The Tight Labor Market in the Rocky Mountain Region is Showing Some Signs of Easing

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Labor market conditions are showing some early signs of softening, as imbalances between labor demand and supply are improving. While labor markets remain strong in the Rocky Mountain Region, contacts suggest moderating labor market tightness in the coming year. This Rocky Mountain Economist provides an overview of recent regional labor market conditions, and prospects for the regional labor market in 2024 reported by businesses throughout the region.

Softening Labor Demand and Slower Wage Gains

Tight labor markets, characterized by labor shortages and rising wages, have been a key feature of the regional and national economy over the last couple of years. However, these pressures are now showing some signs of subsiding. Labor market tightness contributed to rising wages, which coincided with outsized inflationary pressures, especially in expenditure categories closely tied to higher labor costs (RME 2023Q2). Some of those pressures are starting to moderate, evidenced by slower employment growth in the region and tempering wage pressures. The pace of job gains slowed to 1.8% year-over-year in 2023 across Colorado, New Mexico and Wyoming, well below the 4.3% annual gain in 2022 (through October). Additionally, average annual hourly earnings slowed in all three Rocky Mountain states. In 2023, wages grew 4.1%, 0.2% and 3.6% on average in Colorado, New Mexico and Wyoming respectively, compared to 8.1%, 9.8% and 4.0% in 2022.

Businesses are suggesting this tempering of labor conditions in the Rocky Mountain region will continue into 2024. Respondents from the Kansas City Fed surveys in Colorado, Wyoming and New Mexico indicate growth in labor demand for many businesses may be subsiding (KC Fed Surveys). Compared to this time last year, fewer respondents plan to add workers, and a majority plan to keep current staffing levels, all suggesting weaker labor demand ahead (Chart 1).

Coincident with the slowing demand for workers, business contacts are also reporting plans to raise wages less than last year and are also more selective about which employees will receive wage increases (Chart 2 and 3). Compared to 2022, the share of business contacts providing wage increases to all new hires fell by half. For existing employees, fewer contacts reported above average wage increases and many more reported keeping wages unchanged. Not only are companies reining in wage gains, but they are now more discerning about how wage increases will be distributed, choosing to allocate wage increases to only some categories of workers. Ultimately, this survey evidence corroborates recent regional labor data (i.e., slower employment and
smaller wage gains), and suggests softening labor demand.

**Businesses implemented a wide array of hiring strategies to offset challenging labor conditions**

To fill job openings, most firms raised wages and benefits for staff in recent months, while many also focused on retention, and hired less qualified workers that may need training (Chart 4). Strategies to reduce turnover and train workers can contribute to higher labor productivity over time, benefiting both workers and business owners. The longer workers stay in their jobs and the more skilled they are at their work, the more productive they tend to become (RME 2022Q3). Furthermore, lower turnover means there is less competition for open positions, as people stay in their jobs longer. This reduces the likelihood firms have to compete on wages to attract employees, thus alleviating overall wage pressures.

**Labor indicators and further labor market improvements**

While labor demand is softening, labor supply has been on the rise and worker retention is higher. During the post-pandemic recovery, the size of regional labor force initially rebounded quickly, and then began to grow again throughout 2023. Driven by gains in New Mexico and Colorado (not shown separately), the recent labor force expansion in the region added much needed supply side relief to a labor constrained economy (Chart 5). Additionally, as firms implemented worker retention strategies, quits rates edged down, suggesting lower turnover and a diminished wage competition (Chart 6). With more people willing to stay in their current jobs, this common leading indicator also suggests softening labor conditions and slower wage gains going into next year (RME 2022Q3, RME 2022Q4).

**Looking Ahead**

While the regional labor recovery has been marked with worker shortages and higher wages, a reprieve from recent tightness may be on the horizon for 2024. Demand for workers is subsiding and businesses are expressing a diminished willingness to increase wages. Additionally, more workers are re-entering the regional labor force, adding much needed supply to a labor market seeking greater balance. All together, we may anticipate softer labor market conditions for the regional economy in the upcoming year but must monitor whether businesses’ expectations will come to fruition.
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