



# Florida TaxWatch

COMMENTARY

## FLORIDA'S LABOR RESILIENCE: NAVIGATING THE NATIONAL COOL- DOWN AND LOCAL MARKET DYNAMICS

NOVEMBER 2023

The U.S. economy has been struggling with high inflation since the last quarter of 2022. While many factors drive inflation, the labor market plays a prominent role, especially when the labor market is strong. A strong labor market is one that favors jobseekers (also known as a hot labor market). This means there are more job openings than there are jobseekers, which leads to employers offering higher wages to maintain current staff and attract new talent. To bring down the inflation rate, a “loosening” of the labor market is necessary, but just enough to achieve a well-balanced labor market.

The current “heat” in the labor market may just be an after-effect of the COVID-19 pandemic. A commentary by Florida TaxWatch earlier this year found that recent employment data showed a cooling down in the labor market in May of 2023, the first since 2021.<sup>1</sup> A cooling down of the labor market means that the labor demand is beginning to decrease. Florida TaxWatch wants to know if this is just a one-time drop in labor demand or is the labor market moving towards restoring balance? The most recent data from the U.S. Bureau of Labor Statistics (BLS) suggests that the labor market is in fact cooling down continuously, but a more significant rate of change is necessary to achieve balance in the labor market.

### Current State of the Labor Market U.S.

A recent BLS release of the “Job Openings and Labor Turnover Survey” (JOLTS) showed that job openings nationwide rose to 9.6 million in August 2023. This is up from 8.8 million in July but down from 10.2 million in August of 2022. The rate of job openings fell to 5.8 percent, down from 6.2 percent in August 2022, close to the lowest – 5.3 percent recorded in July 2023 – since February of 2021 (Figure 1).<sup>2</sup> A decrease in job openings means a decrease in the demand for labor, which suggests a cooling down in the labor market.

As shown in Table 1, the number of job openings in the U.S decreased by 308,000 from May 2023 to June 2023. This decrease in job openings varies by industry. The Business Services sector saw a sharp decline of 198,000 while the job openings in the Information sector increased by 101,000 (Table 1).<sup>3</sup>

1 Florida TaxWatch, “Labor Market Data Indicates A Cool-Down: Could Florida’s Workforce Experience A Cold Summer?”, May 2023.

2 Bureau of Labor Statistics – U.S. Department of Labor, “Job Openings and Labor Turnover Summary,” October 2023.

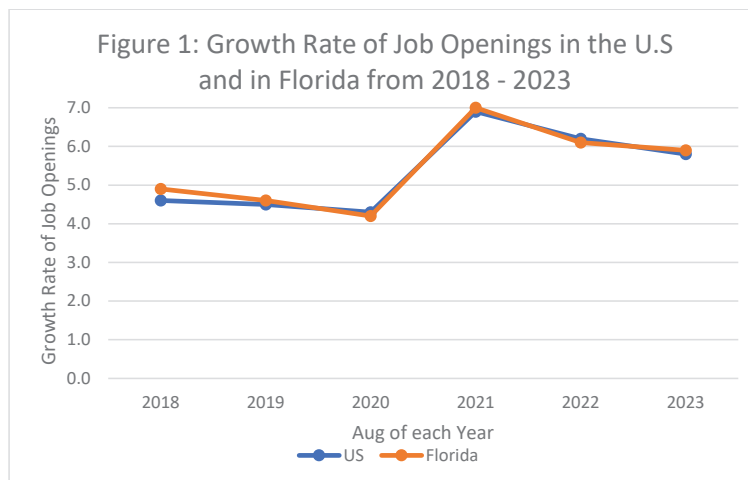
3 Bureau of Labor Statistics – U.S. Department of Labor, “Job Openings and Labor Turnover Summary,” July 2023.

