UNITED STATES DO A HIGH VACANCY RATE AND LABOUR HOARDING IMPLY SLOW DISINFLATION?

In the US, the ratio between the job openings rate and the unemployment rate remains very elevated. It is one sign amongst many of a very tight labour market. As growth slows down, this ratio should decline. Historically, this has been accompanied by slower wage growth. It can be argued that this time, this process may take more time due to labour hoarding, which should limit the increase in layoffs and hence the unemployment rate, and the high level of the vacancy rate, which should underpin the creation of new jobs. This means that there is a genuine risk of disinflation to be slow.

The US labour market remains very tight as illustrated by the low unemployment rate, the monthly pace of job creations -which was huge in January-, the high unfilled job openings (i.e. vacancies). Admittedly, the hiring rate has declined in recent months but it is still at the top end of the historical range that prevailed pre-Covid-19 (chart 1). Moreover, the ratio between the job openings rate and the unemployment rate remains very elevated, which is another sign of labour market tightness (chart 2).

As the economy slows down further, this ratio should decline due to a reduction in the vacancy rate and an increase in the unemployment rate. Historically, such a development has been accompanied by slower wage growth. Normally, this is a very gradual process but research by the Federal Reserve Bank of Kansas City shows that, as of a certain point during the 2001 and 2008 recessions, "wage growth abruptly declined even though the vacancy-to-unemployment ratio did not move much."[1] If wage growth slowed down sufficiently, one would expect core inflation to decline as well (chart 3)[2].

It can be argued that this time, this process may be different. On the one hand, labour hoarding[3] should limit the increase in layoffs and hence the unemployment rate. And on the other, the high level of the vacancy rate should underpin a priori the creation of new jobs, although the decline in the hiring rate suggests that the translation of job openings into effective hiring has become less smooth than before. This could reflect an increasing skill mismatch due to a tight labour market, which should underpin wage growth.

Another interpretation is that companies are becoming more selective in their recruitment process, which means that it takes more time for a vacancy to be filled. In a slowing economy, the opportunity cost of having to work with tight staffing levels declines. Nevertheless, companies may continue to post job openings, to be ready when demand picks up again. Greater selectivity in hiring could weigh on wage growth. The result of these different dynamics is that the decline in the vacancy-to-unemployment ratio might take more time than before, which could imply a slower decline in wage growth and hence slower disinflation.

US: VACANCY (JOB OPENINGS) RATE AND HIRING RATE

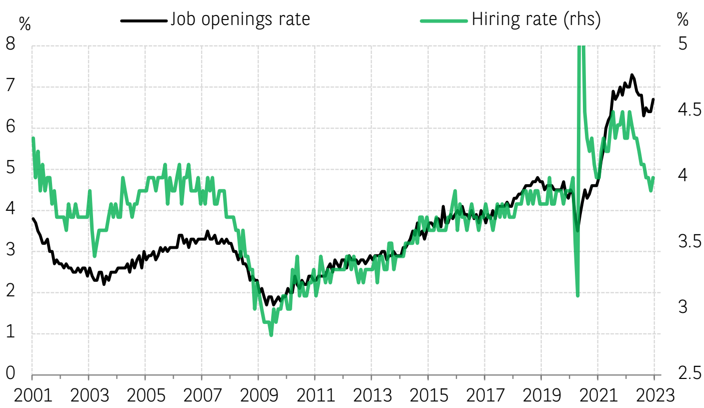

CHART 1 SOURCE: BLS, FED ATLANTA, BNP PARIBAS

The discussion has shown that the relationships between vacancies, hiring, wages and inflation are very complex. The unique nature of the current cyclical environment -a tight labour market despite a slowing economy, an exceptionally high vacancy rate, still elevated inflation driven by past demand and supply shocks- add to the complexity because historical relationships are likely to have changed, at least temporarily. In assessing the inflation outlook, two key metrics should be monitored closely going forward: the vacancy-to-unemployment ratio and the ratio between vacancies and hirings. Based on their current readings, there is a genuine risk of disinflation to be slow.

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1 Source: Huixin Bi, Chaitri Gulati, and José Mustre-del-Río, A Slowdown in Job Vacancies Is Likely to Coincide with Higher Unemployment and Slower Wage Growth, Federal Reserve Bank of Kansas City Economic Bulletin, 10 August 2022.
2 In chart 3, core inflation ex shelter is used, based on the view that the relationship between the cost of shelter and the labour market is very indirect.
3 Labour hoarding refers to the decision by firms not to adjust their staffing levels despite a weakening of the demand for their products and services. See: Labour hoarding: a source of resilience during a recession, Eco week 22-45, 5 December 2022, BNP Paribas.

In assessing the US inflation outlook, the vacancy-to-unemployment ratio and the ratio between vacancies and hirings should be monitored closely. Based on their current readings, there is a genuine risk of disinflation to be slow.

US: VACANCY-TO-UNEMPLOYMENT RATIO AND WAGE GROWTH

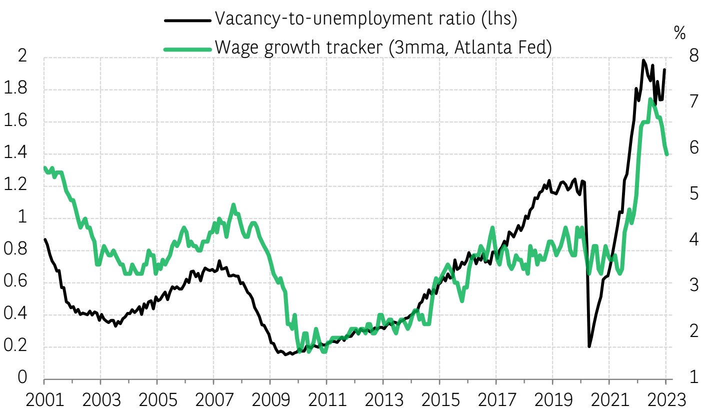

CHART 2

SOURCE: BLS, FED ATLANTA, BNP PARIBAS

US: WAGE GROWTH AND CORE INFLATION EXCLUDING SHELTER

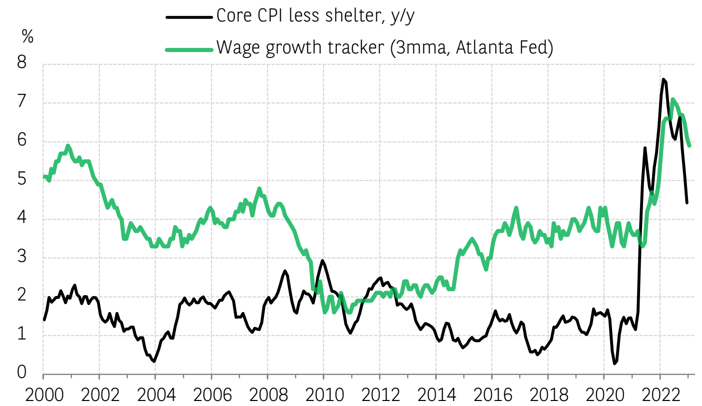

CHART 3

SOURCE: BLS, FED ATLANTA, BNP PARIBAS