

Economy Watch

The 2022 Labor Market

January 12, 2022



Some of the critical questions and issues we will be answering today

- What are the outlooks for the US and global economy heading into 2022?
- Will US job growth remain strong in 2022?
- Are severe labor shortages in the United States here to stay?
- Will wages continue to rise sharply over the coming year?



Today's Speakers



Klaas de Vries
Economist
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Gad Levanon, PhD
Vice President, Labor
Markets
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Senior Economist
The Conference Board



Erik Lundh (Moderator)
Principal Economist
The Conference Board

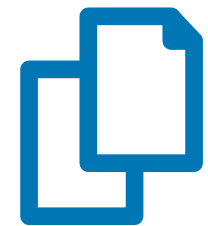
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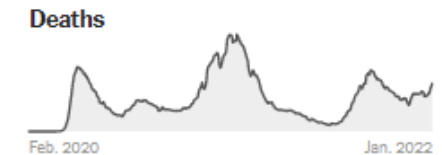
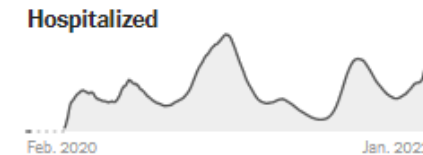
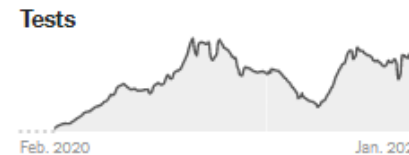
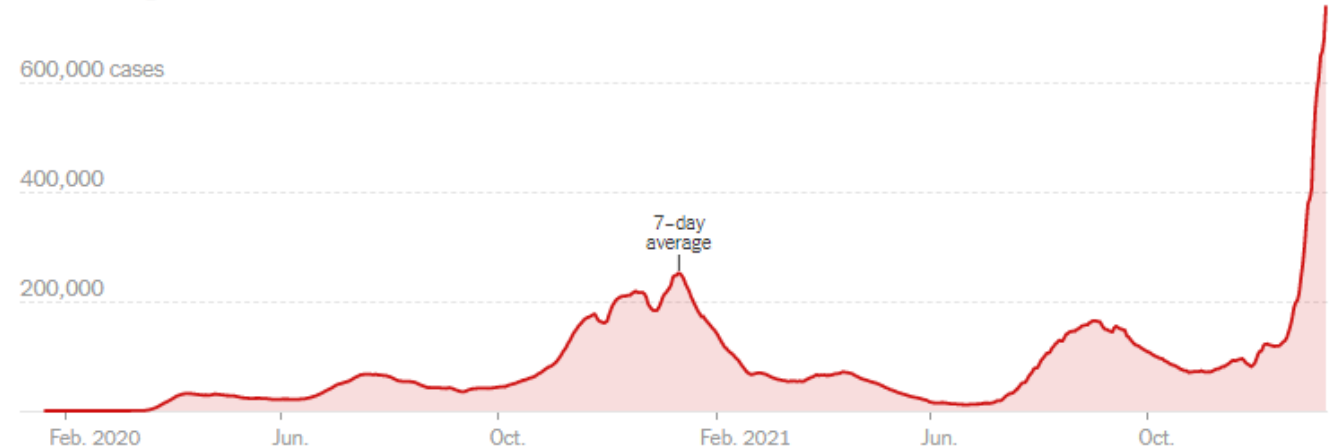


US Outlook

Omicron yielding surge in new COVID-19 cases, but the economic impact may be less severe compared to earlier waves

- Our recent forecasts assumed that a 'winter wave' of COVID-19 would emerge in Q1 2022 and slow US economic growth.
- Omicron has resulted in a much larger surge than anticipated, and earlier than anticipated. However, the fallout surrounding this wave of new cases appears to be less severe than previous waves.
- Thus, the implications for Q1 2022 may not be as dire.
- Key implications of Omicron include: staffing shortages, closures, consumer sentiment, supply chain disruptions, inflation.

New reported cases

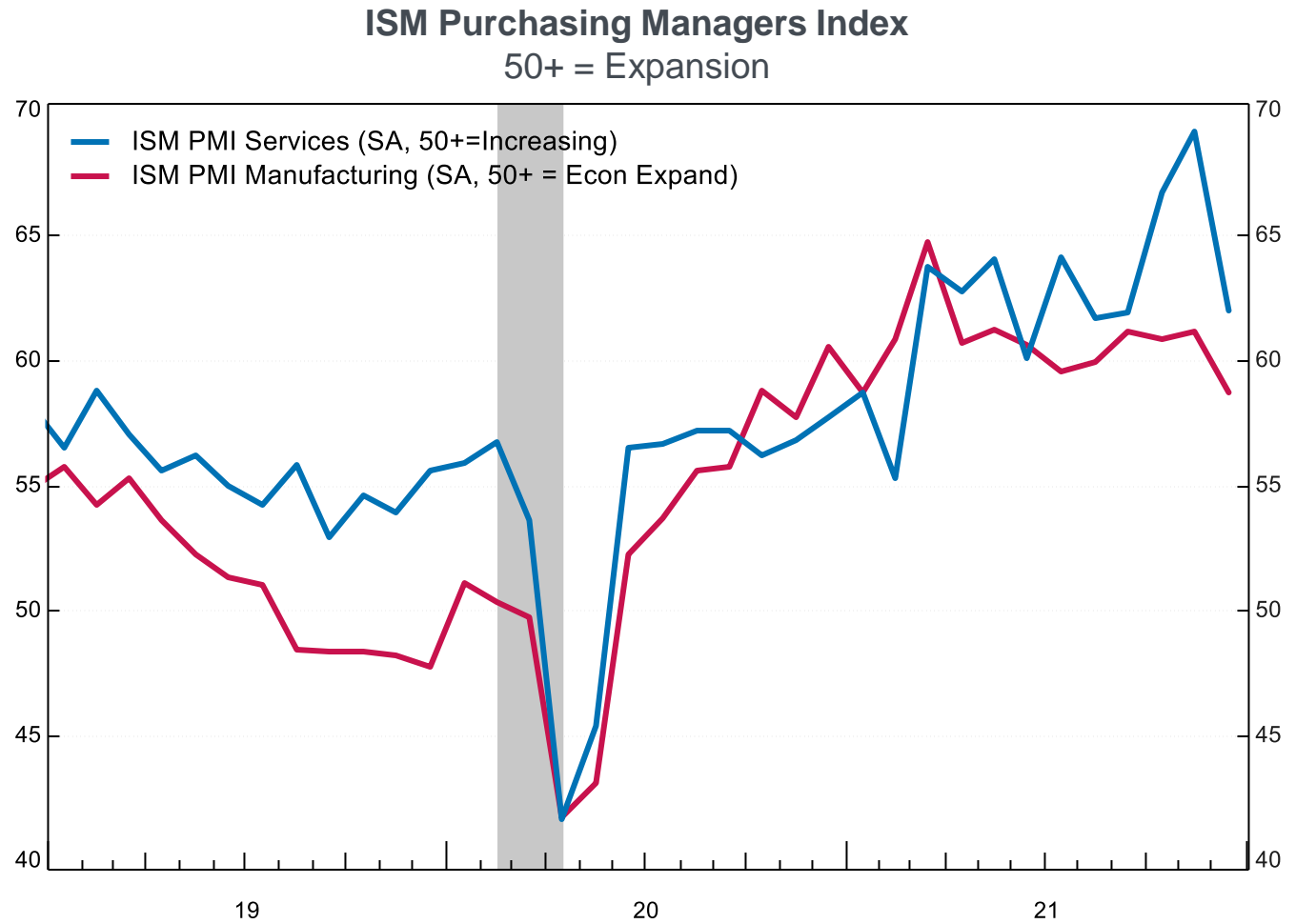


Source: The New York Times



Omicron is beginning to weigh on the US economy

- Economic strength in early Q4 2021 moderated by December.
- The economic impact of Omicron is likely to intensify in early Q1 2022, but may be more moderate than previous waves of infection.
- We expect the economy to continue to expand in Q1 2022, but at a less rapid rate.
- Economic growth should reaccelerate in Q2 2022.



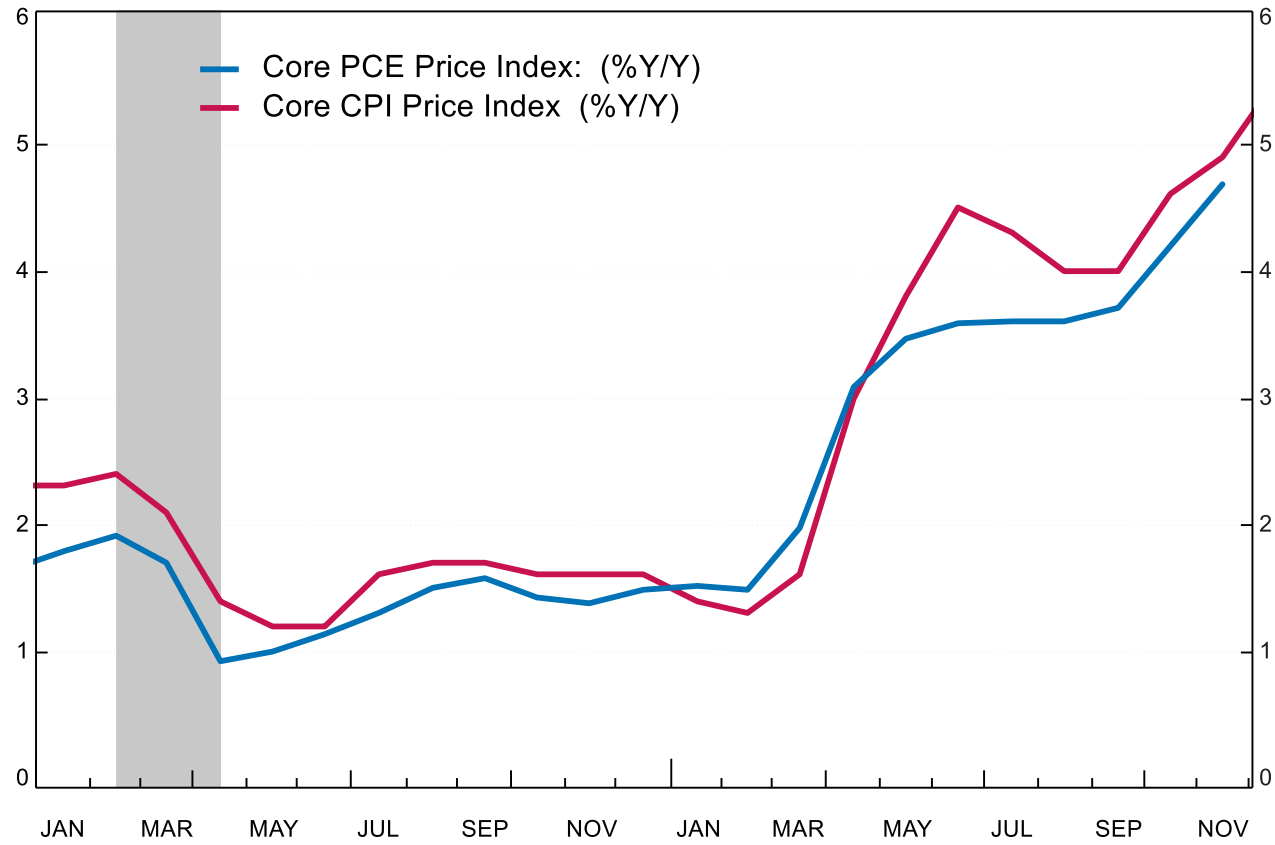
Source: Institute for Supply Management



Persistent inflation driving Fed to be more hawkish in 2022

- Following several months of moderating price inflation, recent data show a resurgence in inflation.
- Drivers include: elevated demand for goods, supply chain bottlenecks, wage hikes, and higher rents.
- Many of these forces are sticky and are unlikely to dissipate quickly.
- The Federal Reserve has become more hawkish as a result.
- Expect tapering to conclude in March and at least three 25 bps rate hikes in 2022.