Table 1: Employment Changes by U.S. Industry (May – June 2023)	
Industry	Change in Job Openings
Professional and Business Services	-198,000
Healthcare and Social Assistance	-130,000
State and Local Government	-67,000
State and Local Government Education	-62,000
Federal Government	-27,000
Information	101,000
Transportation, Warehousing and Utilities	75,000
<b>TOTAL</b>	<b>-308,000</b>

As seen in Figure 1, there is a spike in the growth rate of job openings from 2020 to 2021, showing the effect of businesses opening up after the pandemic. The growth rate increased from 4.3 to 6.9 nationwide, from 2020 to 2021. It is only in this past year that we are finally seeing a decrease in the growth rate of job openings. In August of 2023, the rate dropped to 5.8 percent nationwide, further indicating a cooling down in the labor market; however, this decline in the growth rate is a slow one.<sup>4</sup>

A large contributor to the slow rate of decline is relatively high employee separations. Separations, as the word suggests, mean the employees are leaving their jobs due to various reasons (i.e., quitting, layoffs, discharges). According to the ADP research institute, the “big quit” created an employee market in 2022, where quitting and finding a new job led to a higher monetary return to employees than being promoted by their current employer. This led to 50 million resignations nationwide and further blazed the demand for labor as many of those positions were left unfilled.<sup>5</sup> Continuing this trend, the JOLTS report in October noted very little change in the total number of separations at 5.7 million, out of which a majority was still held by quits at 3.6 million.<sup>6</sup> This indicates a shift, a slow return, to the pre-pandemic quits rate.

The quitting of jobs indicates the confidence level of employees in the job market. Only a small decrease in quit rates shows that jobseekers, currently employed or unemployed, still have the upper hand in the labor market. Data shows that in April 2023, those who switched jobs had a pay gain of 13.4 percent, which is down from 16.4 percent of June 2022, but still is a very high incentive for employees to seek new job opportunities.<sup>7</sup>



Source: U.S. Department of Labor – Bureau of Labor Statistics

<sup>4</sup> Data retrieved from U.S. Bureau of Labor Statistics- <https://www.bls.gov/data/tools.htm>, accessed on October 27, 2023.

<sup>5</sup> Dr. Nela Richardson – ADP Research Institute, “The Big Quit Is Over. Here Comes the Big Stay,” retrieved from <https://www.adpri.org/mainstreet-macro-the-big-quit-is-over-here-comes-the-big-stay/>, accessed on August 25, 2023.

<sup>6</sup> *Supra* 2.

<sup>7</sup> *Ibid.*

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## Florida

Florida's economy has time and again been highly responsive to the U.S. economy. It tends to reciprocate trends at a higher rate, usually for the better of the state economy. In this case, Florida's labor market has not yet responded in the same manner as the nation's labor market. The national labor market has shown signs of cooling down, but Florida's labor market has remained steady.

Data from the JOLTS shows that the growth rate of job openings in Florida has only increased since 2020. From a 4.2 percent growth rate in 2020, it increased to 6.1 percent in August 2022, and down to 5.9 in August 2023 (Figure 1). This indicates that the number of job openings in Florida is declining, just not at the rate as it is nationwide; showing that Florida's labor market has just started showing signs of a cool down.

According to the Florida Commerce Department, the unemployment rate in Florida was at a low of 2.8 percent, much lower than the national unemployment rate of 3.8 percent, in September 2023. The unemployment rate, while low, does not indicate the tightness of the labor market.<sup>8</sup> While the job openings increased by 6.2 percent in the past year, payroll employment only increased by 3.2 percent.<sup>9</sup> A large difference in these two growth rates shows that in Florida, the labor market is seeing a large number of job openings and not enough people being employed to fill those positions. The JOLTS report also showed that in April of 2023, Florida had 408,000 separations out of which a majority (284,000) was quits.<sup>10</sup>

## Impact on the Economy U.S.

The Federal Reserve has raised interest rates for the past 10 consecutive months, bringing it to a staggering 5.5 percent,<sup>11</sup> aggressively trying to slow down the economy and lower inflation. An ongoing debate has begun among economists as to whether the Federal Reserve should further increase the rates until a recession is inevitable or pause increases to reach a soft economic landing. A higher interest rate for businesses means they will likely reduce spending and, as a result, there will be fewer job openings. The flip side of this is that companies will continue to spend more and drive up not only interest rates, but also inflation in consumer products and services. Data shows that despite the Federal Reserve's best efforts to combat consumer spending, there was a 2.4 percent growth rate of the U.S. economy in the first half of this year.<sup>12</sup>

Jerome Powell, Chair of the Federal Reserve, stated that interest rates may still go up higher until consumer spending and job openings decrease to a level where inflation is brought down. He also said that raising interest rates has had a positive impact, by slowing down business expansion so far.<sup>13</sup> With multiple efforts by the Reserve, the labor market shows very minor signs of moving towards a cool market. An efficient way to measure the tightness of a labor market is through the job openings to unemployed persons ratio. A ratio of 1.0 indicates there is one job available for every unemployed person. A higher ratio suggests there are more job openings than there are unemployed people; whereas a lower ratio suggests that there are not enough jobs for all unemployed people.

