

Q. What Does A Tight Labor Market Mean Anyway? by Michael J. Pisani, Ph.D.

A tight labor market is a positive reflection of a strong economy where employers find it difficult to fill job openings. Basically, there are more positions available than people to fill those positions. If you are a worker, you will find it a "sellers market" for your job related skills. In such an environment, workers typically see an increase in employment remuneration (income and benefits) as well as greater opportunities for new and "better" employment. The buyers of labor, e.g., businesses, must offer more attractive employment packages not only to lure new employees, but also to keep current employees from leaving.

Unfortunately, last year (2001) saw a national economic slowdown exacerbated by the tragic events of September 11 whereby the tight labor market of 2000 was replaced by the present economic situation best characterized as a "soft" labor market. That is, a weak economy typically translates into a weak demand for labor. This weak demand for labor allows economic hiring agents, like businesses, to be more selective in their hires and to be more conservative in the price paid to acquire labor (e.g., a downward pressure on wages). In this "buyers market," workers will find that they have less bargaining ability and fewer employment opportunities. So in our present national economy, the employment outlook is anything but "tight."

Employment statistics can help us identify when the labor market is tight or soft. Though there is a bit of disagreement within the academy as to the exact numbers, I would suggest in today's new global and information economy that when unemployment rates are below four percent we are operating within a tight labor market. Conversely, when unemployment rates exceed five and a half percent, a soft labor market prevails. The further the unemployment rates are from the break points, then the more apt the "tight" (under 4%) or "soft" (over 5.5%) labor market label. A grey area exists between unemployment rates of four and five and a half percent where the labor market is neither tight nor soft.

In Texas, December 2001 unemployment figures reflect a statewide unemployment rate of 5.2%, somewhere in the grey area described above, but below the national average of 5.4%. When broken down into the 27 metropolitan statistical areas (MSAs) within the state, seven MSAs reflect a tight labor market, nine MSAs indicate a soft labor market and the remaining 11 MSAs fall within the grey or indeterminate range (see Table 1). These mixed results fit neatly into our labor market categorization, balanced between tight, grey and soft, based upon the indeterminate statewide unemployment rate of 5.2%. So statewide, the employment picture may be somewhat unsettled using our present analysis with many areas

still experiencing the lingering negative economic effects of 2001. Yet there are many encouraging employment signs as reflected by the continuation of a tight labor market in nearly one-third of the state's MSAs. I believe 2002 looks to be a rebound year within the state for employment and economic growth- indicating a movement toward a tighter labor market picture.

Table 1: Texas Labor Market Description by Metropolitan Statistical Area - December 2001

Metropolitan Statistical Area	Unemployment Rate	Tight, Soft, or Indeterminate Labor Market
Abilene	3.4	Tight
Amarillo	3.1	Tight
Austin-San Marcos	4.6	Indeterminate
Beaumont-Port Arthur	7.3	Soft
Brazoria	5.5	Indeterminate
Brownsville-Harlingen	9.0	Soft
Bryan-College Station	1.4	Tight
Corpus Christi	5.4	Indeterminate
Dallas	5.9	Soft
El Paso	7.4	Soft
Fort Worth-Arlington	4.8	Indeterminate
Galveston-Texas City	6.0	Soft
Houston	4.5	Indeterminate
Killeen-Temple	4.3	Indeterminate
Laredo	6.4	Soft
Longview-Marshall	5.6	Soft
Lubbock	2.2	Tight
McAllen-Edinburg-Mission	12.7	Soft
Odessa-Midland	4.0	Indeterminate
San Angelo	2.7	Tight
San Antonio	4.2	Indeterminate
Sherman-Denison	6.6	Soft
Texarkana	4.4	Indeterminate
Tyler	4.6	Indeterminate
Victoria	4.0	Indeterminate
Waco	3.8	Tight
Wichita Falls	3.7	Tight

Source: Texas Workforce Commission

*Chart data updated to reflect revised 2001 figures by LMI on 2/22/02.

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