SWPA Blog #2: The Pennsylvania Labor Market—How Great the Resignation?

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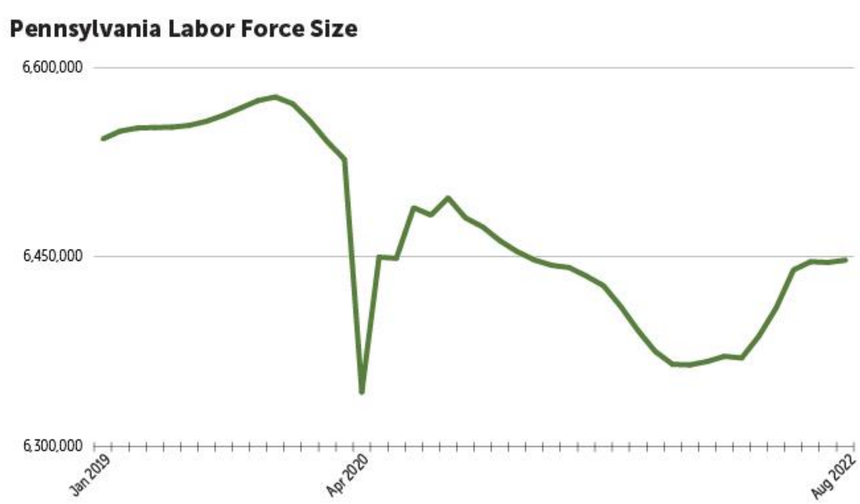
Keystone Research Center released the complete "State of Working Pennsylvania 2022" (SWPA 2022) on August 30. We noted that the economy is performing well from the perspective of regular workers with wages rising across the board; low unemployment; and more job openings than unemployed workers, giving workers bargaining power with employers. We also noted that this positive situation will only last if federal and state policies are supportive of workers over the next several years. Since the full SWPA 2022 report is long, we are rereleasing the report in updated and sometimes abbreviated topical bites. To access the full report and other SWPA resources (press release, video of press webinar, PowerPoint presentation, op-eds, and media coverage), please visit our SWPA 2022 resource page.

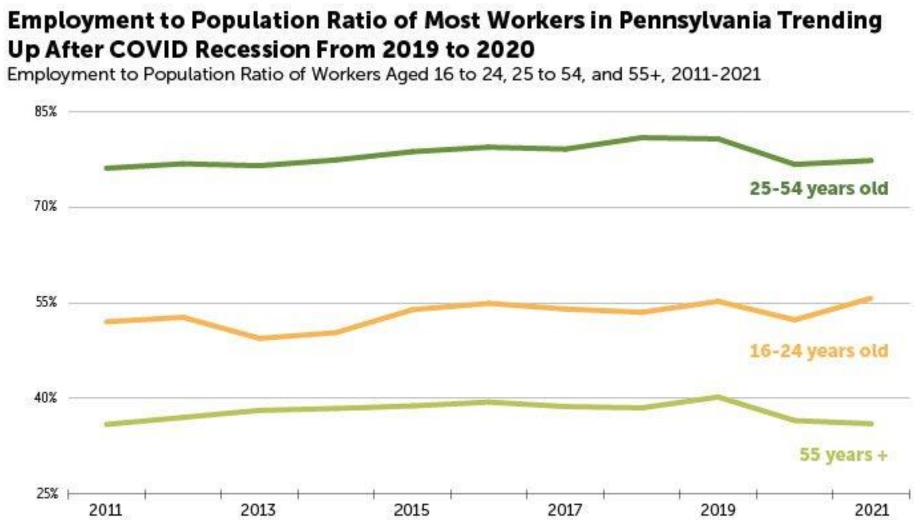
This second SWPA blog entry looks at the state of the Pennsylvania labor market. The story it tells is of a tight labor market in which workers have some leverage, relative to employers. July data on the number of job openings relative to the number of unemployed workers—when this ratio is high, workers have bargaining power—show some loosening of the labor market, a possible result of Federal Reserve Bank interest rate increases. This is a warning sign for workers—if federal and state policies push too hard towards inflation control and austerity, workers will lose what leverage they have and, in the transition to lower inflation, they will experience real wage cuts.

Our previous entry on the overall economy noted Pennsylvania's unemployment rate is 0.8 percentage points lower than before the pandemic—but we have 111,000 fewer jobs than before the pandemic. Low unemployment but fewer jobs is an unusual combination because lower unemployment usually corresponds with more jobs. The explanation for this anomalous combination is that Pennsylvania has a smaller labor force now than before the pandemic. As the figure below shows, between April 2020 and August 2022, the labor force number decreased by 234,000 (or 2%) from its pre-pandemic peak and as of August 2022 remained 129,000 short of that peak level.



Source. Keystone Research Center based on Bureau of Labor Statistics and Local Area Unemployment Statistics (LAUS) series ID: LASST420000000000006.

