon, and Hawaii, and several other states with large cities due primarily to the slow return to office trends, such as New York, California and Illinois.

Western and Midwestern states dominate with very high labor utilization. Mississippi, West Virginia, New Mexico, and South Carolina continue to show structural weakness in utilization. New Jersey is the only state with a year-over-year change in employment-to-population ratio of over 1.0 percentage point.

For more information, a special report titled "U.S. States — Labor Market Quarterly Tracker — 1Q23" is available at www.fitchratings.com.

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