Core CPI & PCE Price Indexes
Year-over-Year Change (%)



Sources: Bureau of Economic Analysis, Bureau of Labor Statistics



Omicron is impacting US economic growth, but will not derail it

THE CONFERENCE BOARD US ECONOMIC OUTLOOK, 2020-2021-2022-2023 Percentage Change, Seasonally Adjusted Annual Rates*

	2020				2021				2022				2019	2020	2021	2022	2023
	I Q*	II Q*	III Q*	IV Q*	I Q*	II Q*	III Q*	IV Q	I Q	II Q	III Q	IV Q					
Real GDP	-5.1	-31.2	33.8	4.5	6.3	6.7	2.3	6.0	2.2	3.1	2.9	2.7	2.3	-3.4	5.6	3.5	2.9
Real disposable income	3.1	48.5	-16.6	-8.3	54.7	-29.1	-4.3	-3.0	0.5	1.0	1.5	2.0	2.3	6.2	2.3	-2.7	2.2
Real consumer spending	-6.9	-33.4	41.4	3.4	11.4	12.0	2.0	4.7	2.6	2.9	2.4	2.1	2.2	-3.8	8.0	3.4	2.6
Residential investment	20.3	-30.8	60.0	34.4	13.3	-11.7	-7.7	0.5	2.0	3.0	2.5	2.0	-0.9	6.8	9.1	-0.2	1.5
Nonresidential investment	-8.1	-30.3	18.7	12.5	12.9	9.2	1.6	3.3	5.0	5.2	4.8	4.8	4.3	-5.3	7.4	4.5	4.4
Inventory change (bln chn '12\$)	-30	-253	25	89	-88	-169	-67	50	55	60	65	65	75	-42	-68	61	40
Total gov't spending	3.7	3.9	-2.1	-0.5	4.2	-2.0	0.9	2.0	2.5	3.0	3.8	4.1	2.2	2.5	0.8	2.3	4.2
Exports	-16.3	-59.9	54.5	22.5	-2.9	7.6	-5.3	13.2	2.0	6.1	5.1	4.0	-0.1	-13.6	4.0	4.7	4.4
Imports	-13.1	-53.1	89.2	31.3	9.3	7.1	4.7	12.1	6.0	6.0	5.0	4.0	1.1	-8.9	13.6	6.8	4.1
Unemployment rate (%)	3.8	13.0	8.8	6.8	6.2	5.9	5.1	4.2	3.8	3.6	3.5	3.4	3.7	8.1	5.4	3.6	3.1
PCE Inflation (%Y/Y)	1.7	0.6	1.2	1.2	1.8	3.9	4.3	5.5	4.7	3.7	3.1	3.0	1.5	1.2	3.9	3.6	3.0
Core PCE Inflation (%Y/Y)	1.8	1.0	1.5	1.4	1.7	3.4	3.6	4.5	4.4	3.7	3.3	3.1	1.7	1.4	3.3	3.6	3.0

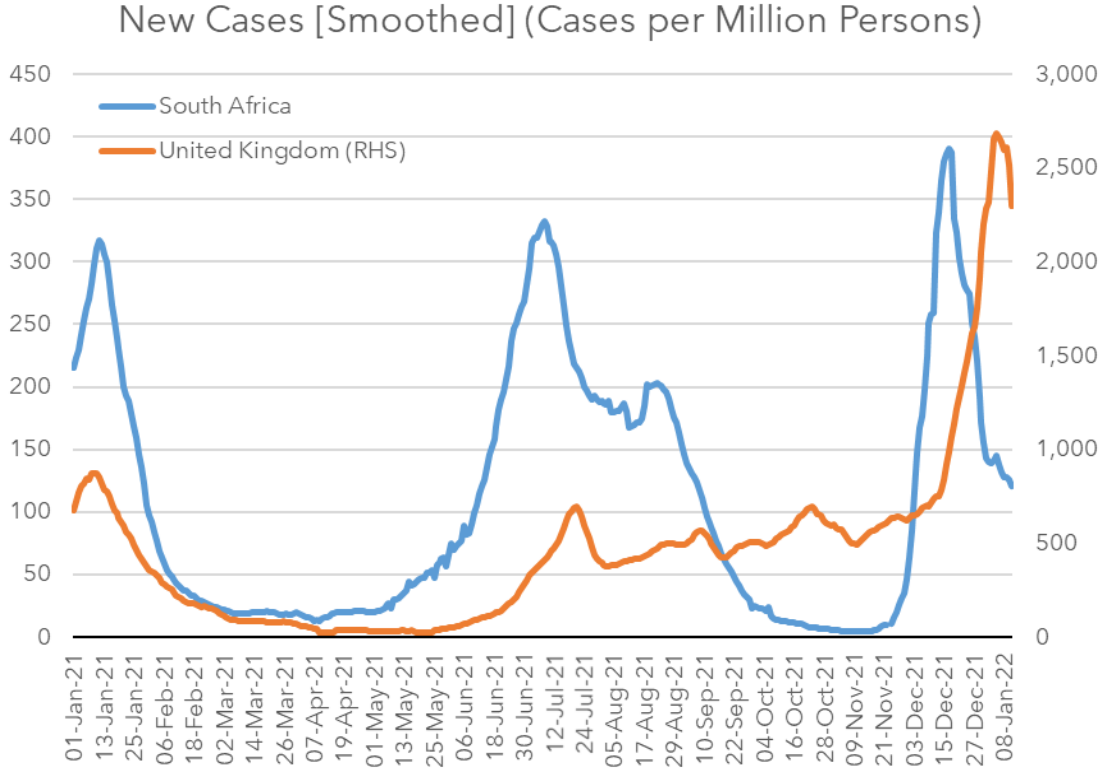
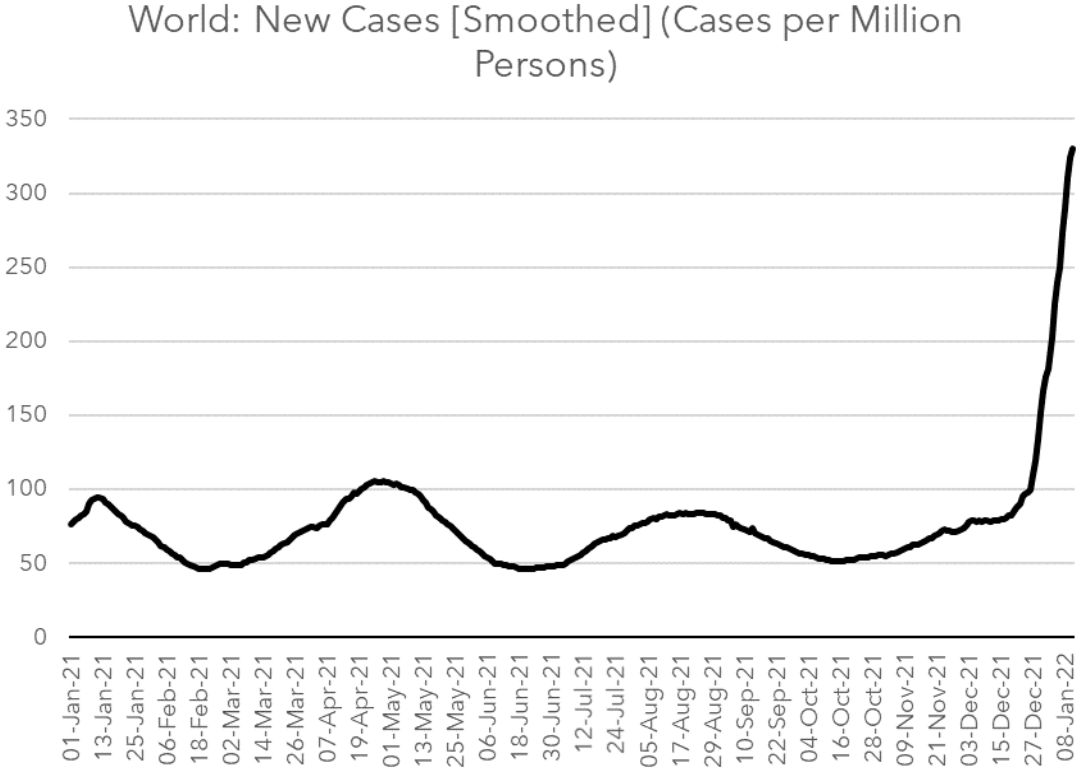
Source: The Conference Board

*Units: Quarterly growth rates are QoQ SAAR unless otherwise noted.
Annual growth rates are year-over-year unless otherwise noted



Global Outlook

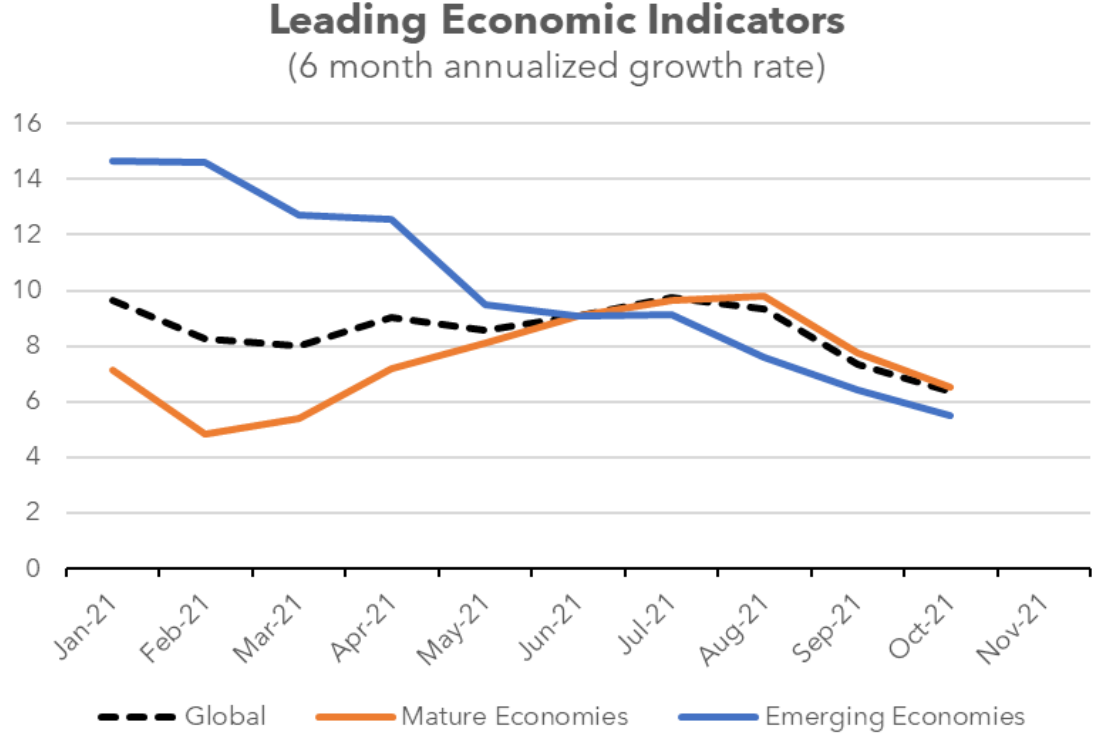
Confirmed covid cases are surging once again: is this time different?



