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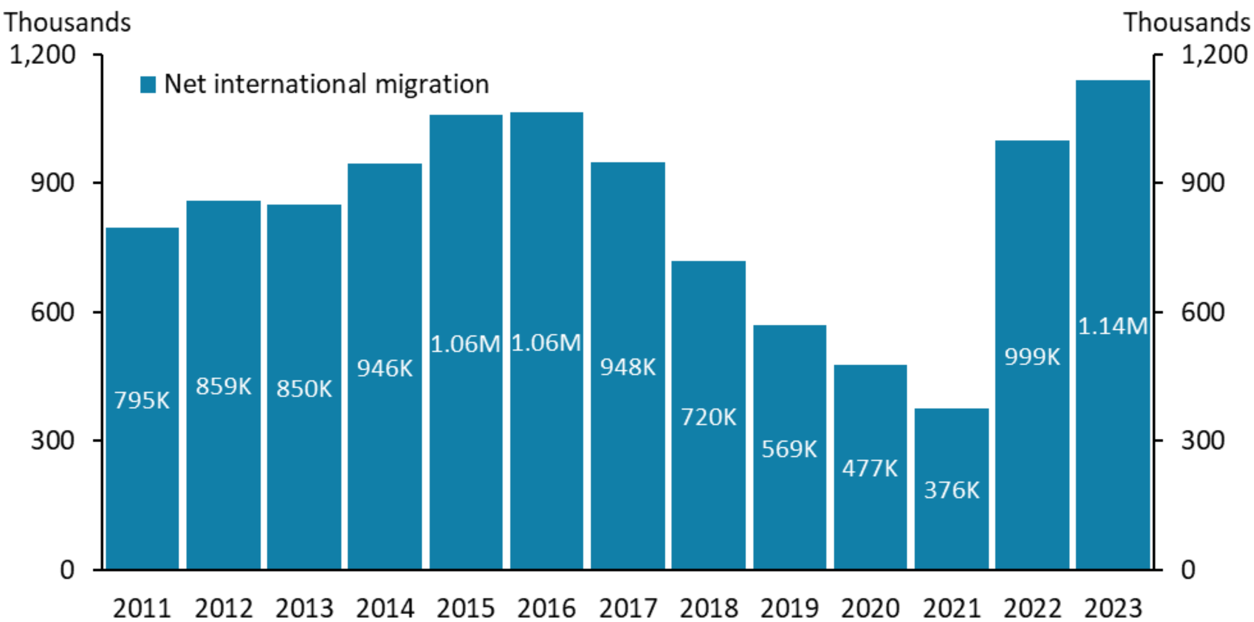
Rising Immigration Has Helped Cool an Overheated Labor Market

By Elior Cohen

The United States has experienced a substantial influx of immigrants over the past two years. In 2023, net international migration surpassed its pre-pandemic peak. This flow of immigrant workers has acted as a powerful catalyst in cooling overheated labor markets and tempering wage growth across industries and states.

After five years of consistent declines, net international migration to the United States experienced a remarkable resurgence in 2022 and 2023. Chart 1 shows the net number of international migrants that entered the United States each year from 2011 to 2023. As global travel restrictions from the COVID-19 pandemic eased, immigration rebounded sharply. By 2023, net international migration had not only recovered but surpassed its 2016 peak, reaching 1.14 million individuals according to data from the U.S. Census Bureau. However, Census data is released with a lag, and recent estimates using higher-frequency data suggest the actual number may have been as large as 3 million (Peng and Walker 2024).

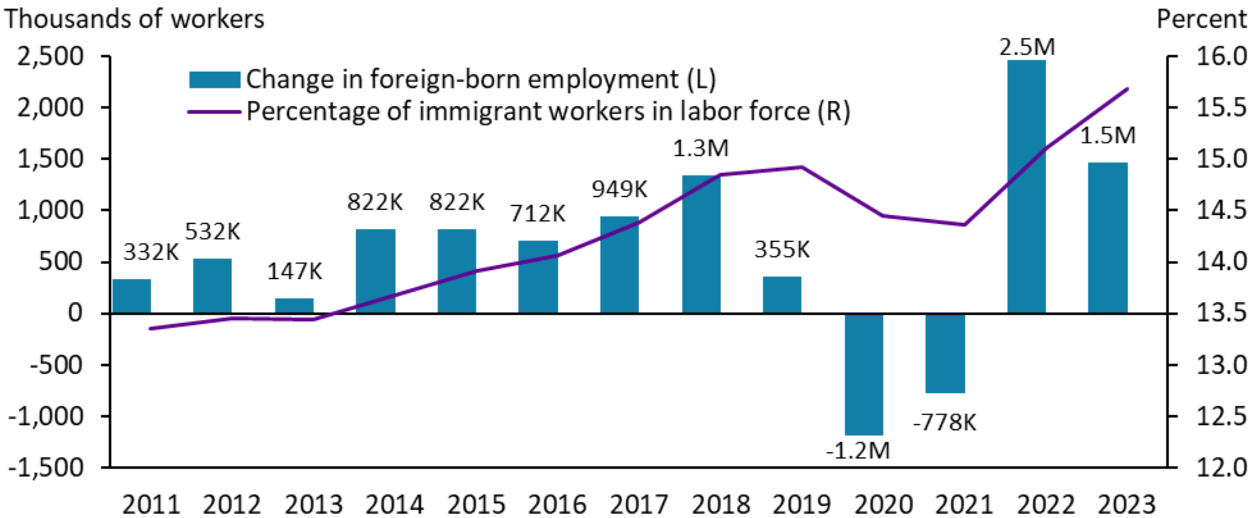
Chart 1: Net international migration rebounded in 2022 and 2023, surpassing its 2016 level



