Flash Economics

N° 42
November 15th, 2024

Disinflation in the United States since the beginning of 2022 can be linked to immigration

The decline in inflation and wage increases since the beginning of 2022 in the United States can be attributed to the easing of labour market tensions.

However, this reduction in labour market tensions is not due to economic weakness, but rather to the significant level of immigration since 2022.

Until June 2024, there was no limit to the number of immigrants seeking asylum in the United States, and this number exceeded 3 million in 2023 (it has ranged between 1 million and 1.8 million per year since 1992). It is estimated that from 2021 to the summer of 2024, 10 million undocumented aliens reported to U.S. authorities and 2 million aliens entered the country without any contact with U.S. authorities.

This very high number of immigrants has clearly contributed to the easing of labour market tensions and to disinflation in the United States.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus

Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Reduction of tensions in the U.S. labour market and decrease in inflation

Since the beginning of 2022, the United States has experienced **a substantial reduction in wage increases and inflation** (**Charts 1/2**).

Chart 1
United States: Nominal per capita wage (Y/Y as%)

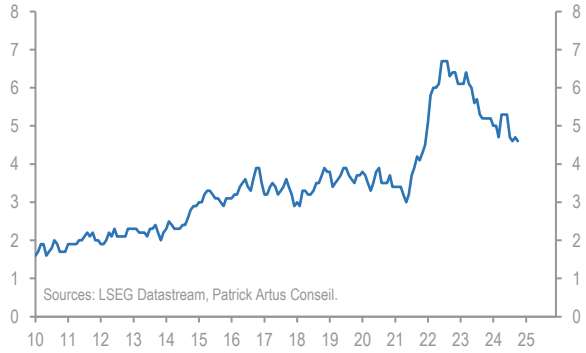
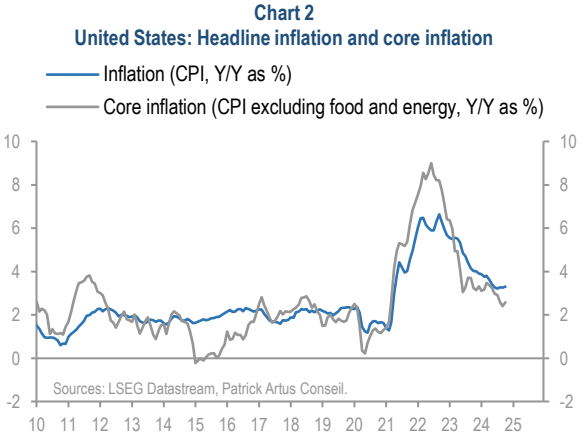
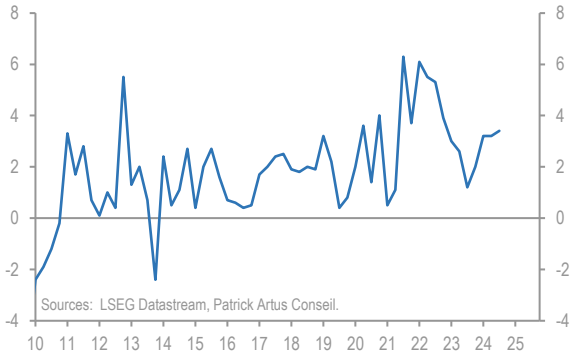


Chart 2
United States: Headline inflation and core inflation



The decline in wage increases has led to a **significant reduction in unit labour costs**, with ongoing substantial productivity gains (**Chart 3**).