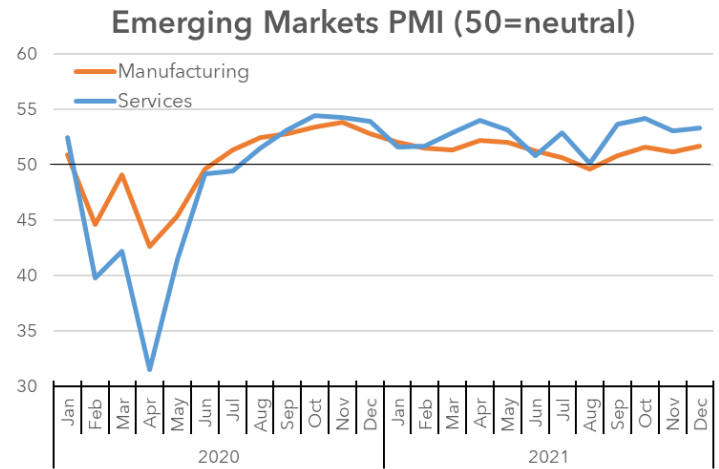
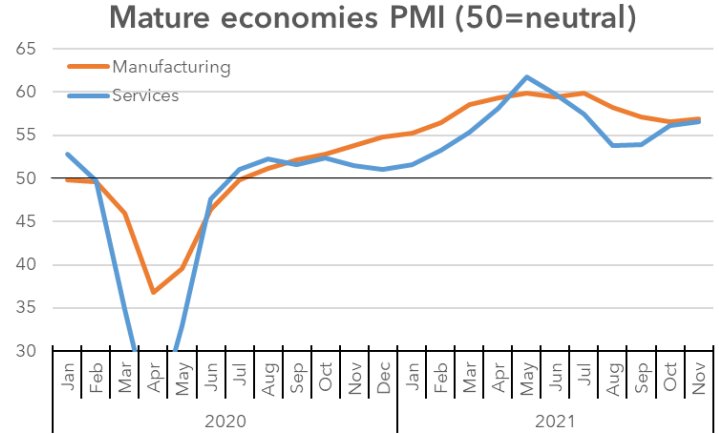
Source: The Conference Board calculations using Haver Analytics.



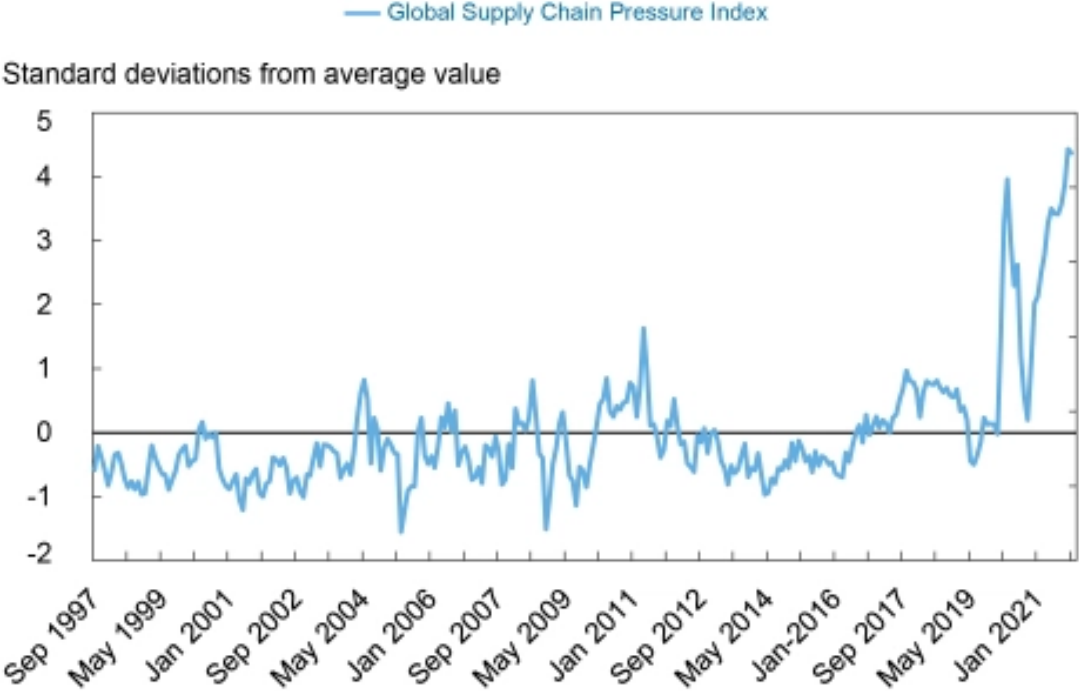
Recent data point to continued growth momentum, but it may be slowing. Emerging markets slowdown may be driving this.



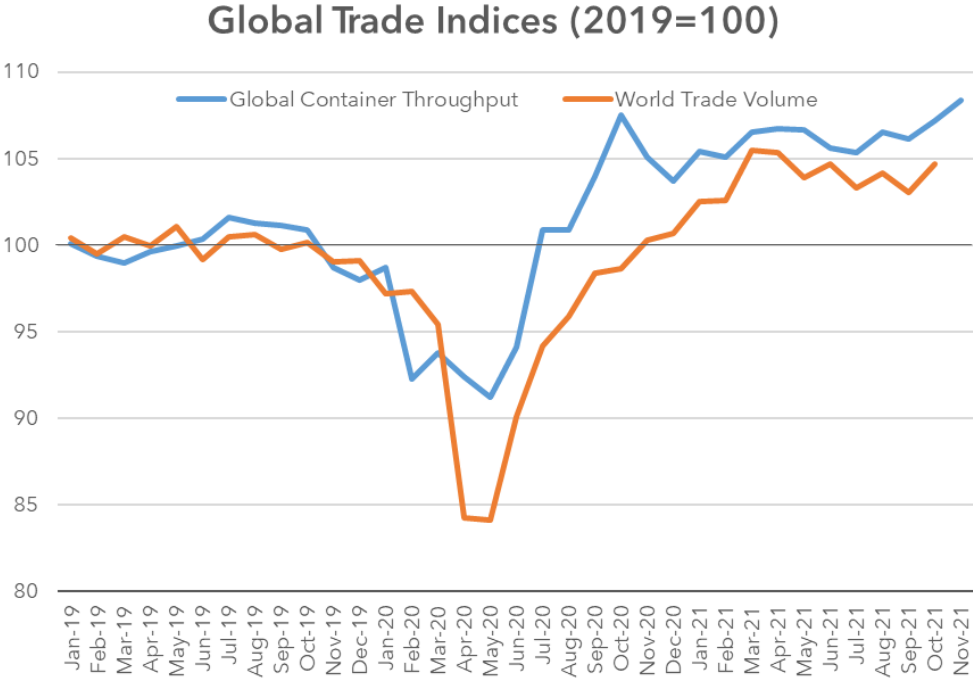
Source: Leading Economic Indicators from [The Conference Board Global Business Cycle Indicators](#); PMI data sourced from Haver analytics.



Have supply chain pressures peaked recently?



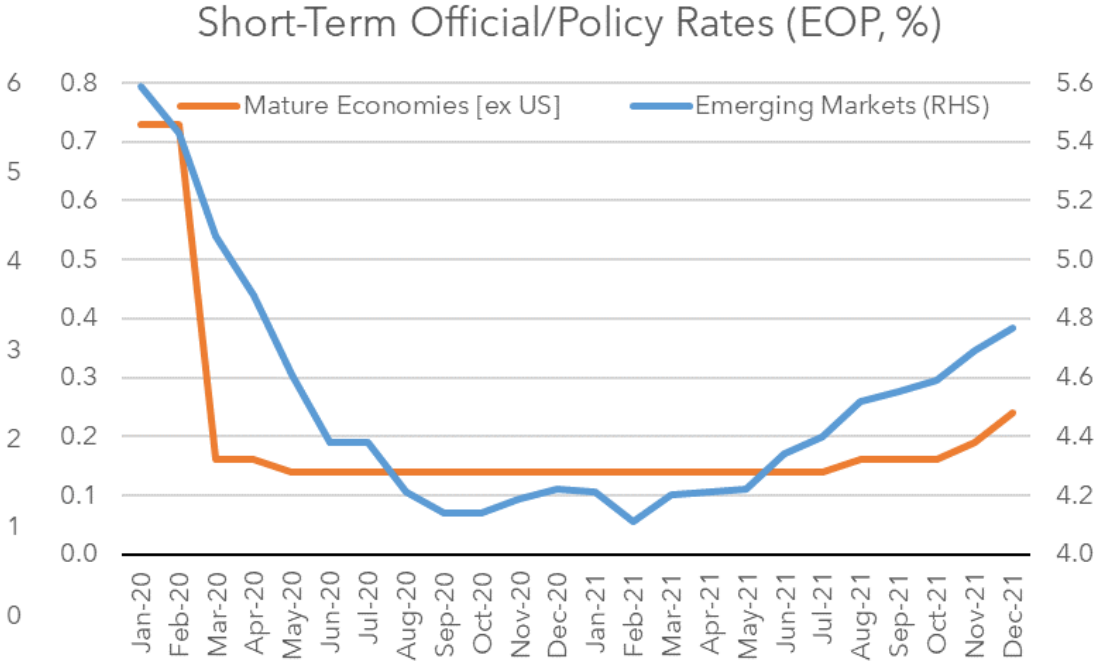
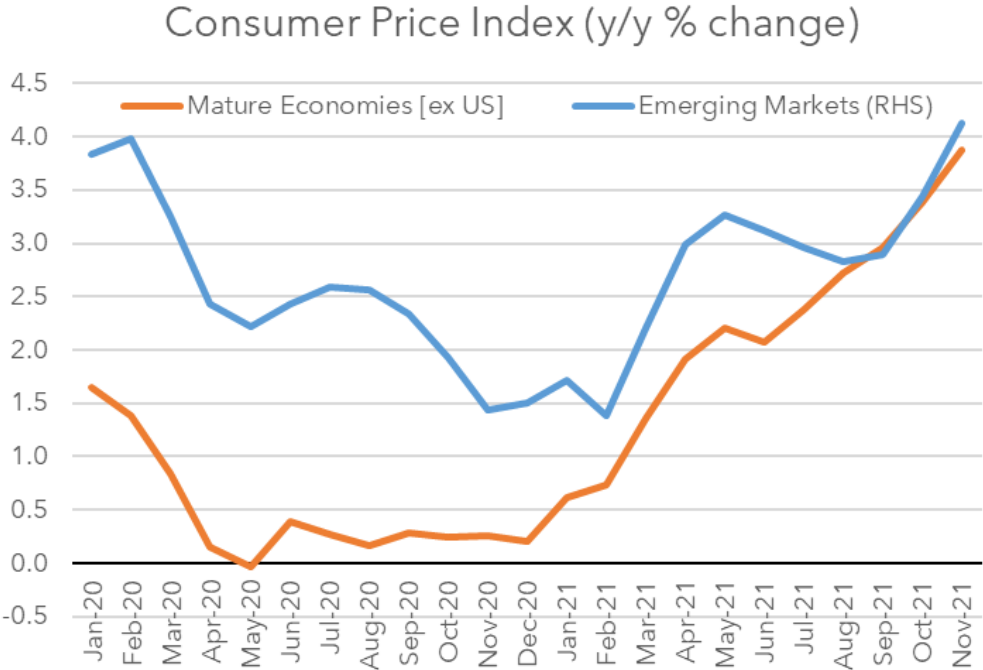
Source: Global Supply Chain Pressure Index:
<https://libertystreeteconomics.newyorkfed.org/2022/01/a-new-barometer-of-global-supply-chain-pressures/>



Source: The Conference Board calculations using Haver Analytics.