Which demographic groups account for the decline in the Pennsylvania labor force? The figure below shows that the decrease in the labor force reflects a drop in two age groups: what economists call "prime-age" workers—people aged 25 to 54—and in the older population (55+). In the prime-age population, the decline could reflect family responsibilities, including the need to provide child care for children home from school and/or concerns about bringing the virus back home from a workplace (or into the workplace if children become infected in school). There was a small recovery in the share of prime-age adults working in 2021 compared to 2020. The same recovery isn't seen in workers aged 55+, some of whom retired permanently and others who want to work but still have concerns about increased risk of infection if they return to working outside of the home.



Source: Keystone Research Center based on Current Population Survey microdata accessed through the Economic Policy Insitute Data Library, https://swx.epi.org/.

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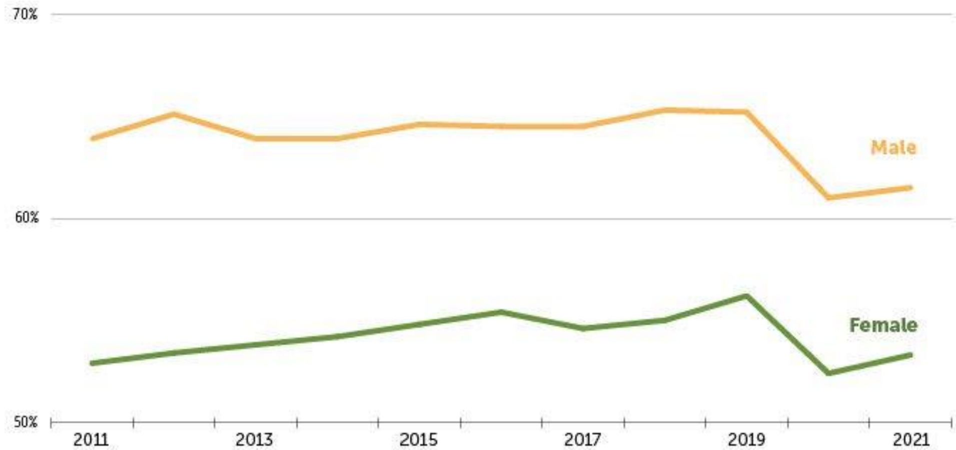
The next figure shows that the employment-to-population ratios for women and for men both declined by about two percentage points in 2020 and then increased by roughly one-half of a percentage point in 2021.

Pennsylvania Employment to Population Ratio Starting to Recover After COVID Recession for Male and Female Workers

Employment to Population Ratio for Males and Females in Pennsylvania, 2011-2021



Source: Keystone Research Center based on Current Population Survey microdata accessed through the Economic Policy Insitute Data Library, https//swx.epi.org/.

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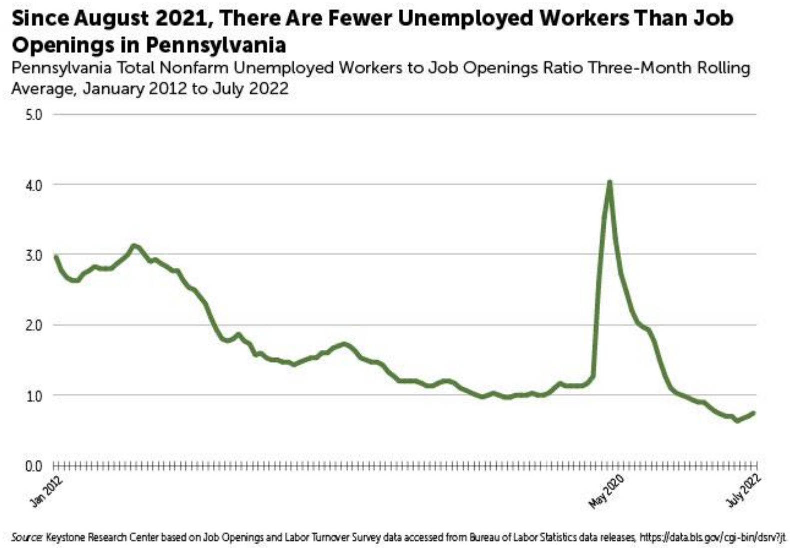
While modest, the decline in the Pennsylvania labor force and in the number of older and prime-age workers seeking employment has produced the tightest labor force in decades—although there was some loosening of that labor market in July. The tightness of the labor market can be gauged using a new data set available monthly since December 2000—the Job Openings and Labor Turnover survey (JOLTS). JOLTS directly measures job openings in each state: separations because of workers quitting and because of employers laying off workers or discharging them.

In August 2021, the number of job openings rose above the number of unemployed people for the first time in the nearly 22 years that the Bureau of Labor Statistics has collected JOLTS data. In July 2022, there were 7.5 unemployed Pennsylvania workers for each 10 reported job openings in the state (i.e., an unemployed-workers-to-job-openings ratio of 0.75, as shown in the next chart). That is an uptick from 6.3 unemployed workers for each 10 reported job openings in the state in June, an early indicator that the Federal Reserve Bank's efforts to slow down the economy to reduce inflation may be starting to make an impact.