Chart 3
United States : Unit labour costs (Y/Y as %)



The easing of the labour market is the primary factor behind the slowdown in unit labour costs and the decrease in inflation. This easing is evidenced by the reduction in the **proportion of companies experiencing recruitment difficulties (Chart 4)** and the decline in the ratio of job vacancies to the **number of unemployed individuals (Chart 5).**

Chart 4
United States: Proportion of companies experiencing recruitment difficulties (as %)

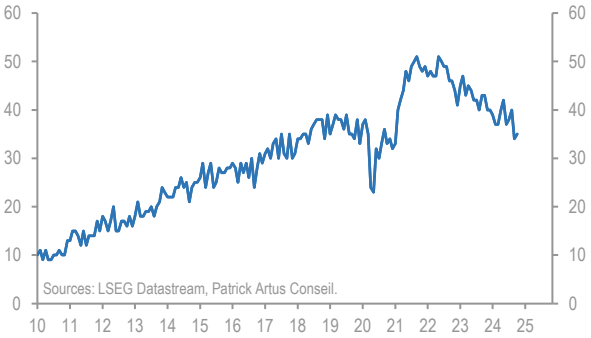


Chart 5
United States: Ratio between number of job vacancies and number of job seekers



The easing in the US labour market is not due to weak growth, but to immigration

The easing observed in the US labour **market is not due to weak growth and job creation (Charts 6/7).**

Chart 6
United States: Real GDP

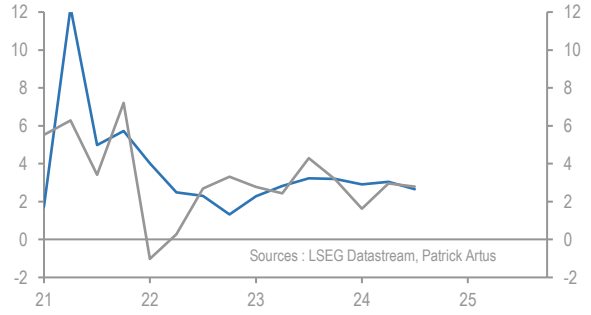
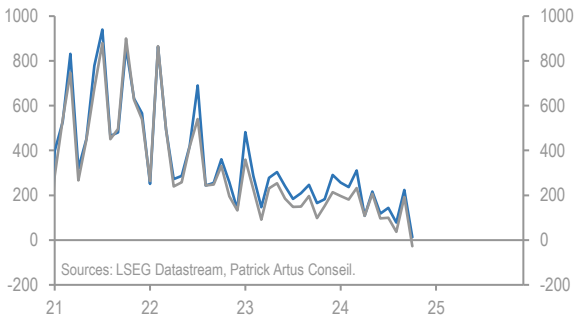


Chart 7
United States: Change in payroll employment
(M/M, thousands of person)



It can be attributed **to the scale of immigration (Chart 8).**

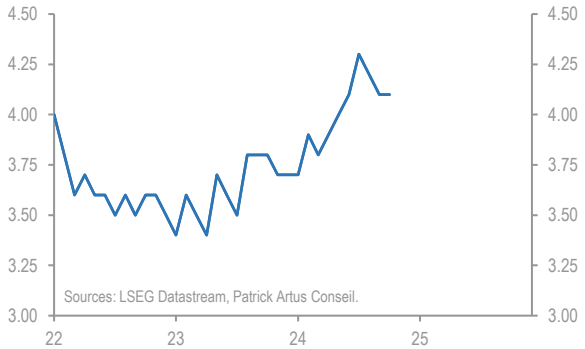
Chart 8
United States: foreign-born population
(as % of the total population)



From 2021 to the summer of 2024, an estimated 12 million undocumented aliens entered the United States. The number of asylum applications reached 10,000 per day at the end of 2023 and the beginning of 2024, until President Joe Biden decided, in June 2024, to close the border with Mexico when the number of illegal entries exceeded 2,500 per day.

Unemployment figures should also be treated with caution, as the rise in the unemployment rate since the beginning of 2024 (**Chart 9**) could also be explained by the scale of immigration.

Chart 9
United States: Unemployment rate (as %)



Summary: let us not forget immigration when talking about falling inflation in the US

Since the beginning of 2022, the slowdown in wage increases and inflation in the United States has not been caused by a drop in growth or job creation. The scale of immigration has played a major role in easing the labour market and reducing hiring difficulties.

A halt to immigration could therefore lead to a rise in wage increases and inflation in the United States.

Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.