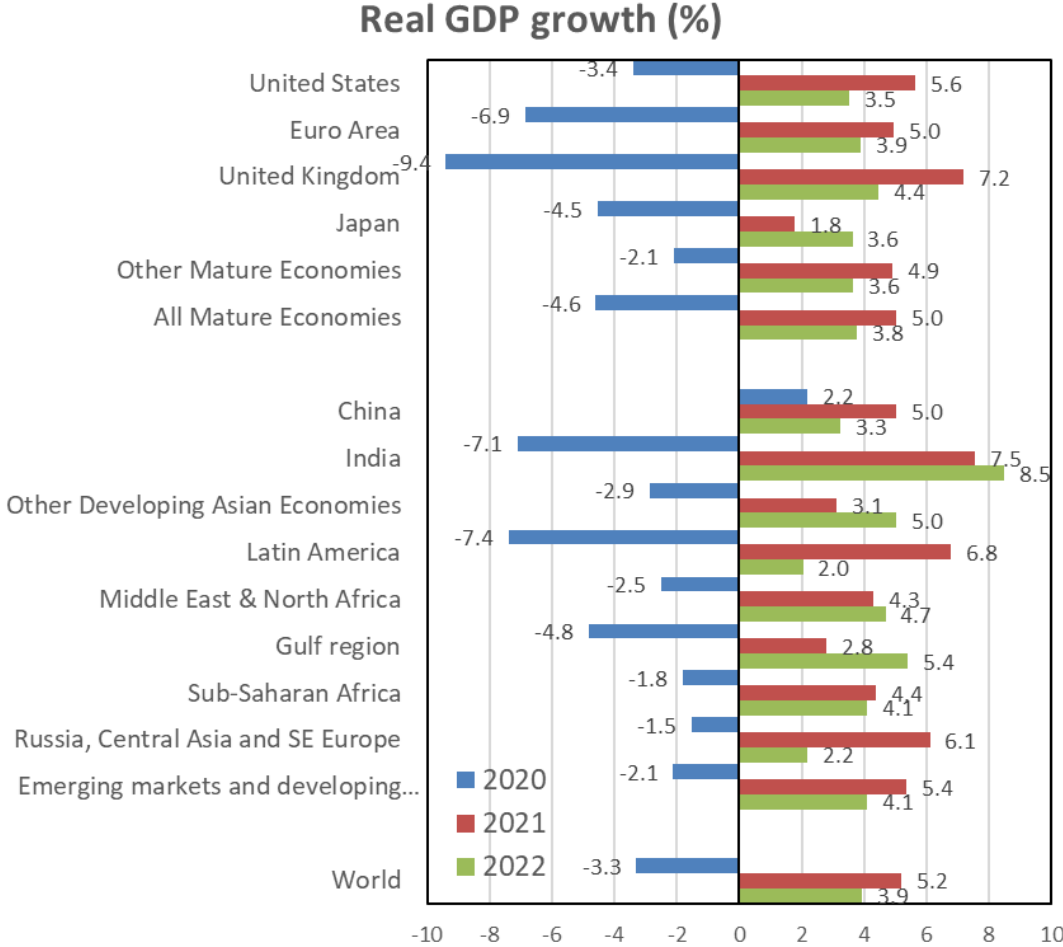
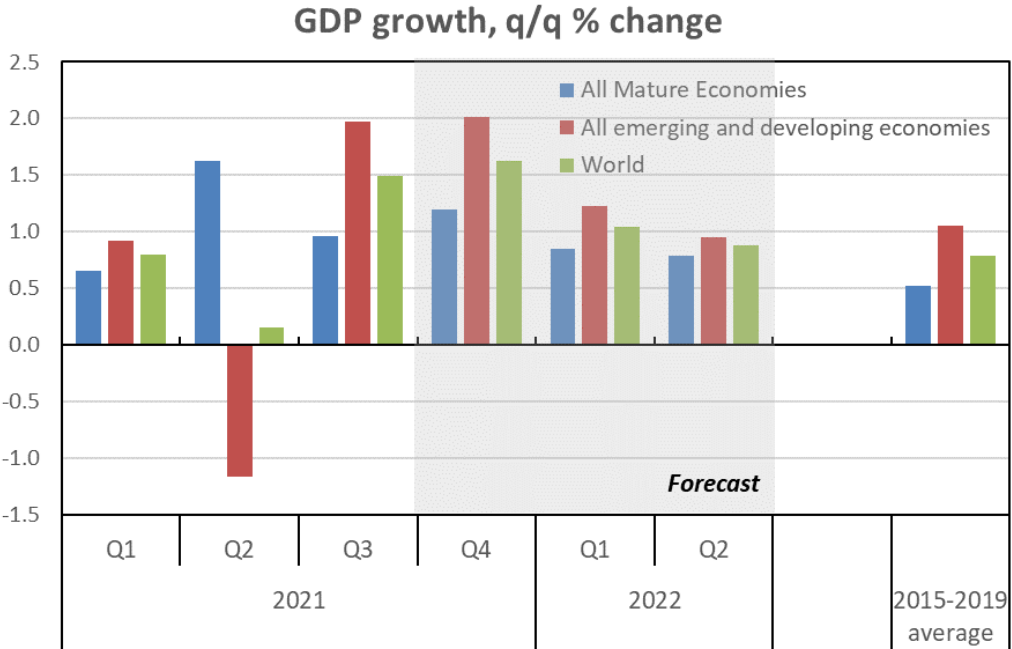
Inflation will remain elevated despite moderating somewhat in 2022



Source: Dallas FED Global Economic Indicators.



Global growth likely to moderate this year, slowing down from the second half of 2021



Source: [The Conference Board Global Economic Outlook \(January 2022\)](#).



The 2022 US Labor Market

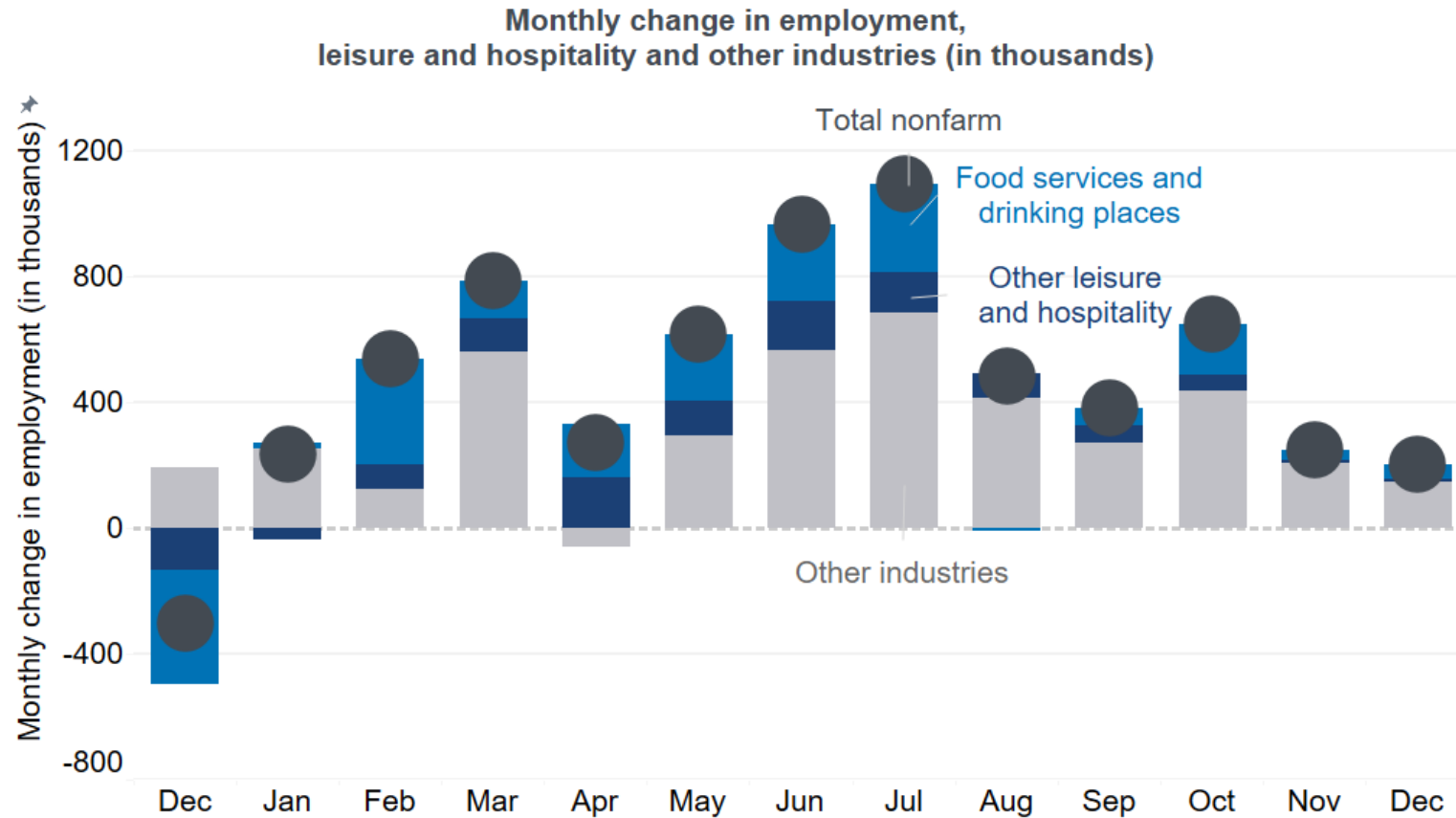
Audience Poll Question

Labor Market Update and Outlook for the US

- Labor Market Update:
 - ✓ After Delta, now Omicron is disrupting job growth.
 - ✓ The economy is still in a reopening stage in in-person services industries
 - ✓ Labor shortages are still severe and employers struggle with the Great Resignation.
 - ✓ Wages are rapidly rising, especially for manual workers.
 - ✓ Many older workers have retired early.
- Labor Market Outlook:
 - ✓ Severe labor shortages will stay with us in 2022 and beyond.
 - ✓ Wages will likely continue to rise.
 - Especially for new hires and job-switchers.
 - But also for existing workers as 2022 salary increase budgets will increase.
 - ✓ Corporate profits may suffer as labor and other input costs rise.
 - ✓ Faster wage growth could lead to faster inflation.