Sources: U.S. Census Bureau.

This influx of immigrants over the past two years has boosted the labor supply. Chart 2 shows the change in total foreign-born employment alongside the percentage of immigrant workers in the labor force from 2011 to 2023. At the national level, the number of immigrant workers increased by around 2.5 million in 2022 and 1.5 million in 2023. As a result, the percentage of employed workers who are immigrants rose from around 14 percent pre-pandemic to almost 16 percent by 2023.

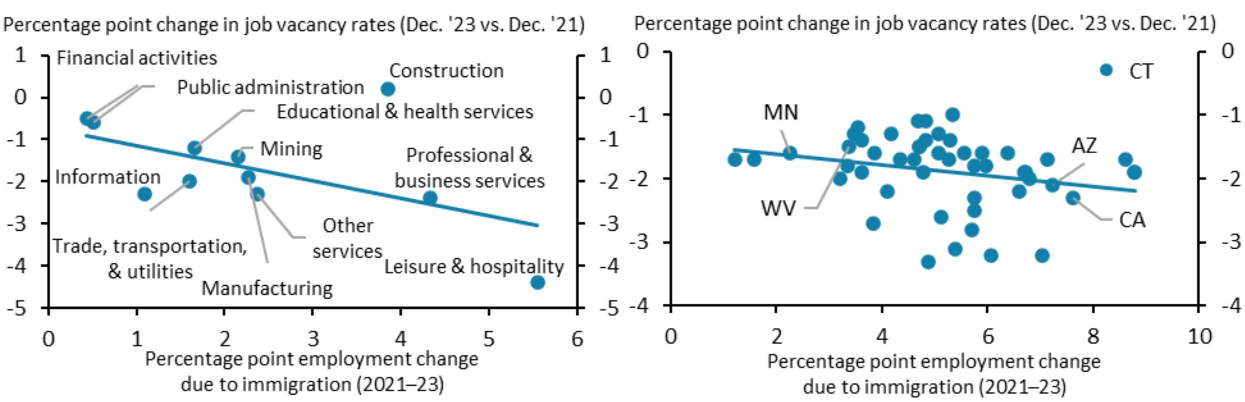
Chart 2: Both the number of immigrant workers and the percentage of workers who are immigrants have increased



Notes: Workers are considered individuals who report employment in the U.S. Census Bureau's Current Population Survey (CPS). Immigrant workers include any individual who was born outside the United States.
Sources: U.S. Bureau of Labor Statistics (Haver Analytics) and author's calculations.

The influx of immigrant workers appears to have helped alleviate the severe staffing shortages in certain industries that were pervasive during the pandemic's volatile period. The left panel of Chart 3 shows that from December 2021 to December 2023, every 1.0 percentage point increase in employment growth coming from immigrant workers in an industry corresponded to a nearly 0.5 percentage point decline in job vacancy rates, on average. In the leisure and hospitality industry, for example, immigrant employment increased by more than 5.5 percentage points, while the job vacancy rate declined by a corresponding 4.4 percentage points. Industries with smaller increases in immigrant employment, such as public administrative and educational and health services, experienced a more moderate reduction in their job vacancy rates.

