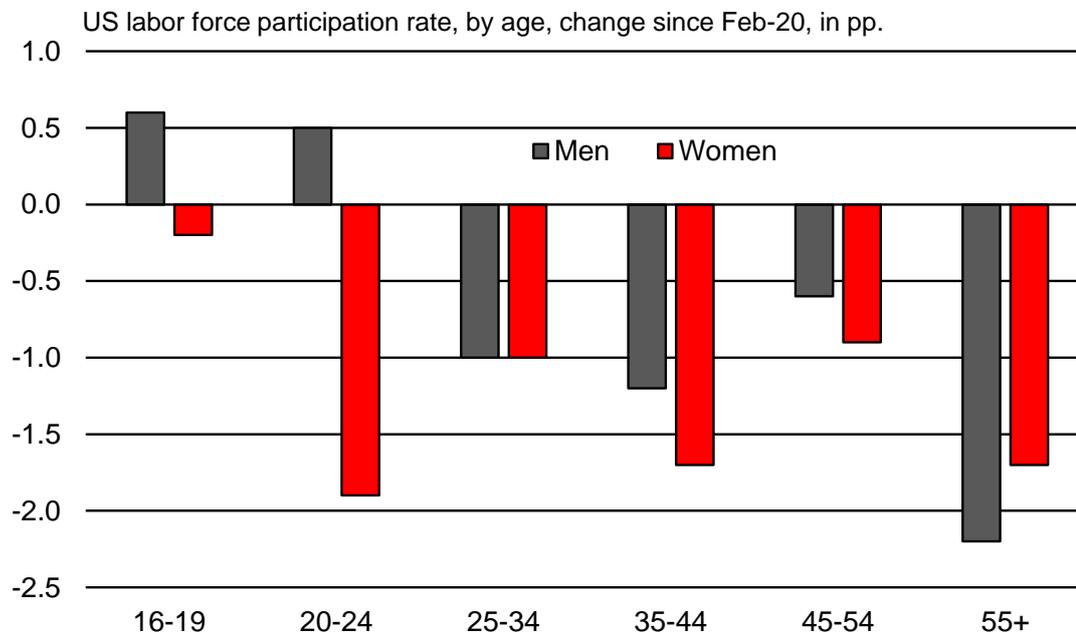


US: Where are the missing workers?



Source: BLS, UniCredit Research

- Today's US labor market report for the month of November was mixed. Payrolls rose a disappointing 210k (292k including upward revisions to prior months), while the household survey measure of employment surged 1.1mn. The latter tends to be volatile and is based on a smaller sample, but it's the household survey that is used to construct the unemployment rate, which fell a large 0.4pp to 4.2%. While this is confusing and adds to uncertainty, what's clear is that labor shortages persist, with the participation rate still 1.5pp (or 2.4mn) below its pre-pandemic level, the employed working much longer hours than pre-pandemic, and average hourly earnings growth rising to almost 5% yoy. The big question for the Fed, who has set "maximum employment" as one of its pre-conditions for the first rate hike, is how long these shortages might persist and, hence, what is attainable in terms of employment gains in the short term without generating "excess" inflationary pressure.
- Our *Chart of the Week* shows the gap between the labor force participation rate (that is, the share of the working-age population who are either employed or actively looking for work) compared to pre-pandemic levels, by age group and gender. The fall in participation is concentrated among women, particularly young women, and the over 55s for men. The former likely in part reflects caregiving needs, particularly childcare, while the latter likely reflects early retirement. Other forces weighing on participation include the fear of infection, savings buffers from pandemic-related government transfers, and study.
- Some of these factors should dissipate when the health situation improves, such as caregiving needs and the fear of infection. Others, such as early retirement, maybe longer lasting. The Pew Research Center estimates that between 2008 and 2019, about 1mn Americans retired each year aged 55+, while over the past two years 3.5mn people retired, an additional 1.5mn people over "normal" levels.¹ This would account for a big chunk of the 2.4mn drop in total participation compared to pre-pandemic levels.
- In recent weeks many Fed officials have made it clear that they would like to accelerate the pace of tapering of its asset purchases, probably at the FOMC's 14-15 December meeting. In our view, today's mixed employment

report is unlikely to stop them from doing so. Ultimately, what constitutes “maximum employment” is subjective, and our view is that “maximum employment” will be reached when the Fed judges that rate hikes can no longer be delayed, given rising inflation risks.

¹See Pew Research Center, “Amid the pandemic, a rising share of older U.S. adults are now retired”, 4 November 2021.

Daniel Vernazza, PhD, Chief International Economist (UniCredit Bank, London)
+44 207 826-7805
daniel.vernazza@unicredit.eu

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UniCredit Research*

Macro Research



Erik F. Nielsen
Group Chief Economist
Global Head of CIB Research
+44 207 826-1765
erik.nielsen@unicredit.eu



Dr. Ingo Heimig
Head of Research Operations
& Regulatory Controls
+49 89 378-13952
ingo.heimig@unicredit.de

Head of Macro Research



Marco Valli
Head of Macro Research
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu

European Economics Research



Dr. Andreas Rees
Chief German Economist
+49 69 2717-2074
andreas.rees@unicredit.eu



Dr. Loredana Federico
Chief Italian Economist
+39 02 8862-0534
loredanamaría.federico@unicredit.eu



Stefan Bruckbauer
Chief Austrian Economist
+43 50505-41951
stefan.bruckbauer@unicreditgroup.at



Tullia Bucco
Economist
+39 02 8862-0532
tullia.bucco@unicredit.eu



Edoardo Campanella
Economist
+39 02 8862-0522
edoardo.campanella@unicredit.eu



Walter Pudschedl
Economist
+43 50505-41957
walter.pudschedl@unicreditgroup.at



Chiara Silvestre
Economist
chiara.silvestre@unicredit.eu

International Economics Research



Daniel Vernazza, Ph.D.
Chief International Economist
+44 207 826-7805
daniel.vernazza@unicredit.eu

EEMEA Economics Research



Dan Bucsa
Chief CEE Economist
+44 207 826-7954
dan.bucsa@unicredit.eu



Gökçe Çelik
Senior CEE Economist
+44 207 826-6077
gokce.celik@unicredit.eu



Mauro Giorgio Marrano
Senior CEE Economist
+43 50505-82712
mauro.giorgiomarrano@unicredit.de



Artem Arkhipov
Head, Macroeconomic Analysis
and Research, Russia
+7 495 258-7258
artem.arkhipov@unicredit.ru



Hrvoje Dolenc
Chief Economist, Croatia
+385 1 6006-678
hrvoje.dolenc@unicreditgroup.zaba.hr



Dr. Ágnes Halász
Chief Economist, Head, Economics and
Strategic Analysis, Hungary
+36 1 301-1907
agnes.halasz@unicreditgroup.hu



Ľubomír Koršňák
Chief Economist, Slovakia
+421 2 4950 2427
lubomir.korsnak@unicreditgroup.sk



Anca Maria Negrescu
Senior Economist, Romania
+40 21 200-1377
anca.negrescu@unicredit.ro



Kristofor Pavlov
Chief Economist, Bulgaria
+359 2 923-2192
kristofor.pavlov@unicreditgroup.bg



Pavel Sobíšek
Chief Economist, Czech Republic
+420 955 960-716
pavel.sobisek@unicreditgroup.cz

UniCredit Research, Corporate & Investment Banking, UniCredit Bank AG, Am Eisbach 4, D-80538 Munich, globalresearch@unicredit.de
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