Job growth has slowed since the summer as Delta and now Omicron hinder the reopening of the US economy

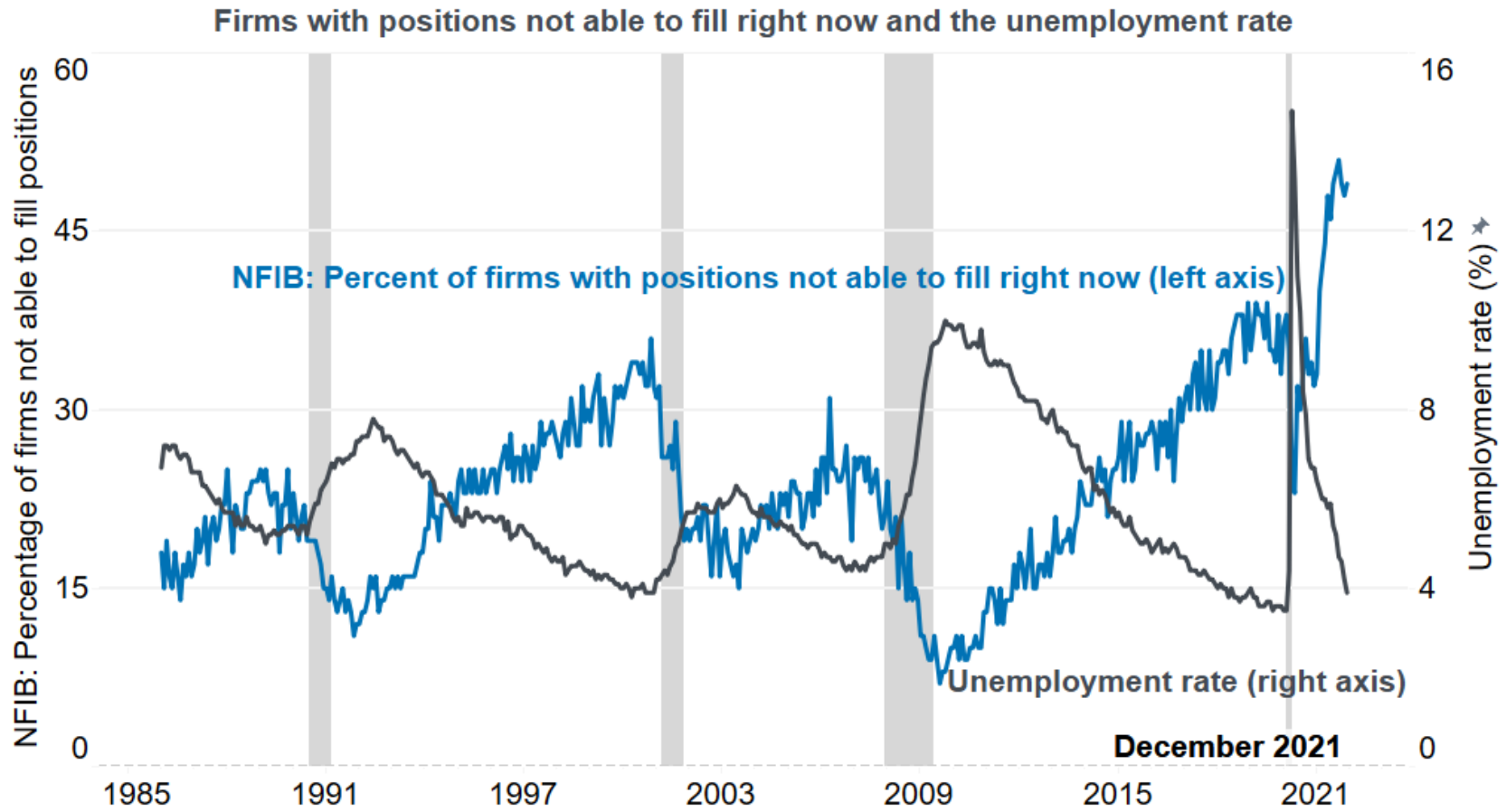


Source: US Bureau of Labor Statistics

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Recruiting difficulties remain historically high

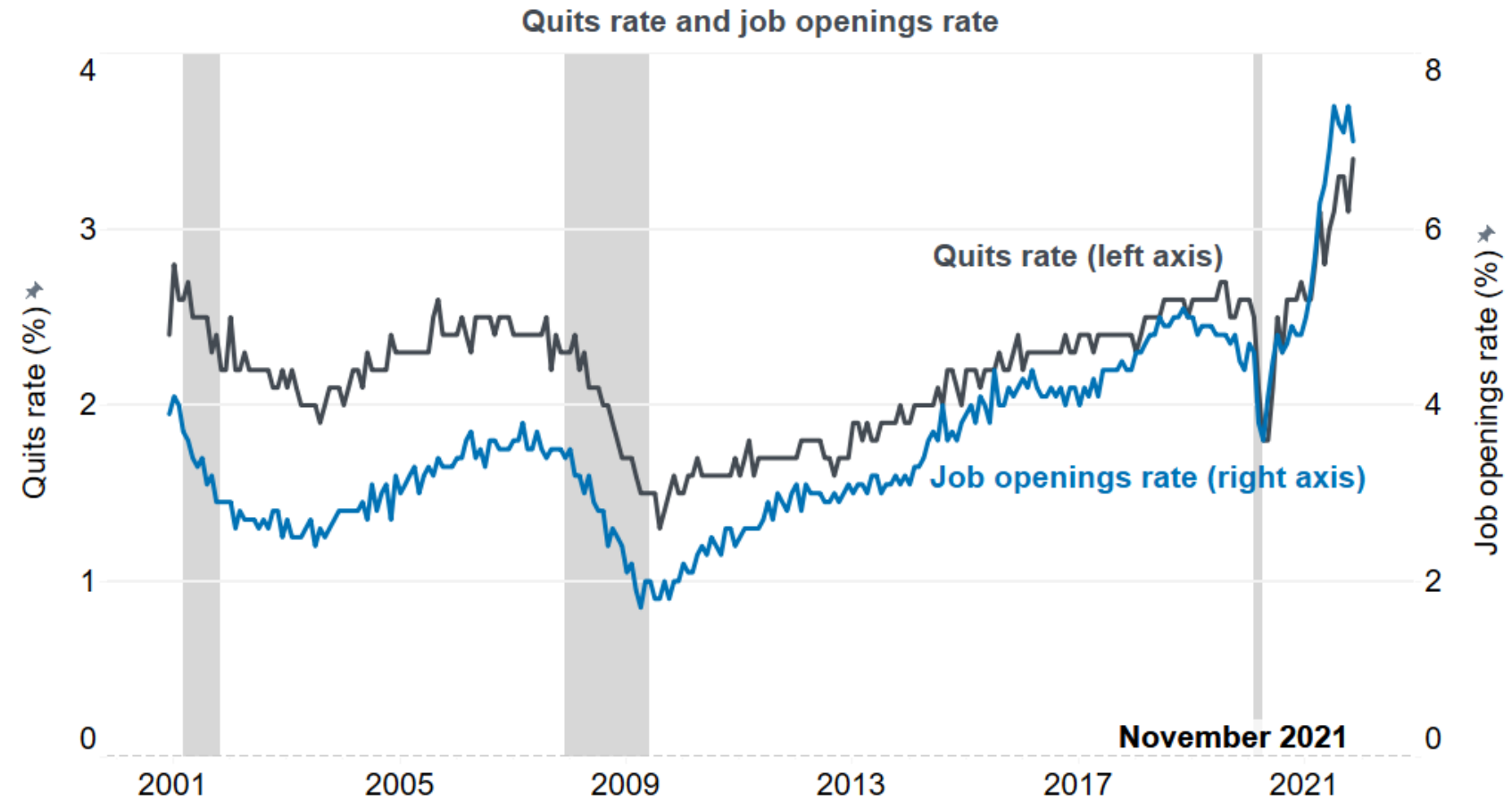


Sources: National Federation of Independent Business;
US Bureau of Labor Statistics

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Both job openings and voluntary quits remain historically high

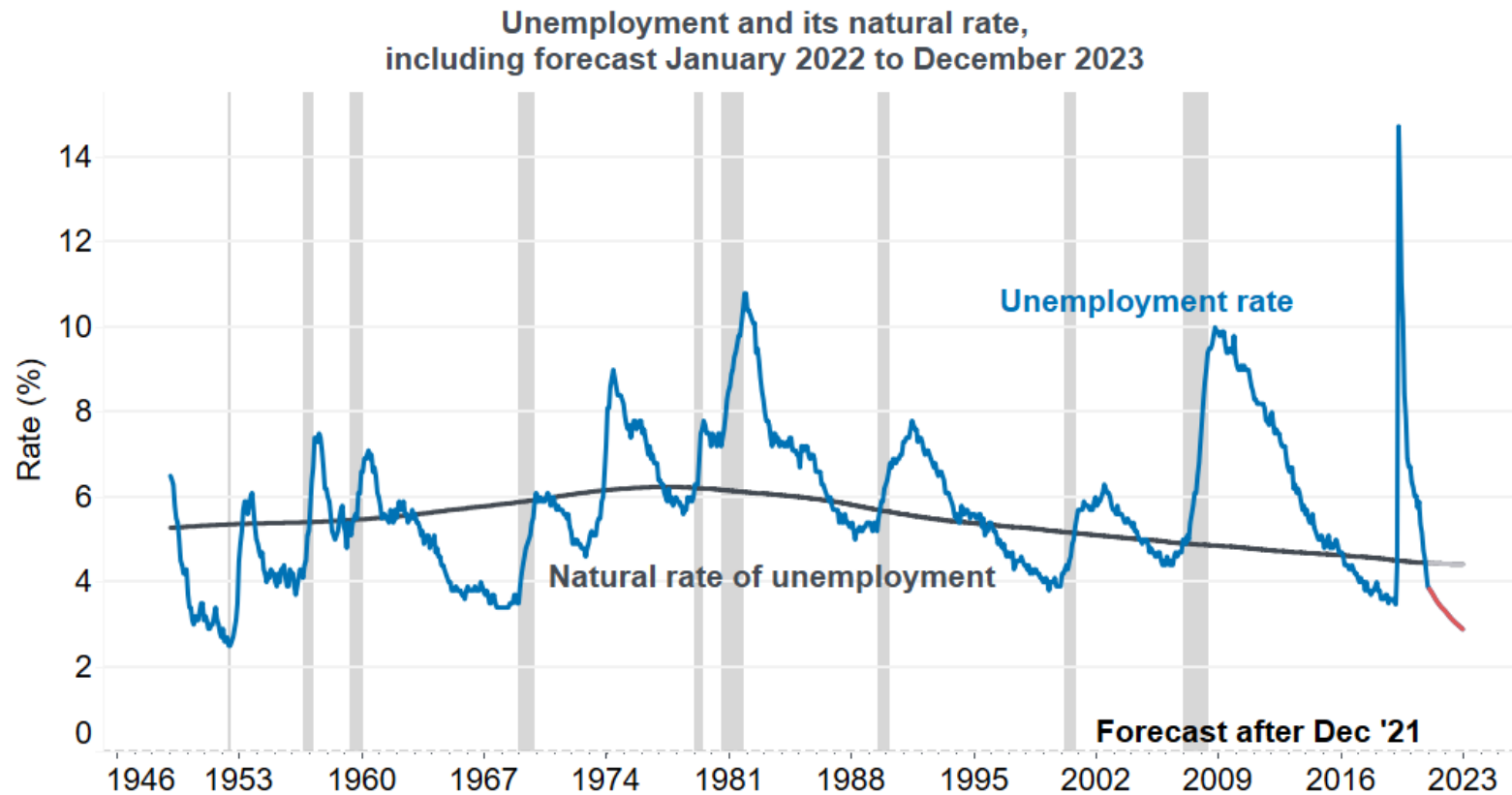


Source: US Bureau of Labor Statistics

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The unemployment rate has dropped below 4 percent and is expected to approach 3 percent by the end of 2022

