THE WALL STREET JOURNAL.

HIRING MIGHT NOT KEEP UP WITH ECONOMIC GROWTH

US economy could face bottlenecks, wage and price pressures as labor demand outpaces supply.

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April 18, 2021

US employers might have trouble hiring workers fast enough in coming months to keep up with the projected burst of economic growth.

Consumer spending at restaurants, hotels and salons is already starting to take off as the grip of the Covid-19 pandemic eases and more people get vaccinated and draw on their stimulus checks and savings.

But many economists expect economic activity to pick up faster than payrolls, at least initially, for several reasons, causing bottlenecks and wage pressures.

This happened last year for many manufacturers that experienced labor shortages as Americans working from home ordered more furniture, exercise equipment and other goods than before the pandemic. This year, it is likely to be the case particularly for providers of services requiring proximity to people, since they saw the biggest drops in business and employment during the pandemic and are poised to see the biggest rebound in demand this year.

Economists surveyed by The Wall Street Journal project US gross domestic product – the value of all goods and services produced – will grow 6.4 percent this year, measured from the fourth quarter of last year to the same period of this year. That would lift output to nearly 4 percent above its pre-pandemic level measured in the fourth quarter of 2019.

Meanwhile, the economists expect employers to add 7.1 million jobs in the 12 months ending in December 2021, a gain of 5 percent. That would leave employment 1.6 percent lower than in the fourth quarter of 2019.

Job growth will trail GDP for two key reasons, economists say. First, many companies will be reluctant to hire workers until they are convinced the pickup in consumer demand will endure. Second, millions of workers dropped out of the labor force during the pandemic and might take time to return.

Economists point to several forces behind employers’ hesitancy to hire. For one, it’s unclear when the pandemic will end. Though vaccination rates are rising, so too are the daily totals of Covid-19 cases in many parts of the country as variants of the virus spread and business restrictions ease.

Further, many companies face uncertainties over whether they will see permanently weaker demand due to the pandemic’s effects. For instance, business travel might never fully return to its previous levels. A long-lasting shift to remote work could dampen business at cafes and shops near offices.

"They're very happy to see this surge as everything reopens, but they still have tremendous uncertainty over what their revenue stream is going to look like," said Steven Blitz, chief US economist at TS Lombard.

Even after an employer posts a job opening, the hiring process can take weeks or months. Meanwhile, the labor pool changed and shrank during the pandemic.

The share of Americans ages 25 to 54 who are holding or seeking jobs–called the prime-age labor-force participation rate–was 81.3 percent in March, down from 82.9 percent in February 2020, a loss of 1.9 million workers. Many of those people dropped out of the labor force to care for children while schools are closed. Others have stopped looking for work out of fear of contracting or spreading the coronavirus. The $1.9 trillion Covid-19 relief bill enacted in March also sent new stimulus checks to many Americans and extended a $300-a-week jobless-aid supplement, which could also be deterring some people from seeking work.

"It's just a lot of people who need to get back to work, and it's not going to happen overnight," Federal Reserve Chairman Jerome Powell said at a press conference last month.

The sharp fall in workforce participation shows no signs of quickly reversing. Even though job openings exceed pre-pandemic levels, Google Trends data show worker searches for jobs online declining. Daniel Zhao, senior economist at Glassdoor, said this recent drop "raises concerns that labor-force participation may not recover quickly even after the pandemic is over."

Long-term unemployment poses another hurdle. There were 4.2 million Americans in March facing jobless spells of at least 27 weeks, up from 1.1 million in February 2020.

"The longer people remain unemployed, the more those skills do start to atrophy and then it's harder for them to get back into the labor force," said Jay Bryson, chief economist at Wells Fargo's Corporate and Investment Bank.

The result could be bottlenecks that discomfort consumers, at least temporarily, until labor demand and supply are brought into balance. For instance, lines at airport security checkpoints this summer could grow long as workers attempt to serve an influx of travelers. Salons might require hairdressers to log longer hours so they can serve the many customers who went a year without a haircut. Restaurants could raise wages to attract workers, and as a result, pass on the costs through higher menu prices.

"Over the next few months you could see really strong demand, and you could get some of these pressures…in terms of wages, etc.," said Mr. Bryson. But he added, "our sense is it's not like this is an upward spiral that's going to last for years."