As a result of COVID-19, many businesses shut down permanently or paused production, causing a significant drop in the ratio in 2020, from 1.2 to 0.5. Such a low ratio shows that there were a lot more unemployed people than there were jobs available, specifically, 0.5 jobs per unemployed person. As businesses started to open and hire personnel again, the ratio raised to 1.3 in 2021 and further to 1.7 in 2022 (Figure 2).<sup>14</sup> To compensate for lost production, companies started opening up more jobs leading the labor market to become hotter or tighter. The U.S. economy has seen a drop in the ratio this past year, falling to 1.5, which is a 0.2-point decline. If this decline continues, the labor market will move towards becoming well-balanced. The advantage will shift from the jobseekers to the employers, bringing the wage inflation down.

8 Florida Commerce- Bureau of Workforce Statistics and Economic Research, "Florida's September Figures Released," October 2023.

9 U.S. Bureau of Labor Statistics, "Economic News Release – State Employment and Unemployment Summary," retrieved from <https://www.bls.gov/news.release/laus.nr0.htm>, accessed on August 20, 2023.

10 U.S Bureau of Labor Statistics, "Florida Job Openings and Labor Turnover – April 2023," retrieved from [https://www.bls.gov/regions/southeast/news-release/jobopeningslaborturnover\\_florida.htm](https://www.bls.gov/regions/southeast/news-release/jobopeningslaborturnover_florida.htm), accessed on August 22, 2023.

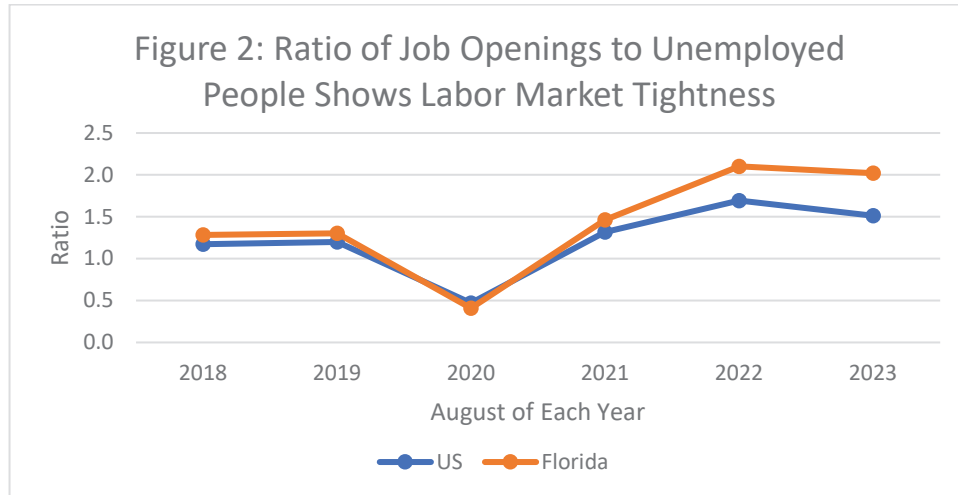
11 J. Edward Moreno, "Job Openings Dropped in July As Labor Market Cooled," retrieved from <https://www.nytimes.com/2023/08/29/business/economy/job-openings-layoffs-jolts.html>, accessed on August 25, 2023.

12 Dr. Nela Richardson – ADP Research Institute, "Holiday Roads," retrieved from <https://www.adpri.org/mainstreet-macro-holiday-roads/>, accessed on August 26, 2023.

13 Howard Schneider – Reuters, "Fed's Powell: Higher Rates May Be Needed, Will Move 'Carefully,'" retrieved from <https://www.reuters.com/markets/us/fed-registers-gains-powell-may-take-lay-low-approach-2023-08-25/>, accessed on August 26, 2023.