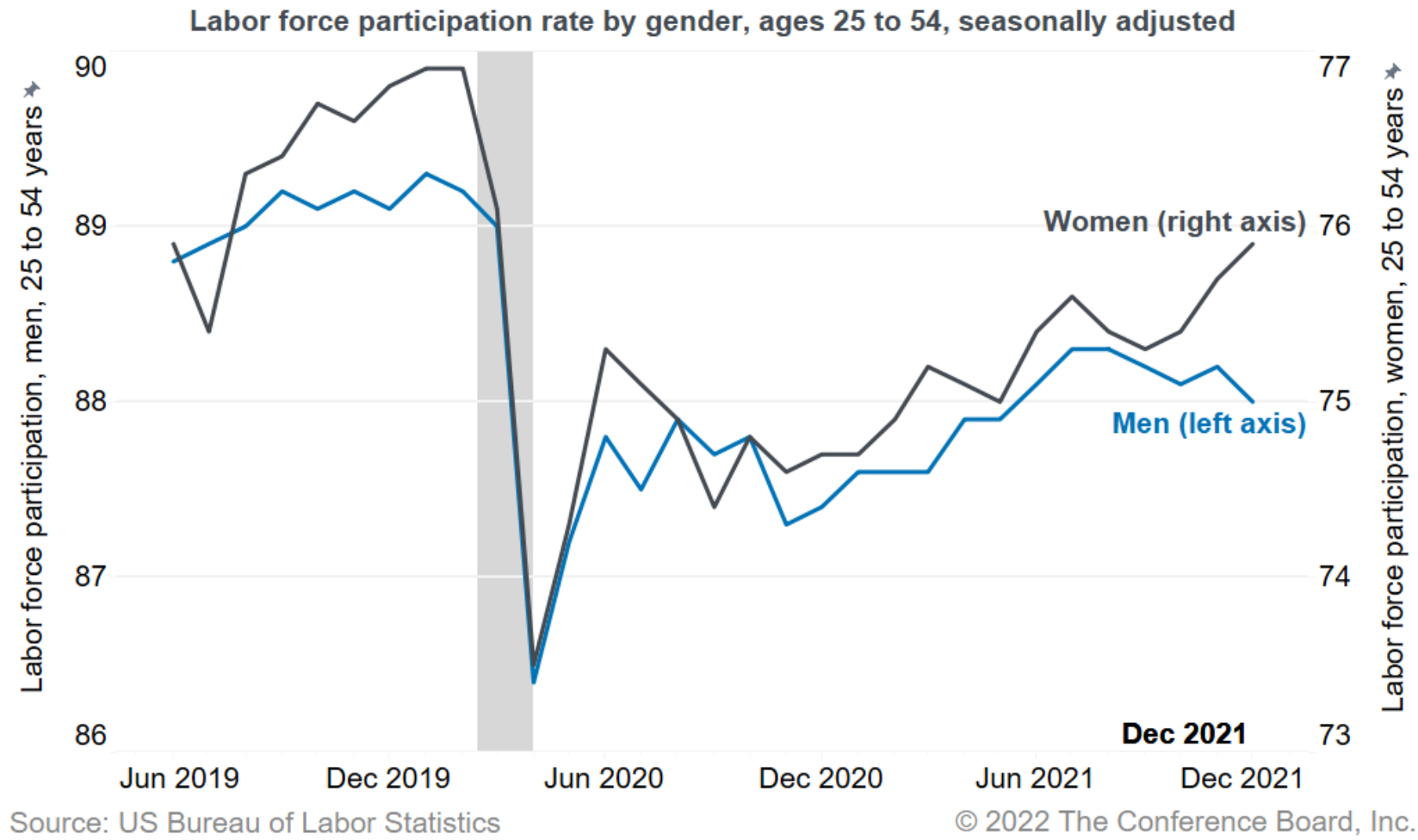


Sources: Congressional Budget Office;
US Bureau of Labor Statistics; The Conference Board

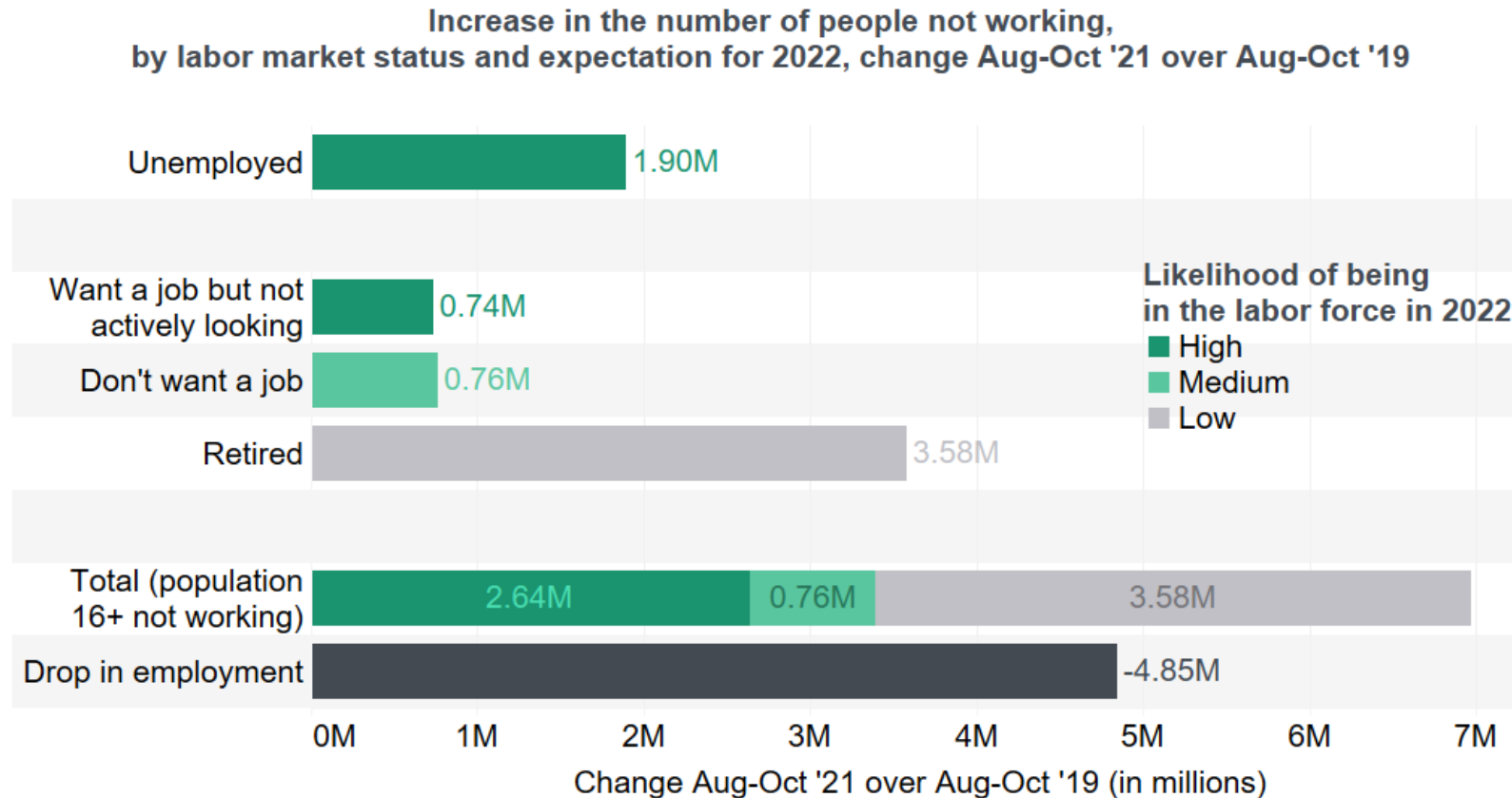
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Labor force participation remains below prepandemic rates



