

# Policy Note

As the covid-related supply side pressures begin to moderate over the course of 2022, labor market shortages and wage inflation may prove more persistent.

To date, the US labor market rebound has been rapid, recouping nearly 19 million of the 22 million jobs lost during COVID (84%). Over the past year alone, the unemployment rate has declined 2.8 points to 3.9% (in line with the pre-COVID 2019 average). Record low layoffs, record high quit rates, rising wages and high variance by industry have all become defining attributes of the 2022 labor market.

By comparison, labor force participation rates have been slower to recover, for reasons both COVID-related (fears, care-giving) AND structural (aging populations, low immigration, skill set mismatches, technology disintermediation). While the 3.6 million job shortfall should begin to moderate in the 2H of 2022, an improvement in labor supply-demand across the economy is expected to be gradual, with wage inflation pressures remaining high in the interim. Downside risk remains formidable. In this scenario, persistently low labor force participation into late 2022 would adversely impact corporate earnings, inflation and growth.

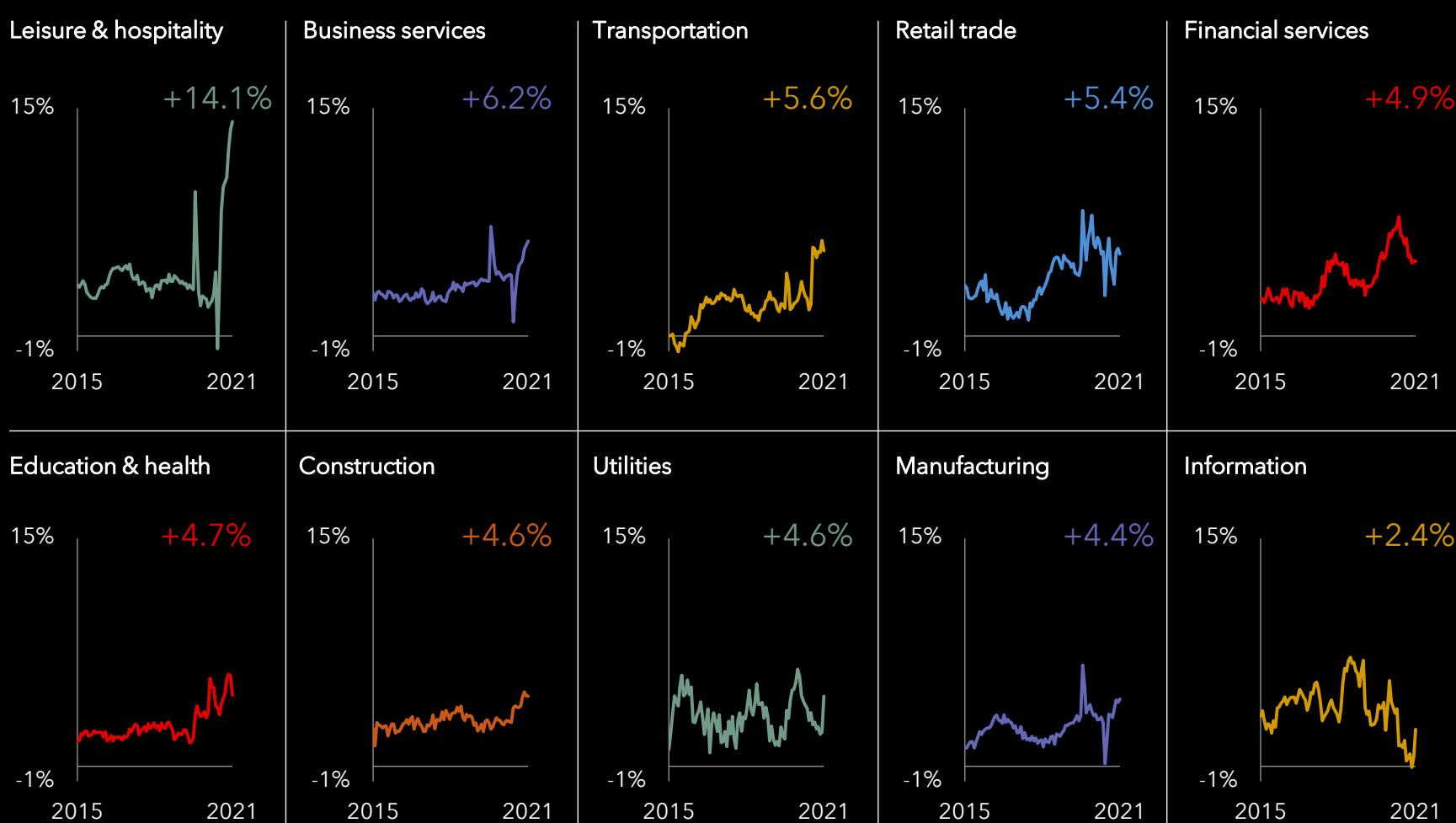
## Key Drivers of Labor Market Shortages

### More COVID-related

- COVID related fears
- COVID related visa / travel restrictions
- Elevated consumer savings
- Impact of supply chain disruptions
- Child & elderly care challenges
- Accelerating baby boomer retirements
- Low female workforce participation rates
- "Mismatches" between job needs and skillsets
- Low immigration
- Decade-long disruption from technology disintermediation

### More STRUCTURAL

### Wage Inflation Varies Sharply by Sector



Source: (1-10) Bloomberg. Monthly Y/Y data as of January 27, 2022. Department of Labor. Oxford Economics, "Five Crucial Questions on the Labor Market" (January, 2022).

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