INSIDER

The labor shortage is a demographic and immigration problem, the chief global strategist at JPMorgan Asset Management says

Madison Hoff

Apr 16, 2022, 8:40 AM

- **Fewer immigrants coming into the US may be contributing to the labor shortage.**
- **JPMorgan's David Kelly said "significant demographic problems" are a factor.**
- **Employers that can't adapt their business or find workers may have to close, Kelly told Insider.**

Speeding up immigration could be a way out of the labor shortage.

That's according to David Kelly, the chief global strategist of JPMorgan's asset management division.

"If we sped up the immigration of people based particularly on work skills and work demand, if we increased the number of people who were allowed to immigrate into the United States based on the skills they bring to the marketplace, we could fix this huge excess demand for labor problem pretty quickly," Kelly told Insider.

But this may not be easy to accomplish.

"I think the problem is that both sides treat immigration as a political football, and therefore you won't get the kind of compromise necessary to increase the number of legal immigrants into the United States while we are suffering this massive labor shortage," Kelly said.

The US is facing a historic labor shortage, with workers making career shifts and quitting their jobs while businesses try to retain or hire enough workers to meet demand. With high levels of both departures and openings in the country, employers are struggling.

Immigration has drastically slowed in the past several years, owing to the pandemic and more restrictive policies during former President Donald Trump's administration. According to an analysis of Census Bureau data from Insider's Jason Lalljee and Andy Kiersz, if 2011 to 2016 immigration trends had continued, there would have been around 2 million more immigrants who entered the country between 2017 and 2020.

Immigrants could have potentially filled many of these open jobs. Kelly said the "biggest segment of immigrants are people in their teens, 20s, and 30s."

Kelly also looked at Census data to see what immigration has looked like over time.

"According to Census estimates, net immigration to the United States, both legal and illegal, amounted to roughly 360,000 per year over the past two years, compared to over 1 million per year in the middle of the last decade," Kelly wrote in a recent weekly note. "This decline reflects both tougher immigration policies and the pandemic, which reduced legal immigration and caused some recent immigrants to return to their native countries."

There's also a backlog of green-card applications for family-based and employment-based immigrants. Kelly said it can take months or years to process green cards. According to a Cato Institute analysis of the employment-based green card backlog, there were around 1.4 million immigrants part of that backlog in 2021.

Companies will need to adapt to the labor shortage or risk failing

Without being able to find talent to keep up with demand, Kelly said some firms could go out of business. "It's very Darwinian," he said, adding that "those who can efficiently use labor will succeed and those who cannot adapt to this environment will fail."

One way they might adapt is by turning to robots, as some North American companies have done in the past year, and figuring out ways to automate the workplace.

"More expensive labor should also lead to further productivity gains as companies use labor-saving technology and business practices to offset the lack of workers," Kelly wrote in the note.

Employers who need to hire more workers to meet demand can also reach out to pools of talent that are often overlooked. For instance, they can look to the increasing number of retirees planning to return to the workforce, a trend reported by Indeed Hiring Lab's Nick Bunker. Employers could also reach out to people with disabilities who may get overlooked, especially if companies don't have interview and workplace accommodations in place.

But the labor shortage isn't something that can be resolved in an instant, "and because it's going to linger, I think wage growth is going to be strong until the next recession

What is a recession? How economists define periods of economic downturn A recession is a period of economic decline spread across the economy that occurs more often than you may think. Here's why and how they happen.

," Kelly said. Average hourly earnings of production and nonsupervisory workers, which Kelly said is about 80% of the workforce in the US, has already been strong. Wages for these workers have increased 6.7% year-over-year for three straight months, as of data from March 2022.

It's not solely immigration that's impacting the shortage of workers. Kelly found that population growth for Americans aged 18 to 64 has been slow.

"The overall number of Americans aged 18 to 64 has risen by just 930,000 over the last three years, or 0.2% per year," Kelly wrote in the note. "This very sluggish growth rate reflects the aforementioned aging of the baby-boom generation and a sharp decline in immigration."

"There are a lot of significant demographic problems behind" the labor shortage, Kelly said.