The Daily Dish

Has the Fed Cooled the Labor Market?

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Tomorrow the Bureau of Labor Statistics (BLS) will release the October data for the Consumer Price Index (CPI). Year-over-year growth in the CPI is expected to come down to 3.3 percent from 3.7 percent in September, while core CPI is expected to remain unchanged at 4.1 percent. With the goal being to return both measures to the 2 percent target, it is clear that the Federal Reserve has some more work to do (although this does not mean that it has to raise rates further).

In his discussions of the outlook, Chairman Powell has emphasized the need for a sustained period of sub-trend economic growth. This has the corollary that the growth in the demand for labor must decline as well. Some that is closely debated with each monthly employment report.

The chart (below) takes a quick look at this issue through the perspective of "total" demand for labor – the sum of actual employment and job openings. Job openings got considerable attention when they peaked at over 12 million, well above the 7.5 million in January 2019. Job openings are down to roughly 9.5 million.

What story does total demand for labor tell? In 2019, growth was low and steady, averaging 1.3 percent. With the onset of the pandemic, total demand went on a roller-coaster ride. It plummeted in 2020 but skyrocketed early in 2021 with the monetary and fiscal over-stimulus.

Following the onset of the Fed's financial tightening in 2022, the growth in total demand has dropped steadily, averaging 1.7 percent over the past 12 months. That is close to the pace during the low-inflation growth era prior to the pandemic and bodes well for the future level of inflation.

There can be little doubt about two things. The Fed has made considerable and steady progress in cooling the labor market. That said, inflation is stubborn and difficult to wring out of the economy – a lesson that was learned painfully four decades ago and forgotten in the interim.

