

# Wage Growth Slows to 4.6%

January 6 2023 | Mallory Vachon, Ph.D., Sr. Economist

The economy added a solid 223,000 jobs in December, just above economists' expectations of around 200,000. The labor market continues to add jobs at a very robust pace. Perhaps the best news in this report for businesses is that 12-month wage growth slowed to 4.6%, a sign that the Federal Reserve's interest rate hikes may be working without causing a major disruption to the labor market.



National Jobs Report | December 2022

The 223,000 jobs added by employers in December suggest the labor market has started to cool but remains resilient. Not only are companies backfilling roles as employees leave for other opportunities, but many businesses seem to be adding new positions as well. December's net job gains are notably lower than the highs from earlier this year when February's job gains topped 700,000. This month's total is slightly above the pre-pandemic average of 200,000 jobs added per month. (Numbers for October and November were revised downward by a modest 28,000.)

\*An important caveat for December's jobs report is that 2022's job gains will be updated when benchmark revisions are published in February. Last year, this change resulted in 2021's total revised upward by 217,000 jobs. But this year, many economists expect 2022's totals to be a bit lower than initially reported. \*

## Demand for Workers Remains Strong

The Federal Reserve has increased interest rates at an unprecedented pace, in an attempt to lower labor demand and stem record inflation. While hiring has moderated, the labor market is still tight – a trend that's unlikely to change in 2023 – and the competition for talent is still fierce.

Job openings are a key indicator of labor demand. And November's job openings, reported earlier this week, showed no signs of companies letting up on hiring plans. Job openings held steady at 10.5 million, down from 11.9 million in March, but still much higher than the 2015 to 2019 average of 6.4 million monthly job openings. While most major industries had fewer job openings in November than in October, companies in Professional and Business Services – the largest industry by total employment – had more than 200,000 additional open jobs over the same period.

As demand for workers starts to moderate, we'd expect record wage growth to ease. December's jobs report shows 12-month wage growth decreased to 4.6%, a welcome sign that the Fed may slow the pace of interest rate increases. Wage growth has been slowing gradually since March, when the Fed began raising rates, and our expectation is that this moderation in wage growth continue through early 2023.

## Layoffs Remain Near Historic Lows

Hiring is starting to moderate, but layoffs have not increased at the pace we could expect going into a slowdown. And while there have been many high-profile layoffs, the number was unchanged month-over-month at 1.4 million per month in November – still near historic lows – compared to around 1.9 million monthly layoffs before the pandemic.

And the unemployment rate remains ticked down to match the pre-pandemic low of 3.5%. With 10.5 million job openings, but only 5.7 million unemployed workers available to fill those open roles, there are nearly two open jobs for each unemployed worker.

## 2023 Outlook

Projections show 2023 looking like a more “normal” year with the potential for a deeper slowdown. LaborIQ® forecast scenarios for 2023 range from around 600,000 total jobs lost to 1.2 million net job gains. And after hovering near 5% since 2022, LaborIQ® forecasts wage growth to moderate substantially in 2023, with annual growth below 2.5%.