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Strong Labor Market in 2021 Faces Down Omicron Threat

Jobless claims fell last week and are trending near a half-century low

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U.S. employers added a record number of jobs in 2021, as a gauge of layoffs fell to a half-century low and available positions surged on strong demand for labor during the economy's recovery from pandemic-related shutdowns.

But the pace of labor market gains could slow early next year due to the uncertainty posed by the Omicron variant of Covid-19 pandemic, especially in restaurants, hotels and other venues where people gather.

Applications for unemployment benefits, a proxy for layoffs, have trended near five-decade lows in recent weeks. Jobless claims for the week ended Dec. 25 fell from the prior week to a seasonally adjusted 198,000, the Labor Department said Thursday. Last week's four-week moving average, which smooths out volatility, fell to the lowest level since October 1969.

Strong job creation has been a cornerstone of 2021's robust economic growth and would be relied upon to underpin gains next year in the face of headwinds tied to the prolonged pandemic, elevated inflation and supply shortages.

Jobless claims will be closely watched in the coming weeks for any signs that the Omicron variant is causing employers to lay off workers. Claims

data, which are reported weekly, are often an early signal that hiring, and the broader economy, is shifting.

“So far we haven’t seen a noticeable impact from Omicron on labor market data, at least in terms of the claims data,” said Nancy Vanden Houten, lead U.S. economist at Oxford Economics, adding that a recent Census survey also showed no big increase in the number of firms reducing workers. “I think businesses are striving to remain open, particularly given the evidence that Omicron produces milder symptoms,” she said. Still, she added, the variant could cause an uptick in claims in the weeks ahead.

Oxford Economics expects employers to add 5 million payroll jobs in 2022, equal to an average of more than 400,000 a month. That would be a modest slowdown from this year, when U.S. employers added an average of 555,000 a month, or 6.1 million jobs through the first 11 months of 2021, according to the Labor Department. This year’s job increase is already the largest on record back to 1940.

The unemployment rate is on track to dip to 3.7% by the fourth quarter of next year, said Ms. Vanden Houten—slightly above the Federal Reserve’s projection for the end of next year. The unemployment rate was 4.2% in November.

Pantheon Macroeconomics, another forecasting firm, expects employers to add 450,000 jobs a month, on average, in 2022, and for the unemployment rate to average 3.5% in the fourth quarter. PNC Financial Services Group projects an average of 350,000 jobs to be added monthly next year, and for the jobless rate to decline to 3.8% by the fourth quarter.

Omicron “might change the pattern of growth with somewhat weaker job growth in the first few months of the year, and then stronger job growth after that,” said PNC Chief Economist Gus Faucher.

So far there are only signs of a modest economic impact due to the variant. Airline flights have been grounded due to lack of crews, hockey

and basketball games have been canceled, some businesses have temporarily closed or shifted back to remote work and public schools have moved to online-only in early January. Some economists have downgraded forecasts for growth for early next year.

Another constraint on employment and economic growth next year could be the shrunken labor force, which has nearly 2.5 million fewer workers than before the pandemic. Job openings exceeded unemployed workers by 3.6 million in October, according to the latest available data from the Labor Department.

That has left employers clamoring for workers, raising pay and sweetening bonuses and benefits—and in some cases looking to different types of workers than they have in the past.

Tusco Display is short of the workers it needs to meet demand, said Chief Executive Michael Lauber. He has responded by seeking out part-time workers.

“We still would prefer to hire people on a full-time basis,” said Mr. Lauber. “But there’s a substantial number of people out there who for whatever reason—maybe it’s elder care, maybe it’s child care, maybe it’s who knows what—are not able or willing to take a full-time position.”

The Gnadenuhuten, Ohio, company, which makes custom store displays, has stepped up recruitment of students, with nine high-school students joining Tusco doing light assembly work in the afternoons and evenings last week. The company also recently recruited a trio of young welding students from vocational programs. Mr. Lauber said he hopes to expand this team in 2022.

Labor supply constraints and the evolving pandemic, however, are unlikely to derail labor market improvements in 2022, said **Bernard Baumohl, chief global economist of the Economic Outlook Group LLC.**

“Our expectation is that the economy is going to continue to be strong,” he said. He projects better hiring next year than in 2021, forecasting an average of 650,000 jobs to be added monthly.

Workers have gained leverage, he said, and that means they have become selective in the kinds of employment opportunities they find suitable. Self employment has also increased.

“They’re entrepreneurs and they’ve started their own business at a time when they thought they now have some financial resources to do so,” Mr. **Baumohl** said.

Phil Rice, of Roanoke, Texas, spent about 20 years in corporate finance, working for companies in the travel industry such as American Airlines Group Inc. and Expedia Group Inc. Mr. Rice had been thinking about starting his own insurance business for a while, “then Covid kind of came along and really sort of solidified that,” he said.

Mr. Rice, 50 years old, left Expedia, an online travel-booking company, in late August and plans to open his business in February after he finishes needed training. He is making the change to work more directly with consumers.

“I’m excited, because I get to make all the decisions,” Mr. Rice said. “But at the same time, I’m also anxious because I have to make all the decisions too.”

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