Florida TaxWatch

COMMENTARY

LABOR MARKET DATA INDICATES A COOL-DOWN: COULD FLORIDA'S WORKFORCE EXPERIENCE A COLD SUMMER?

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Well-balanced labor market dynamics support employers by moderating wage inflation and ensuring a competitive pool of high-quality candidates is available. This dynamic has been shifting in favor of jobseekers since early 2021, and an unmet labor demand has driven substantial wage inflation. With too many vacant jobs and not enough applicants, employers have had to offer prospects more flexibility and monetary incentives to attract the same quality candidates they had before the COVID-19 pandemic. New data released by the U.S. Bureau of Labor Statistics, however, have suggested that this strain on employers is beginning to neutralize. Florida's economy tends to be highly reactive to these changes, which begs the question: how might a national labor market "cool-down" affect Florida?

THE LABOR MARKET COOL-DOWN

In a turn of events from the proliferating workforce demand of 2021, the labor market is "cooling" down. The labor market is considered "hot" when there is a high and unmet demand for labor- this gives jobseekers the upper hand and drives wage inflation. A cooling, then, occurs when labor demand and hiring begin to slow.

The latest data from the Bureau of Labor Statistics' "Job Openings and Labor Turnover Survey" (JOLTS) indicated that job openings in the U.S. reached a recent low of 9.97 million at the end of February. This marks the first time that job openings have fallen below 10 million since the post-pandemic rebound of 2021 (Figure 1).[1] Job openings serve as an indicator of labor demand, so this downward trend signifies a tipping of scales.

That said, the demand for labor is not shifting uniformly. The latest monthly payroll data from ADP Research Institute found that the JOLTS data are reflected differently across various industries. For example, manufacturing employment decreased by 38,000 over the past month, while the leisure and hospitality industry gained 154,000 new employees (Table 1).[2]

Table 1. Employment Level Changes by U.S. Industry (March-April 2023)

INDUSTRY	CHANGES IN EMPLOYMENT (MOM)
LEISURE AND HOSPITALITY	154,000
EDUCATION AND HEALTH SERVICES	69,000
CONSTRUCTION	53,000
NATURAL RESOURCES AND MINING	52,000
TRADE, TRANSPORTATION, AND UTILITIES	32,000
OTHER SERVICES	16,000
INFORMATION	2,000
PROFESSIONAL AND BUSINESS SERVICES	-16,000
FINANCIAL ACTIVITIES	-28,000
MANUFACTURING	-38,000

