Research [in] Brief

Does Tighter Monetary Policy Tighten the Labor Market?

Primary issue

From the start of the COVID-19 pandemic until the spring of 2022, job vacancies in the US increased substantially, but they've since declined. One question economists are trying to answer is whether these declines are, at least in part, a response to rising interest rates or if they are due to other factors in the labor market. The answer is crucial to understanding whether the monetary policy tightening that started in early 2022 is influencing the labor market and, if so, to what degree.

Key findings

Researchers used two different approaches to assess the effects of monetary policy on the labor market:

- The first uses variation in industry exposure to monetary policy tightening to test whether industries more exposed to higher financing costs experienced larger declines in vacancies.
- The second uses variation in the effects monetary policy has on borrowing costs across states to test whether states in which monetary policy tightening increases borrowing costs more than in other states have experienced larger declines in vacancies.

The bottom line

Declines in job vacancies observed during the second half of 2022 are consistent with the effects researchers would expect from higher interest rates. This suggests that monetary policy is at least partly responsible for the cooling of the labor market in recent months, though further research is needed to quantify impacts.

Want to find out more? Read "The Effect of Higher Financing Costs on Job Openings and Online Job Postings" at **clefed.org/ec202309**.

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