



2022 Sees a Labor Market Reaching Full Employment

The pace of job growth has slowed, but that may turn out to be a good thing.

By Tim Smart Jan. 10, 2022

By almost any measure, the labor market had an extraordinary 2021.

An average of 537,000 jobs were created each month, although there was considerable volatility in the month-to-month readings, with 1.09 million added in July and 199,000 in December. The unemployment rate fell from 6.3% in January to 3.9% at year's end. The number of people filing first-time claims for weekly unemployment benefits fell below 200,000 and ended the year close to that threshold.

So why then was everyone so grumpy when last week, the Labor Department reported "only" 199,000 jobs were created in December – far below expectations of more than twice that number?

"The year ended on a sour note, with job gains slowing even more than in November," Glassdoor Senior Economist Daniel Zhao told Fox Business News in a comment representative of the immediate reaction to the report.

But dig a little deeper and the numbers offer a more positive tale, while also foreshadowing a normalization of the job market that will likely bring lower monthly numbers in 2022.

But, first it helps to understand where the numbers come from. The report is actually two surveys, one of establishments and the other of households. One measures what businesses say about their hires; the other tracks what workers say is happening to them. While they often diverge, over time they tend to point in the same direction – except this year, when they have been far apart at times.

In December, for example, the household survey recorded 615,000 jobs created, following a spike of more than 1 million in November. For comparison purposes, the establishment survey had November initially at 210,000 jobs (revised upwards to 249,000) and December at 199,000.

And speaking of revisions, 2021 has seen outsized adjustments to the initial estimates with cumulative additions of more than 1 millions jobs for all of the year.

“Seasonal adjustments and revisions to past months’ data have been wacky in 2021, as the pandemic has distorted hiring patterns,” says Andrew Flowers, labor economist at Appcast, which provides programmatic online advertising for employers.

The unemployment rate, calculated from the household survey, is showing unmistakable progress. At 3.9%, it is well ahead of the projections of private and government economists. Anything 4% and below is generally considered full employment and the Federal Reserve now sees it hitting 3.5% by year end, the same rate it stood at in February 2020, just prior to the onslaught of the coronavirus pandemic.

When broken down into demographic cohorts, the rate looks even better.

“The labor shortage is hitting us at both ends of the educational ladder, the number of unemployed people without a high school diploma is now the lowest in recorded history,” says Ron Hetrick, senior economist at global labor market analytics firm Emsi Burning Glass. “The unemployment rate for college grads at 2.1% is just 0.2 away from its all-time low of 1.9% in Feb 2020 meaning the COVID effect is almost completely over for people with a degree.”

Gordon Gray, director of fiscal policy at the American Action Forum, noted the broad range of the decline in unemployment in a statement issued after Friday’s job numbers were released.

“The unemployment rate dropped for all educational levels and all but one race,” he wrote. “By race, it rose for Blacks, by 0.6 points. It dropped the most for whites, by 0.5 points. For Hispanics and Asians, it dropped 0.3 points and 0.1 points, respectively.”

“By education, it dropped most for high school graduates with no college, by 0.6 points. Those without a high school diploma saw a 0.3 point drop, and those with some college or an associate degree and college graduates drop 0.1 points,” Gray added.

A separate report last week from private payroll firm ADP also bolstered the argument that the labor market may be stronger than the government’s data shows. ADP’s December survey showed 807,000 jobs were created, with large employers leading the way.

“Large employers have actually lagged, so there’s room to grow,” says Sarah House, director and senior economist for Wells Fargo’s corporate and investment bank. “The ADP survey showed a strong outlook for the U.S. economy so that’s great news.”

All of this is good news for workers as well. For employers, well that is a different story. Companies are finding it extremely difficult to hire new employees, while they also face the highest “quits” rate in decades. They are having to play offense and defense at the same time, struggling to fill a near-record 11 million openings while also holding on to existing workers.

All told, the economy has recovered 18.8 million of the 22.4 million jobs that were lost in the early months of the pandemic in 2020. It’s a recovery that is far faster than in the last massive downturn, the Great Recession of 2007 to 2009, when jobs did not fully come back for six years.

Another comparison is the number of unemployed, which in December was 6.3 million. In February 2020, it was 5.6 million.

“We’re 600,000 away from where we were prior to the pandemic,” says David Norris, head of credit, North America at TwentyFour Asset Management, further underscoring the belief the economy has reached its maximum level of employment for this business cycle.

But economists are now starting to believe the pandemic has changed the behavior of the job market in ways that could have a lasting impact, indeed even resetting the relationship between workers and their employers.

“The pandemic is changing the entire economic landscape in ways we do not yet fully understand,” says **Bernard Baumohl, chief global economist at The Economic Outlook Group**. “Companies and workers have jettisoned old practices about work and are experimenting with new ones.”

John Gulnac, vice president of search and country lead for USA direct hire at staffing firm Adecco, says companies are placing special emphasis on streamlining their job application processes as well as increasing wages where necessary.

“There’s a huge trend regarding the candidate journey,” to eliminate redundancies and frustration with automated systems. “There’s a lot of focus on how easy we can make it to get through the process.”

And the job vacancies keep coming. Advertised job openings on career site Adzuna increased for the 11th consecutive month in the U.S. in December, hitting 8.8 million. Industries such as manufacturing, maintenance, and trade and construction saw strong gains in hiring.

“This momentary pause will not dent the hot job market overall,” says Adzuna co-founder and economist Andrew Hunter. “Many Americans feel like the new year means it’s time for a new job – and they know they can easily reenter the workforce or transition to a more lucrative role.”

“There’s also the chance that high inflation, combined with the tight labor market, may lead to the Federal Reserve raising interest rates early and this may impact hiring confidence,” Hunter adds. “Despite the hiring challenges, I’m optimistic that the labor market is strengthening and we may see a 3% unemployment rate much quicker than expected.”

But all the talk and focus on numbers alone obscures a harsh reality of the post-pandemic job market, says Sarah C. Welch, vice president of workforce development at the Network of Jewish Human Service Agencies and coordinator of Project EM, which helps those seeking work.

“The numbers don’t tell the stories of the individuals,” Welch says. “I keep an eye on the long-term unemployed. We need to create avenues for people to get to work, for people who have historically been left behind.”

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