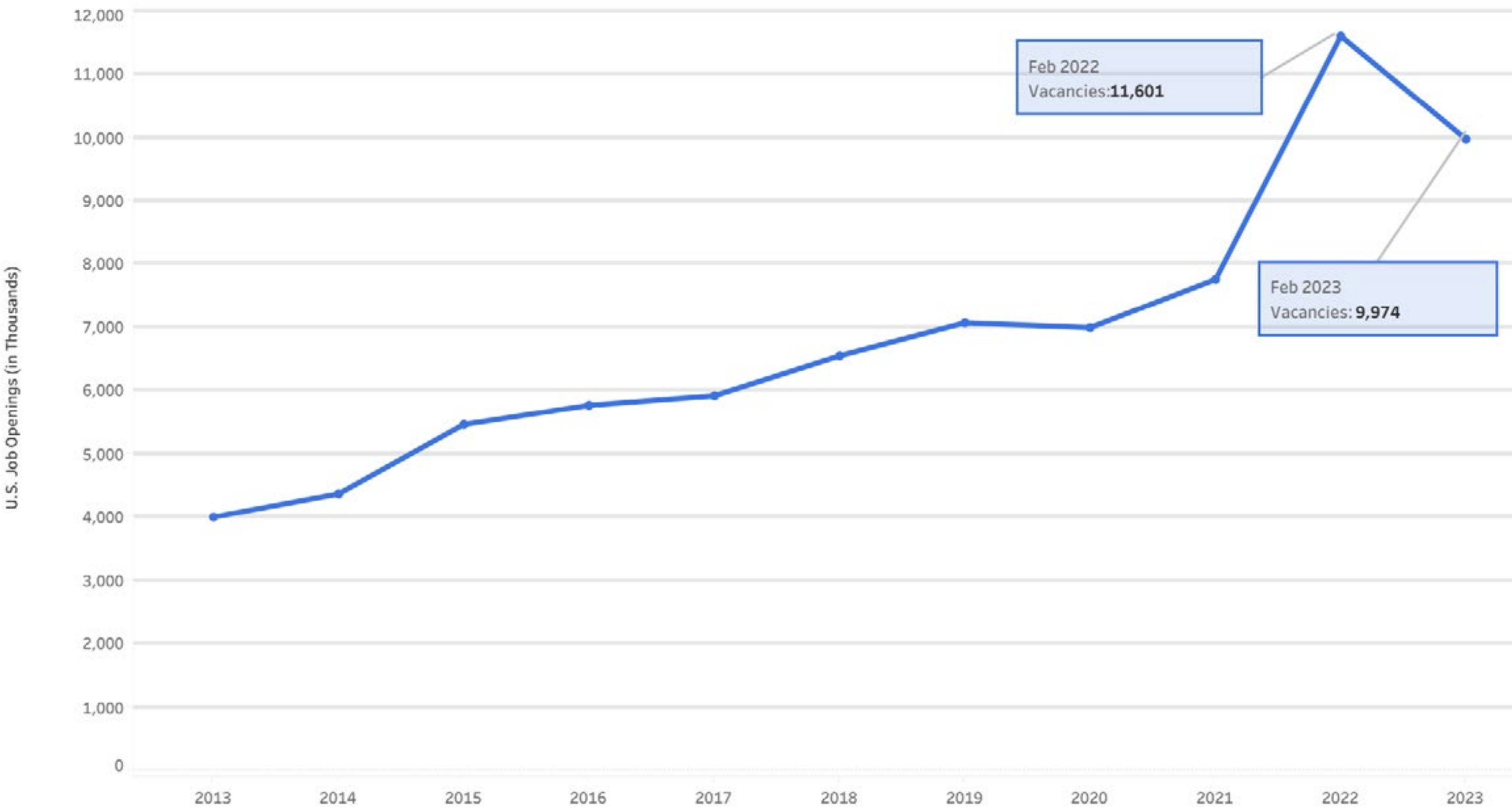
Source: ADP Research Institute

The JOLTS report's latest findings imply that the main driver of labor market cooling is a decline in job openings, not separations. The chief economist at ZipRecruiter, Julia Pollak, stated: "This looks more like a rebalancing. Job openings were way up in the

1 U.S. Bureau of Labor Statistics, "Job Openings and Labor Turnover—March 2023," U.S. Department of Labor, accessed May 2023.

2 ADP Research Institute, "ADP National Employment Report: Jobs Report", retrieved from ADP® Employment Report (adpemploymentreport.com), accessed on May 3rd, 2023.

Figure 1. Job Openings Fall and Signal a Labor Market Loosening



Source: U.S. Bureau of Labor Statistics

stratosphere."[3]

Even with these changes occurring, labor market conditions remain favorable to employees. In the August 2022 commentary "Florida Workforce Update", Florida TaxWatch found that the nationwide quit rate reached a high of three percent when the "Great Resignation" took hold of the labor market. This posed concerns for employers as they incurred the high cost of turnover and talent attraction in an "employee market."[4] Quit rates have yet to fall back to pre-pandemic levels, hovering around 2.6 percent for the past few months.[5] Florida's current quit rate remains higher, at three percent.[6] This trend suggests that workers are still feeling a sense of leverage in the labor market and that job security is not a primary concern.

WHAT DOES THIS MEAN FOR EMPLOYERS?

It appears that the Federal Reserve's (the Fed's) recent efforts to mitigate inflation growth are beginning to yield results. By raising interest rates for the past nine consecutive periods, the Fed sought to slow business expansion, and as a result, job creation. With an unmet demand for labor, much of the bargaining power for wages and benefits lies in the hands of employees. Businesses then have to offer competitive incentives to attract quality candidates, a costly measure that drives up the cost of providing their respective goods or services to consumers.

Nationwide, employers may gain back some leverage if job openings and wage growth remain on the decline. One labor market tightness indicator—the ratio of job vacancies to unemployment—can be used to evaluate this leverage. This ratio conveys

3 The New York Times, "Job Openings Fell in February as Labor Market's Slow Cool-Down Continued", retrieved from https://www.nytimes.com/2023/04/04/business/economy/february-jolts-jobs-report.html, accessed on April 12th, 2023.

4 Florida TaxWatch, "Florida Workforce Update", August 2022.

5 U.S. Bureau of Labor Statistics, "Job Openings and Labor Turnover—March 2023," U.S. Department of Labor, accessed May 2023.

6 U.S. Bureau of Labor Statistics, "Quits levels and rates for total nonfarm by state, seasonally adjusted" retrieved from https://www.bls.gov/news.release/jltst.t04.htm accessed on May 3rd, 2023.

Figure 2. Post-Pandemic Labor Demand Neutralizing, Florida Remains Relatively Tight

Source: U.S. Bureau of Labor Statistics

the demand for workers in relation to the number of people looking for work. In February 2023, there was one unemployed person in the U.S. for every 1.7 vacant jobs reported to the JOLTS—a decline from 1.9 in January (Figure 2).[7]

As mentioned, the latest JOLTS release found that job openings have begun dropping to mid-2021 levels, before the labor market tightened significantly. This trend, coupled with persistently low U.S. unemployment, again indicates a return to normal labor market dynamics between employers and jobseekers. As the supply of labor grows to meet demand, more competition will fall on the worker-side of the labor market. If firms can attract and retain employees without excessive monetary incentives, these savings will be reflected in the price of goods and services.