14 *Supra* 4.

If firms are able to retain employees, or hire fewer additions at normal monetary costs, the cost of saving will be reflected in the pricing of goods and services in the market. The pay growth rate for new hires has dropped from 12 percent to almost zero percent since May 2022.<sup>15</sup> The annual average wage growth rate for job stayers has also dropped to 4.4 percent in June 2023 according to JOLTS. If these conditions persist, employees will more likely stay at their current jobs and new hires will lose some advantage in the hiring process, ultimately bringing the labor market to a cool.



Source: U.S. Department of Labor – Bureau of Labor Statistics

## Florida

Florida has a growing economy, booming after COVID-19, due to domestic migration, tax-friendly policies, and a calming environment for retirees, among other reasons. In 2021, the population of Florida increased by around 300,000 and the state has maintained steady growth in its population. According to a recent Census report, Florida was the highest growing state between 2021 and 2022, with a population growth of 1.9 percent.<sup>16</sup> Among this population increase, many are retirees. They contribute to many important aspects of Florida’s economy, though adding to the available workforce is not one of them.<sup>17</sup> Having a strong labor force, one which can participate in the market for a longer time, is crucial to maintaining a balanced labor market.

As seen in Figure 2, since 2020, the ratio of job openings to unemployed persons has increased from 0.4 to 2.1 in August 2022. This is higher than the national ratio of 1.7 in the same time period. According to JOLTS, the preliminary data for August 2023 in Florida shows that there are 2.0 vacant jobs for every unemployed person.<sup>18</sup> With such a high ratio, wage inflation in Florida will keep on increasing, adding more leverage for employees to quit and find new jobs offering higher pay. While this may seem like a good thing for workers, the cost for businesses increases, ultimately raising the cost of services around Florida.

Florida has high potential in terms of business investments, leisure, and hospitality. According to the JOLTS report, the highest area of quit rates was in the Accommodation and Food Services industry. As a state known for its tourism, Florida’s economy highly depends on this industry for stability. As businesses look to attract and retain employees in this sector, providing higher monetary benefits to employees will increase their costs and could negatively affect the tourism of the state at-large. Although Florida has seen good overall growth of the economy this year, in order to avoid further inflation or an impending recession, the labor market needs to start cooling down at a higher rate.

15 Dr. Nela Richardson – ADP Research Institute, “To Pause or Not to Pause? Maybe That’s Not the Question,” retrieved from <https://www.adpri.org/mainstreet-macro-to-pause-or-not-to-pause-maybe-thats-not-the-question/>, accessed on August 25, 2023.

16 Marc Perry, Luke Rogers and Kristie Wilder – U.S. Census Bureau, “Florida Fastest-Growing State for First Time Since 1957,” retrieved from <https://www.census.gov/library/stories/2022/12/florida-fastest-growing-state.html>, accessed on August 29, 2023.

17 *Supra* 1.

18 *Supra* 4.

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## Conclusion

Although balance seems imminent with recent positive changes, the national economy is currently still struggling to fill in the gaps of the labor market. As the Federal Reserve treats increasing inflation with delicacy, trying to find the sweet spot between a recession and slow economic landing, the probability of the labor market shifting towards employers gets higher with each passing month. As the scales tip towards a cold labor market, it is very important for both employers and jobseekers to keep a close eye on changing market dynamics. Adapting to an employer-biased labor market will be a shock to the youth entering the workforce in these past years.

The economy of Florida has always proven to be highly adaptive and receptive to economic changes. While the national labor market has shown signs of cooling, Florida's labor market has remained relatively stagnant. The number of vacant jobs has increased at the same rate for three years, except for very recent signs of decrease, and the number of people employed has not, leading to a constant heat in the labor market. Positive demographic and economic changes in Florida's economy such as the migration of a younger population as a result of increasing job opportunities, high GDP growth, and risk management provides a positive light for Florida's labor market. Although it has not cooled yet, Florida's market is bound to soon move towards a cooler market as there are signs of a slow decrease in the ratio of job openings to unemployed persons. Florida TaxWatch will continue to follow and report on Florida's labor market cool down.

## ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

Florida TaxWatch is supported by voluntary, tax-deductible donations and private grants. Donations provide a solid, lasting foundation that has enabled Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves since 1979.

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