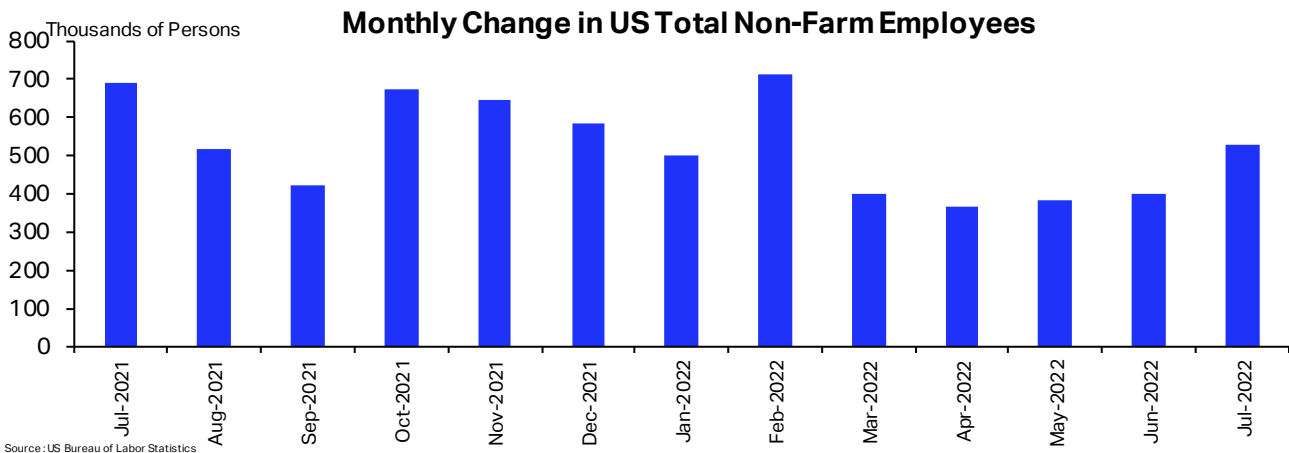




IATA Economics' Chart of the Week

12 August 2022

Tight labor markets and the fear of recession



- The United States entered a recession in the second quarter of 2022 as gross domestic product (GDP) shrank by 0.9% following the contraction of 1.6% in the first quarter – the common definition of a recession being two consecutive quarterly declines¹. This has of course contributed to growing fears of a widening and deepening economic downturn in the US and beyond. However, several factors should allay any such fears.
- Firstly, the US is one of only few countries to publish quarterly GDP evolutions “annualized”, i.e. the quarterly evolution multiplied by four (quarters), obviously making its numbers look larger than in other countries. Non-annualized, the contractions were limited to 0.4% and 0.2% respectively during the first and second quarters. Secondly, compared to the same quarter in 2021, the US economy has continued to grow, by 3.5% in the first quarter and 1.6% in the second. In addition, both imports and exports of services continued to increase in the second quarter in the US, fueled in part by air travel as COVID-related restrictions eased further internationally.
- Most importantly, the US labor market added a stunning 528,000 jobs in July² – double most forecasts and reducing the unemployment rate to 3.5% – equal to the lowest rate in at least 50 years (see chart above). The US economy has now added more than 22 million jobs since April 2020, surpassing the 21.99 million that were lost due to the pandemic. On the air transport side, 7,000 jobs were created in the US in July, an increase of 18.3% since July 2021. Employment in the sector is currently 8.8% above the high recorded in March 2020.
- Labor markets are tight elsewhere as well. In the euro zone, for example, unemployment stood at 6.6% in June 2022, the lowest level since 1990. Globally, the unemployment rate is forecast by the International Labor Organization to drop to 5.7% in 2022, from 6.2% in 2021 and 6.6% in 2020. That more people have jobs is of major importance to the business cycle because around 60% of the world's GDP derives from private consumption (68% in the US). Moreover, that global GDP growth declines from the 6.1% seen in 2021 to closer to 3.0% in 2022 signifies a sort of return to normality as the long-term average growth rate is around 3.5%. As long as unemployment is low and even falling, fears of recession should be held at bay.
- On the other hand, tight labor markets do tend to push wages higher and with labor representing around 25% of airlines' total costs, this could be a concern. However, wages have so far risen faster for low-paid jobs in the US, leading to a welcome reduction in wage inequality. The impact on the bottom line should therefore be limited for airlines insofar as salaries in the sector are higher than the average: in 2021 the average salary in the sector was 120,000 dollars per year in the US, against 58,000 dollars for all sectors.

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¹ <https://www.bea.gov/data/gdp/gross-domestic-product>

² <https://www.bls.gov/news.release/empsit.nr0.html>

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