News Release

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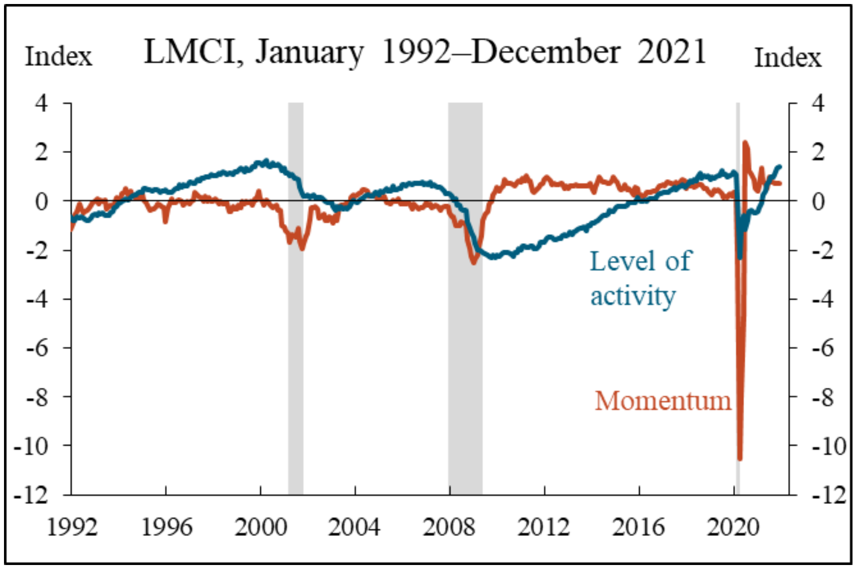
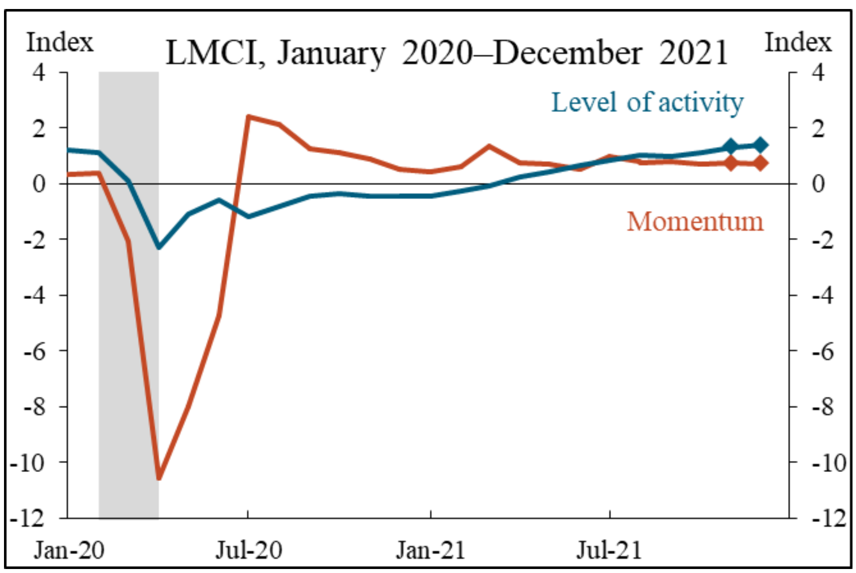
The KC Fed LMCI suggests the level of activity increased slightly in December, while momentum was little changed.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity increased slightly in December, while momentum was little changed. The level of activity indicator increased by 0.05 in December from 1.32 to 1.38 (rounded). Meanwhile, the momentum indicator was little changed in December at 0.72. Both indicators remained above their longer-run averages in December.





These readings likely do not fully describe the state of the labor market at the end of December, as many of the input data series reflect conditions early in the month. In particular, the series do not include the effects of the surge in the Omicron variant of COVID-19 that occurred later in the month. For example, data from the Bureau of Labor Statistics' Household Survey are from the reference period of December 12 through December 18. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for November. Therefore, labor market developments in the latter half of December, including the labor market response to recent COVID-19 developments, will likely show up in the January 2022 LMCI readings.

The level of activity indicator has increased by 0.70 since June. The table to the right shows the five labor market variables that made the largest contributions to this increase. Overall, 14 variables made a positive contribution to the change in the activity indicator over the last six months, one variable made no contribution, and nine variables made a negative contribution. The largest positive contributor to the level of activity was job flows from unemployment to employment as a percent of total unemployed. In December, 28 percent of workers who had been unemployed in the previous month found a job compared with 22 percent in June. The largest negative contributor to the level of activity was the JOLTS hires rate. December data for this series are not yet available, but 5.0 percent of the employed were hired in November, down from a recent high of 5.2 percent in June. Although the hires rate has decreased slightly over the last six months, it is still well-above the pre-pandemic average of 4.0 percent. Overall, both these contributors indicate a tight labor market, where job opportunities are plentiful.

Largest Contributions to the LMCI

Contributions to the increase in the *level of activity* indicator over the last six months	**Positive contributions to the *momentum* indicator in December 2021**
Job flows from U to E	Announced job cuts (Challenger-Gray-Christmas)
Job losers	Expected job availability (U of Michigan)
Unemployment rate (U3)	Manufacturing employment index (ISM)
Unemployed 27 or more weeks	Initial claims
Broad unemployment rate (U6)	Labor force participation rate

Note: Contributions are ordered from largest in absolute value to smallest.

The table also shows the five variables that made the largest positive contributions to the momentum indicator in December 2021. The momentum indicator was 0.72 in December. Overall, 18 variables made a positive contribution to momentum in December, and six variables made a negative contribution. The largest positive contributor was announced job cuts (Challenger-Gray-Christmas). In December, the series reported 12 job cuts per 100,000 members of the labor force. The pre-pandemic average was 44 job cuts per 100,000 members of the labor force. The largest negative contributor to momentum was the three-month percent change in average hourly earnings for production and non-supervisory employees. Average hourly earnings rose by 1.7 percent from September to December, well above the series average of 0.8 percent. Typically, higher wage growth is negatively related with momentum because it is often associated with slower employment growth in subsequent months. However, during the pandemic higher wage growth has likely been a consequence of constrained labor supply. Thus, the typical relationship between wage growth and future employment growth may not hold as higher wage growth may ease these supply constraints and increase employment. Thus, labor market momentum may not weaken in the coming months.