Early retirement is the main reason for leaving the labor force

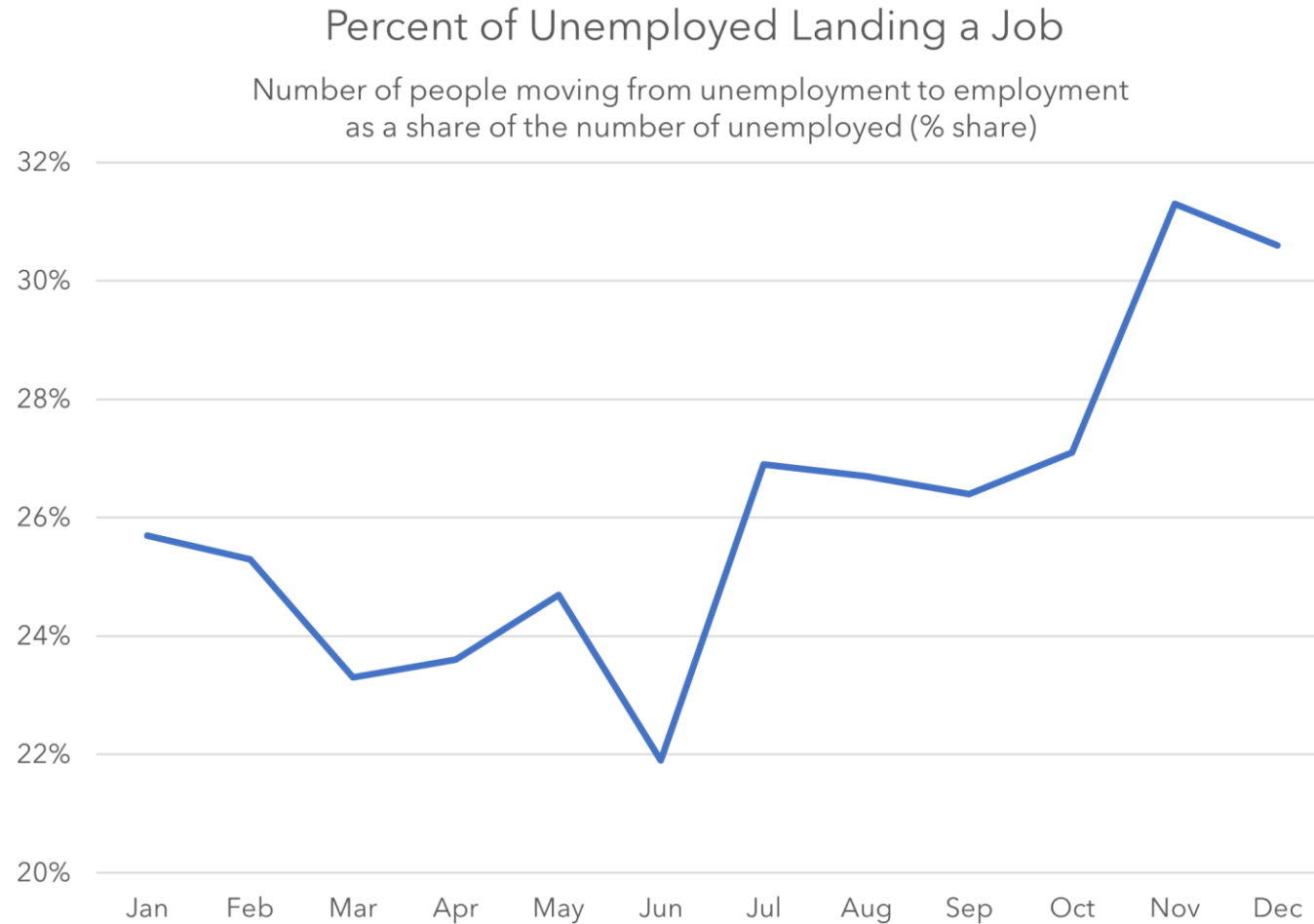


Source: The Conference Board calculations on microdata from IPUMS-CPS, University of Minnesota

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Unemployed people are now finding a job more rapidly compared to early 2021

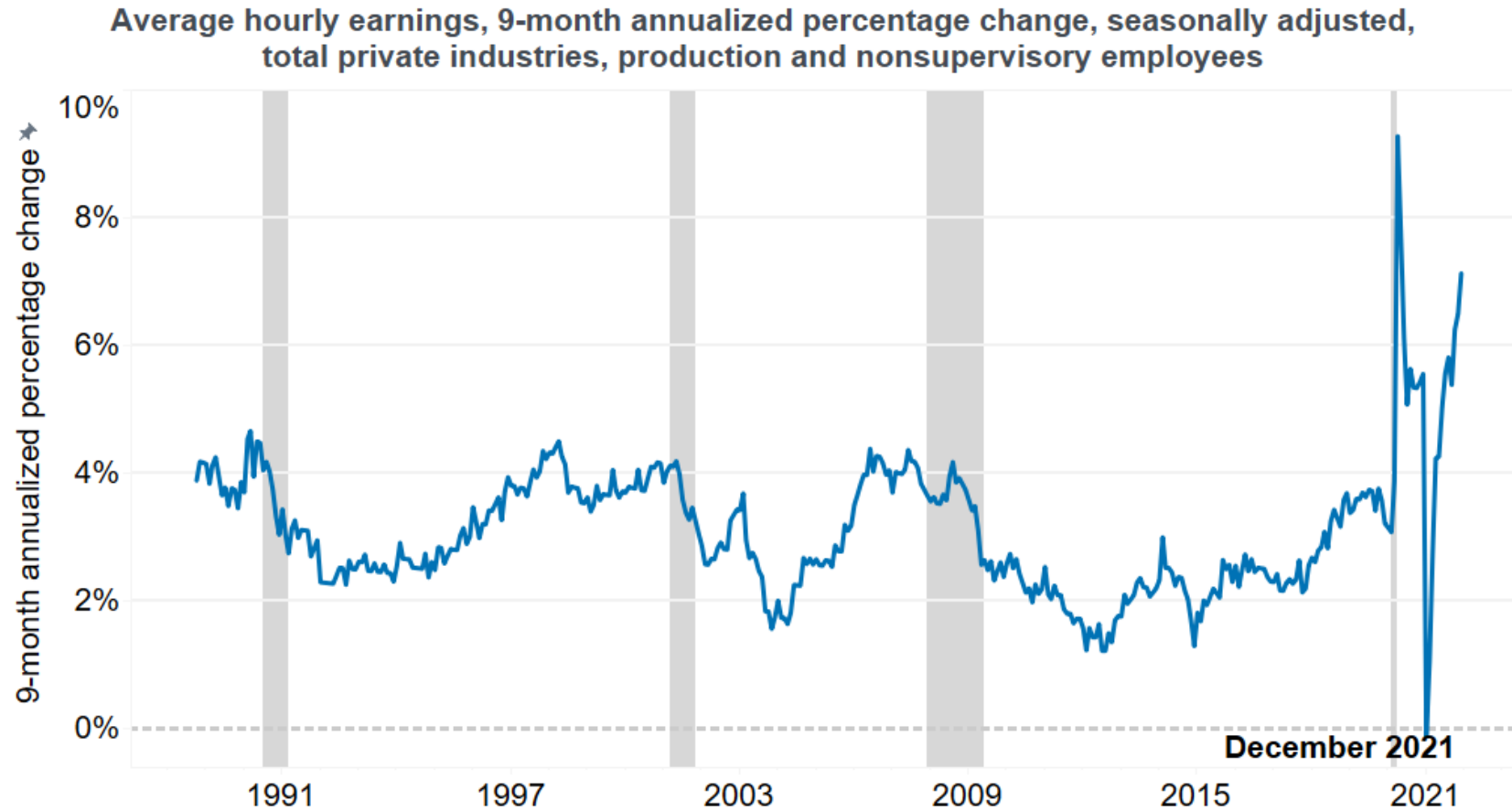


Source: BLS, The Conference Board

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Wages are growing historically fast

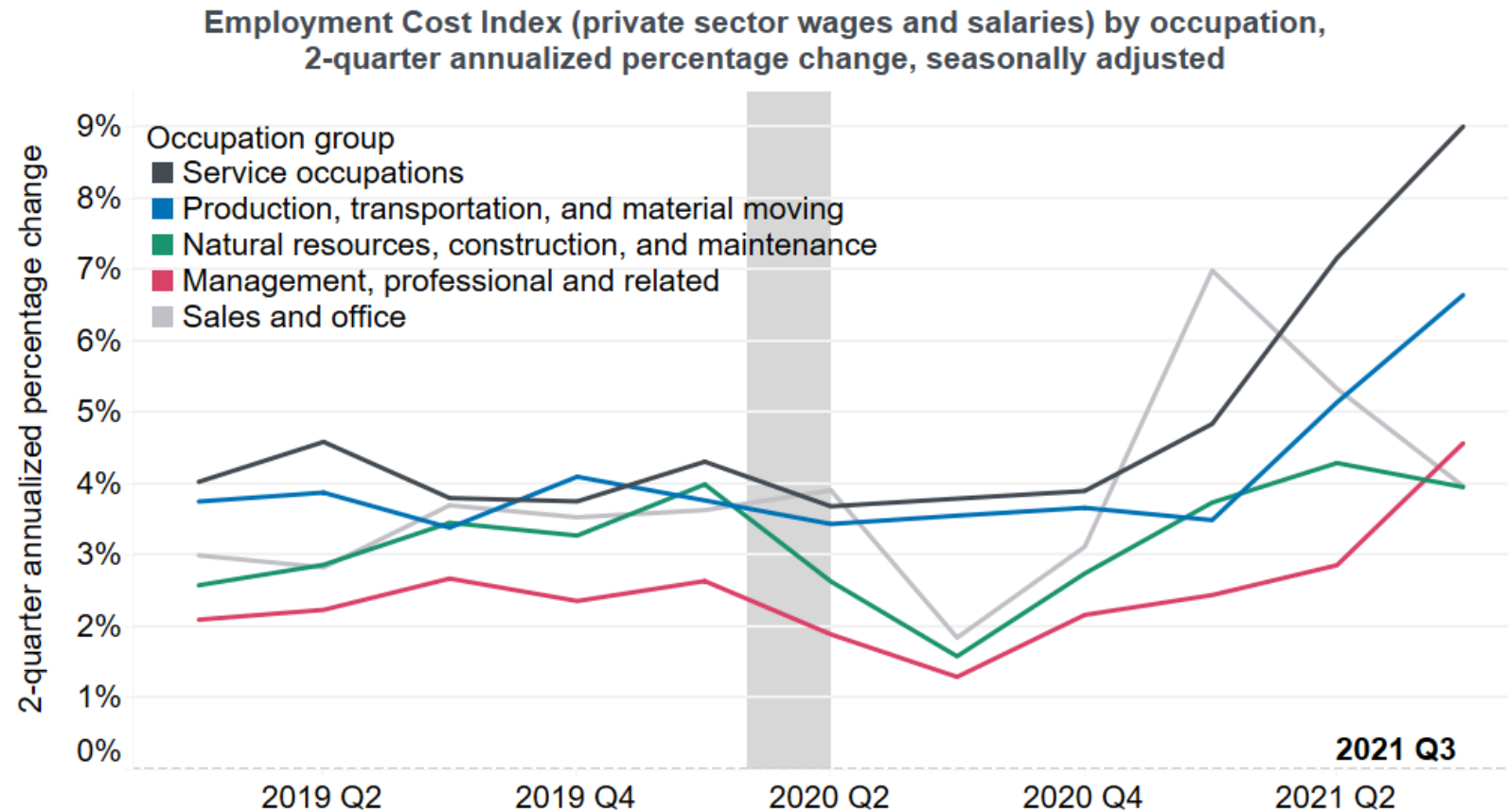


Note: Shaded areas represent recessions.
Source: US Bureau of Labor Statistics

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Wages have been rising especially fast in service and blue-collar jobs since the start of 2021