Increased wage growth occurs in tandem with tight labor market conditions, and employers have been prompted to raise wages frequently and substantially since the pandemic. As post-pandemic inflation weakened Americans' purchasing power, workers needed more compensation from their employers to maintain their standard of living. This need is what triggered the "Great Resignation" and, as a result, year-over-year annual pay growth for "job switchers" hovered around 16 percent for the majority of 2022.[8]

This year, however, wage growth for all workers is beginning to decrease, according to ADP Research Institute's latest pay insights report. Wage growth will likely continue to decrease if efforts to further tame inflation are successful. As of April 2023, though, job switchers are still experiencing pay gains 6.5 percentage points higher than job stayers.[9] These recent trends in job openings and wage growth may encourage more workers to stay put in their current positions.

WHERE FLORIDA STANDS

Despite the national cool-down, Florida's job market conditions have remained relatively warm. The latest JOLTS data estimate about 2.5 vacant jobs reported for every unemployed person in the state (Figure 2).[10] Florida has experienced substantial job growth and maintained low unemployment in recent years, contributing to this high demand for labor. In March, the Florida Department of Eco-

7 U.S. Bureau of Labor Statistics, Job Openings: Total Nonfarm [JTSJOL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/JTSJOL , May 3, 2023.

U.S. Bureau of Labor Statistics, Unemployment Level [UNEMPLOY], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNEMPLOY , May 3, 2023.

The agricultural industry is not considered in assessments of labor market tightness because employment in this sector experiences high seasonal fluctuation and isn't indicative of labor demand across other sectors.

8 ADP Research Institute, "ADP National Employment Report: Pay Insights", retrieved from ADP® Pay Insights - Home Page, accessed on May 3rd, 2023.

9 ADP Research Institute, supra note 8.

10 Bureau of Labor Statistics, "Florida Job Openings and Labor Turnover—January 2023," U.S. Department of Labor, accessed May 2023.

nomic Opportunity reported statewide job growth exceeding national growth at 4.5 percent, and an unemployment rate below the national rate at 2.6 percent.[11]

The American Legislative Exchange Council ranked Florida highest in economic performance in their 2023 state economic competitiveness index report, "Rich States, Poor States." This report evaluates states based on their cumulative Gross Domestic Product (GDP) growth, absolute domestic migration, and non-farm payroll employment, and Florida was the top scorer.[12] While state policy has earned Florida the top rank nationally in economic performance, this achievement is accompanied by some growing pains worthy of consideration.

Florida has become a desirable residence for individuals and businesses alike seeking to benefit from the state's business and tax friendly policies. This has resulted in sky-high in-migration rates and economic activity, but workforce shortages may threaten Florida businesses' potential to grow. The state welcomed around 320,000 new residents in 2021, and retirees were among them. While retired Floridians do support many sectors of the economy—health care, leisure and hospitality, travel, etc.—they are not joining the state's labor force. Because Florida is home to many individuals phasing out of the workforce, the concern of an aging population will be top of mind for employers looking to hire for their growing businesses. Without the manpower to fill new roles, that growth could be stunted.

In the presence of high economic growth and migration, small businesses in some of Florida's largest industries are still struggling to replenish their staff after the pandemic. Nationally, the three industries experiencing the highest quit rates as of February are food and accommodation services, leisure and hospitality, and retail trade.[13] Florida's tourism activity relies heavily on these businesses, and employers affected by this instability are looking for ways to hire and retain workers in some of the lowest-paying industries in the state.

LOOKING AHEAD

Current labor market conditions in Florida do not signal a "cooling" just yet, but a return to typical workforce dynamics may be on the horizon if the demand for workers continues to ease across industries. Notably high migration, job growth, and GDP growth prompt a positive outlook for the state economy, but employers in some of Florida's major industries are struggling to accumulate a workforce to support this growth after labor force participation slumped during the pandemic. The prominent retired and elderly population of Florida poses questions of capacity for the state's workforce to meet the demands of its flourishing businesses.

No matter what changes occur in the labor market, it is crucial to note that Florida is pro cyclical and highly responsive to economic shifts. That is, when changes occur at the national level, these changes are amplified in Florida. If a shift in bargaining power is occurring nationwide, it is possible that job-seekers in Florida could find themselves with even less leverage. As the tables begin to turn nationally, employers and workers should keep a thermometer on Florida's labor market dynamics keeping this in mind.

11 Florida Department of Economic Opportunity, Monthly Data Releases: March Employment and Unemployment Data Release, March 2023.

12 The American Legislative Exchange Council, "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index", 2023.

13 U.S. Bureau of Labor Statistics (BLS), "Job Openings and Labor Turnover: Table 4. Quits levels and rates by industry and region, seasonally adjusted" retrieved from https://www.bls.gov/news.release/jolts.t04.htm, accessed on April 24th, 2023.

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