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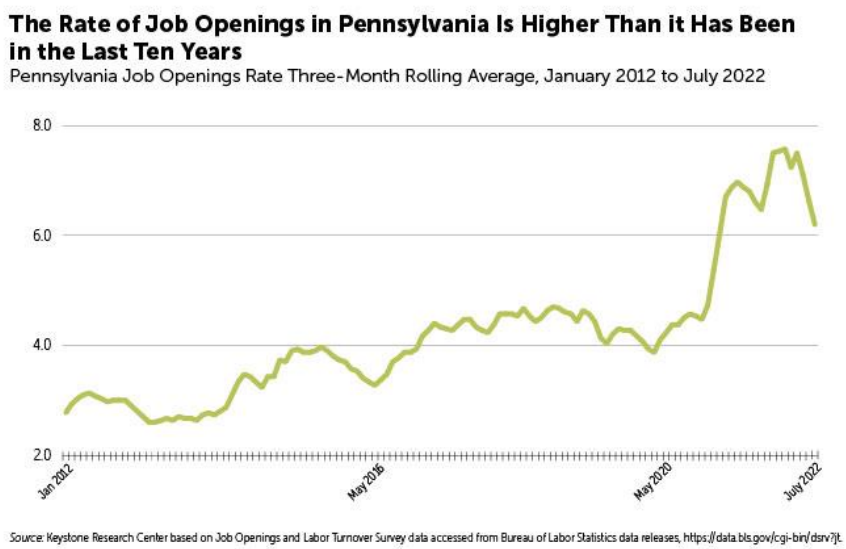
The July JOLTS report shows that the job openings rate declined to 6.2% of employment in July 2022, up from 4%–5% pre-pandemic, but down from a peak of about 7.6% in February.[1]



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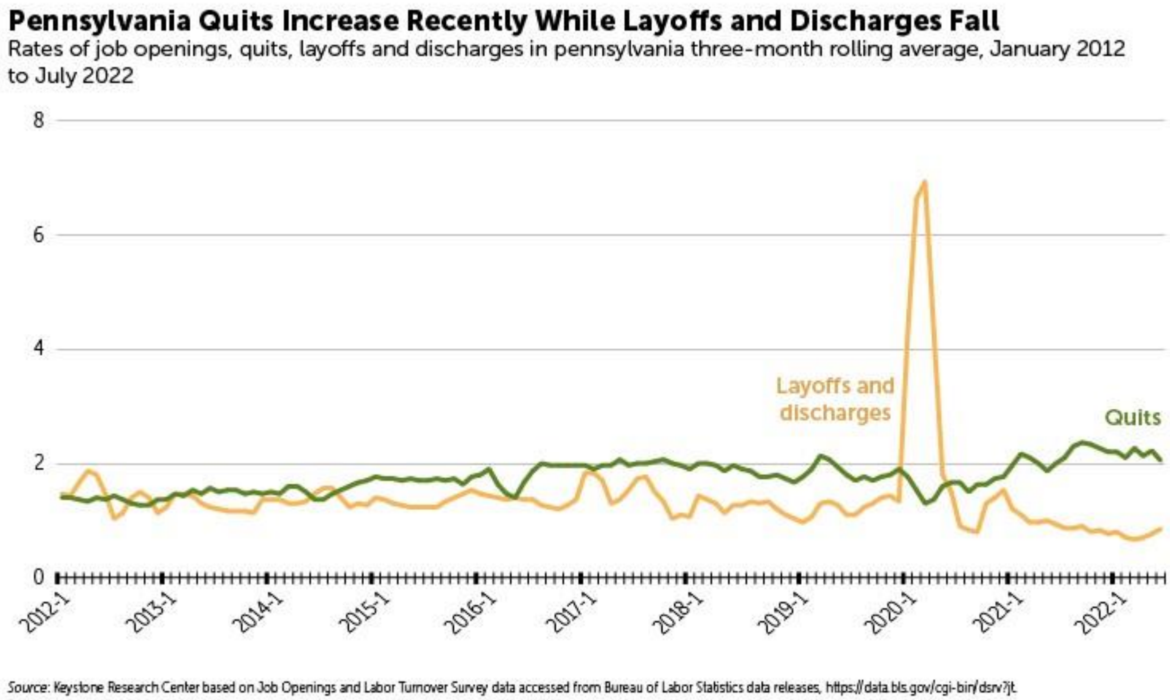
Quit rates have climbed to 2% (or a bit higher) while layoff and discharge rates have dropped to less than 1%. More workers have the freedom to quit a job they don't like now, confident they can get a new job, while employers have to think twice about firing workers because it's difficult to find replacements. This helps explain why real wages did not decline in 2021 despite rising inflation. Individual workers had the ability to win pay hikes from their employers, and many employers chose to raise pay across the board to retain more workers. That leverage may not persist if the Federal Reserve Bank slows down the economy too much.

[1] Technically, the job openings rate is defined as job openings as a percent of the total number of people employers would like to employ—i.e., employment *PLUS* job openings.

Figure 6



Our third entry of the series will analyze wage growth in Pennsylvania since 2011, starting with a recapitulation of the positive information on wage trends in SWP 2022 and then reflecting on the implications of a deliberate loosening of the labor market for wage trends this year and beyond.