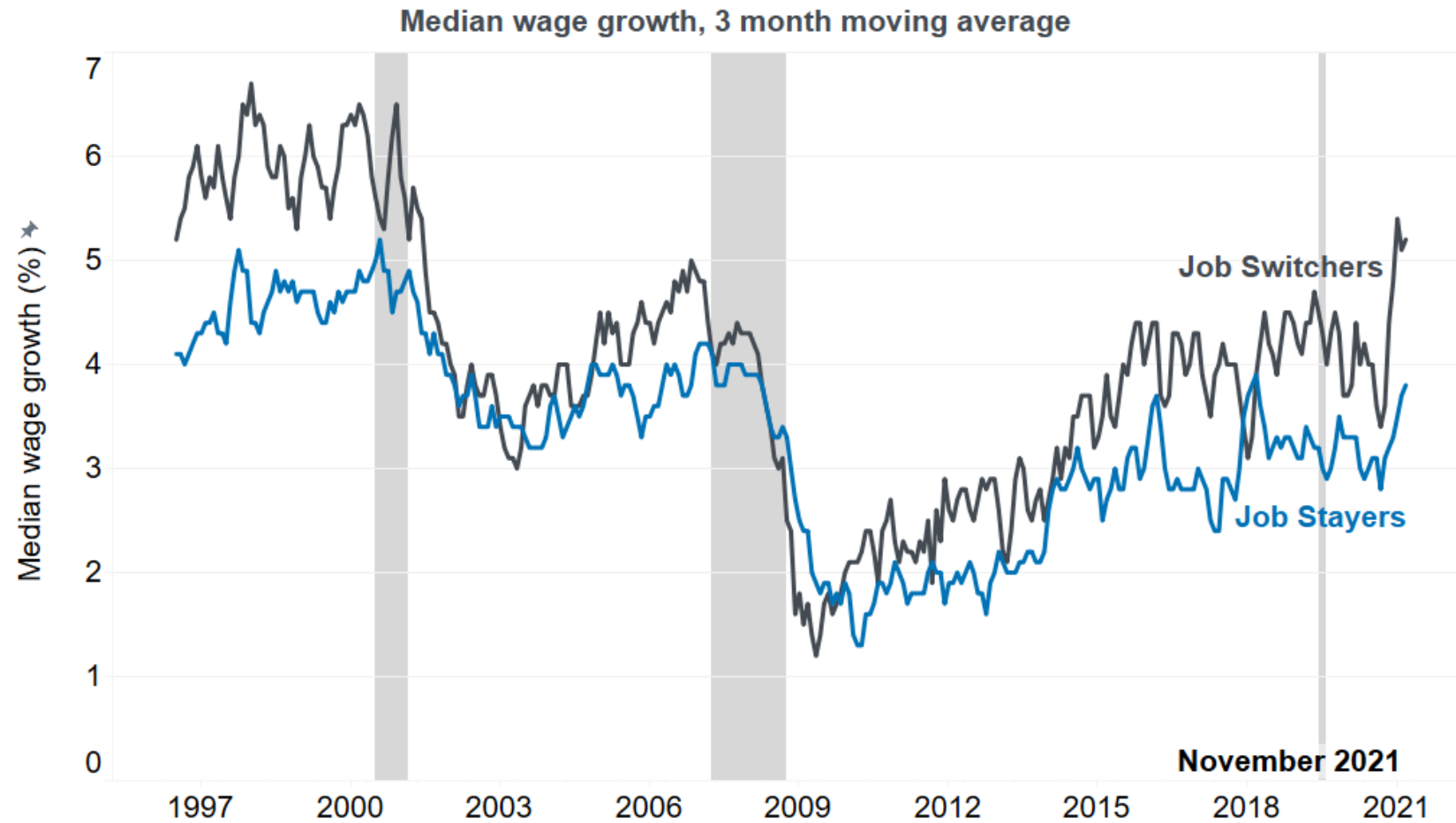


Note: Shaded area represents recession.
 Source: US Bureau of Labor Statistics

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Job switchers now receive much larger increases in wages than job stayers

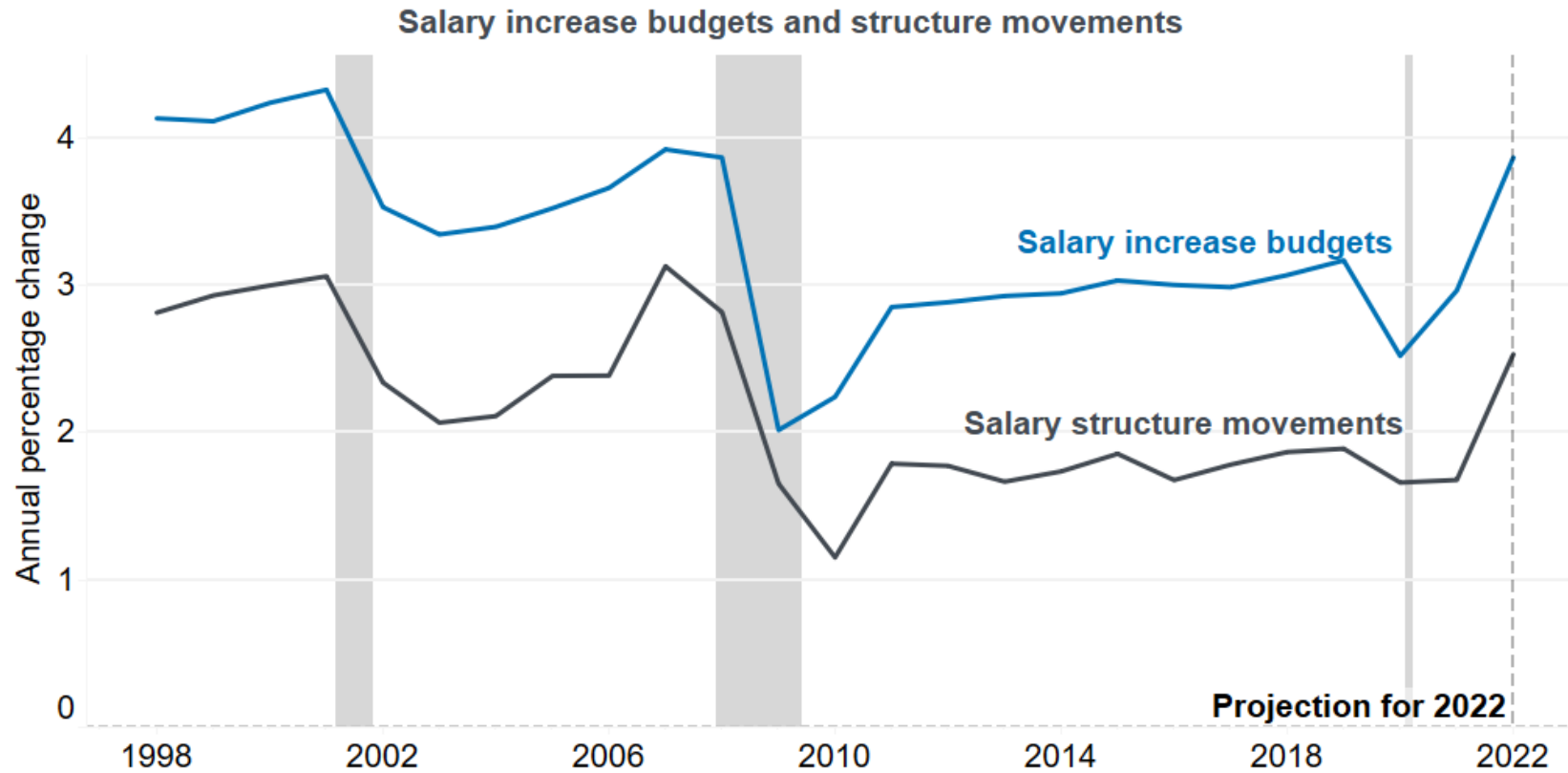


Source: Federal Reserve Bank of Atlanta

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Salary increase budgets in 2022 will be the highest since 2008



Note: The salary measures in the chart are an average of four specific groups of workers: nonexempt hourly (nonunion), nonexempt salaried, exempt, and executive;

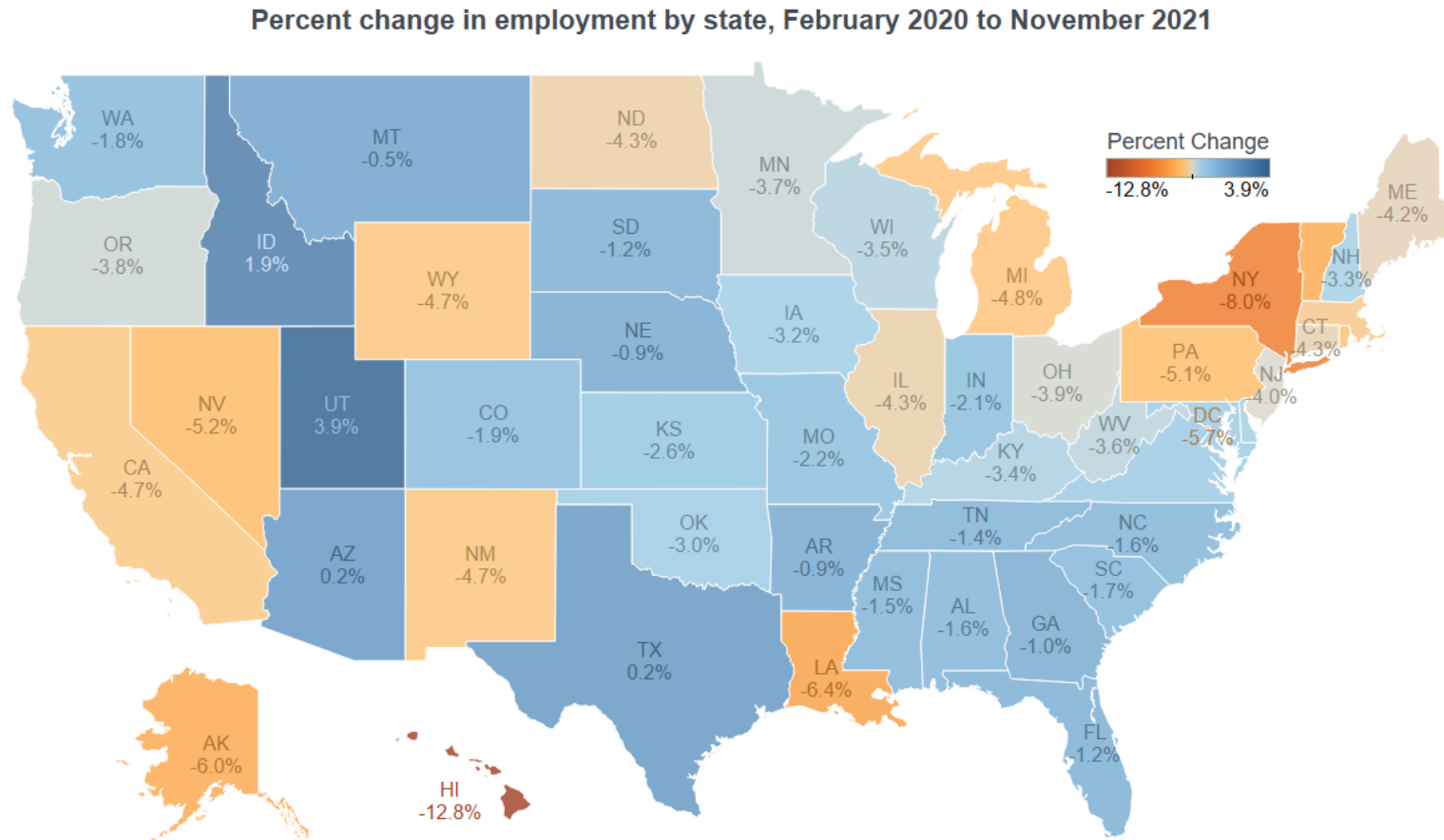
Shaded areas represent recessions.

Source: The Conference Board

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Large variations in job recovery exist across states, with the Northeast and Pacific regions lagging



Source: US Bureau of Labor Statistics

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*Featuring: Gad Levanon, Vice President,
Labor Markets*



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