



The Daily Dish

The Labor Market and Recession

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With the November employment report just around the corner (it will be released this Friday), Bloomberg ran a story entitled: “[There’s a Job-Market Riddle at the Heart of the Coming Recession](#).” Its basic message: “This time around, workers have a better-than-usual shot at holding onto their jobs if recession arrives.” Well, not everyone. As the article points out: “white-collar industries including business services, tech, banking, and real estate, where staffing numbers are far above pre-Covid levels and layoffs have already begun, maybe more vulnerable to job cuts.”

But across the economy, the story is a bit different: “‘Business contacts are telling us that they plan to keep workers even as the economy slows because it was just so difficult to attract them and retain them over the last few years,’ Cleveland Federal Reserve Bank President Loretta Mester [said](#) on Nov. 10. ‘That would be a good thing in the sense that the unemployment rate would not have to go up as much.’”

Certainly, we’ve seen something like this already. The growth of gross domestic product was negative in the first two quarters of this year, even as employment rose steadily. Hiring more workers to produce less is an extreme form of labor hoarding. And companies may be trying to continue with this strategy.

But here’s the rub. The idea is that firms keep the same workers even as demand for goods and services fall. But if workers continue to get paid, they will continue to spend and it will be much more difficult to have demand fall. The more successful firms are holding onto workers, the more restrictive the Fed must become. Firms can be quite limited in providing wage increases – meaning that inflation-adjusted wages and purchasing power are falling – and this will be a mechanism for reducing demand for goods and services. But eventually, it may be the case that layoffs become the essential element of reducing excess demand for goods and services.

The gold standard for anti-inflation performance is a soft landing – inflation falling to its 2 percent target without a recession. This remains a possibility, but most economists expect some contraction in the coming year or so. The evolution of the labor market is central to the scale of distress that must be endured in any recession.