Chart 3: Industries and states with a greater influx of immigrant workers saw steeper reductions in job vacancy rates from December 2021 to December 2023

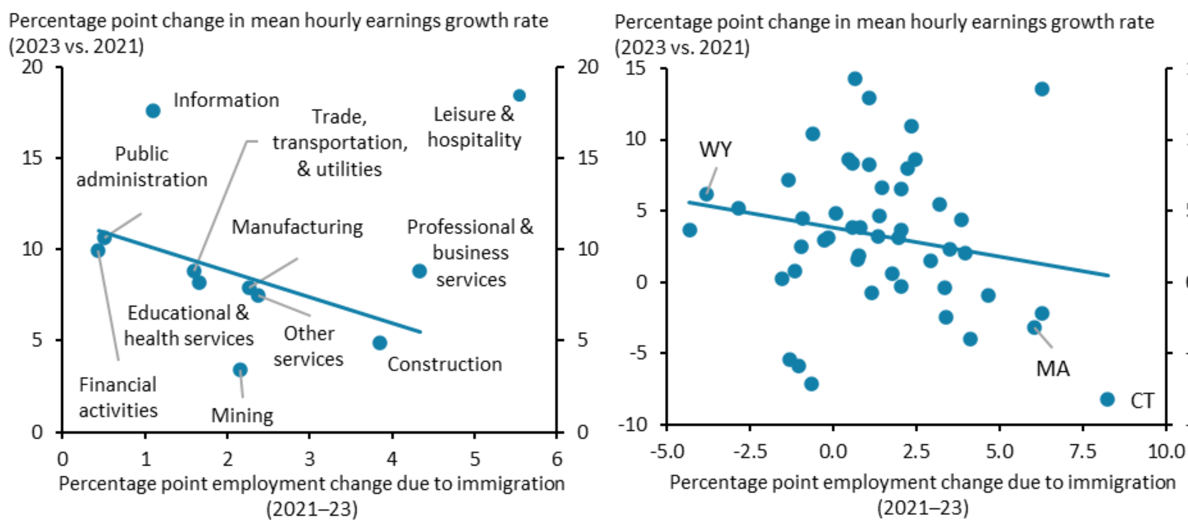


Notes: The change in job vacancy rates is defined as the difference between the industry or state's job openings rate from December 2021 to December 2023. The percentage point change in employment due to immigration represents the part of overall industry or state employment growth driven by immigrants.
Sources: U.S. Bureau of Labor Statistics (Haver Analytics) and author's calculations.

This relationship between immigration and job vacancies holds across states as well as industries. The right panel of Chart 3 shows that states that saw a larger increase in immigrant workers between 2021 and 2023, such as California and Arizona, also experienced larger declines in their job vacancy rates. States with a smaller increase in immigrant workers during this period, such as Minnesota and West Virginia, had more moderate declines in their job vacancy rates.

The same influx of immigrant workers that helped fill job openings also dampened wage pressures across the affected industries and states. At the industry level, sectors with some of the highest immigrant workforce growth, such as construction and manufacturing, saw the sharpest deceleration in wage growth (specifically, average hourly earnings) from 2021 to 2023. The left panel of Chart 4 shows that wage growth slowed by roughly 0.7 percentage points for every 1.0 percentage point increase in an industry's immigrant employment growth. The right panel of Chart 4 shows that this pattern holds across states as well: areas such as Connecticut and New Jersey, which absorbed large inflows of immigrant workers, experienced greater deceleration in mean wage growth than other parts of the country. Together, the results in Chart 4 demonstrate how an ample supply of immigrant labor might reduce competition and bidding for workers, thereby easing wage pressures.

Chart 4: Industries and states that experienced larger increases of immigrant workers tended to see more deceleration in mean hourly earnings growth rates between 2021 and 2023



Notes*:* Mean hourly earnings are computed using the CPS survey by dividing annual earnings by total hours worked during the year. The change in the mean hourly wage growth rate is defined as the difference between the 2021 and 2023 mean hourly earnings growth rate. The percentage point change in employment due to immigration represents the part of overall industry or state employment growth driven by immigrants.
Sources: U.S. Bureau of Labor Statistics (Haver Analytics) and author's calculations.

Overall, this analysis underscores how the recent increase in immigration has helped stabilize the labor market over the past two years. In industries and states that have struggled to fill positions, the arrival of immigrant workers has eased labor shortages and moderated wage growth.[1] This result is consistent with previous work showing that lower immigration levels increased job vacancies and drove wage growth (Cohen and Shampine 2022). However, the results from this *Bulletin* as well as from Cohen and

Shampine (2022) demonstrate that immigration has uneven effects across sectors and labor markets, suggesting outcomes from increased immigration may vary by industry and location.

Endnote

[1] An important caveat to the analysis is that immigrants may target locations, industries, and occupations based on labor market conditions such as job opportunities and wages, which makes the interpretation of the presented relationship as causal limited (National Academies of Sciences, Engineering, and Medicine 2017).

References

Cohen, Elior, and Samantha Shampine. 2022. "Immigration Shortfall May Be a Headwind for Labor Supply." Federal Reserve Bank of Kansas City, *Economic Bulletin*, May 11.

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