

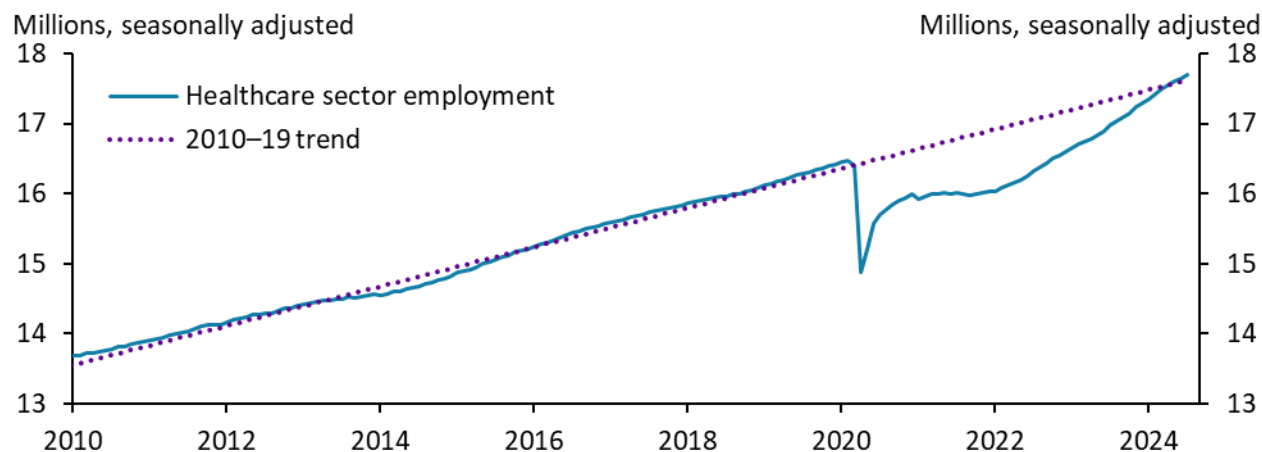
Labor Shortages in the Healthcare Sector Have Eased, Which May Soften Price Pressures

By Johannes Matschke and Emily Pollard

Following severe labor shortages during the post-pandemic recovery, employment and wage growth in the healthcare sector have returned to their pre-pandemic trends. The healthcare sector is labor intensive, and inflation in the sector has historically tracked wage growth. Thus, lower wage growth may limit price pressures in the healthcare sector.

Over the last two years, employment growth in the healthcare sector has been strong, but only in the last few months has it returned to its pre-pandemic trend. Chart 1 shows employment in the healthcare sector (blue line) relative to its 2010–19 trend (dotted line). After suffering pandemic-era losses in 2020 and sluggish employment growth in 2021, employment in the healthcare sector has grown rapidly since the start of 2022 and now stands at 17.7 million, up by 1.2 million relative to February 2020. However, healthcare employment had a strong upward trajectory prior to the pandemic, and employment did not recover to its pre-pandemic trend until 2024. This return to trend suggests that labor shortages in the sector may be resolving, with the potential to moderate payroll gains for the sector going forward.

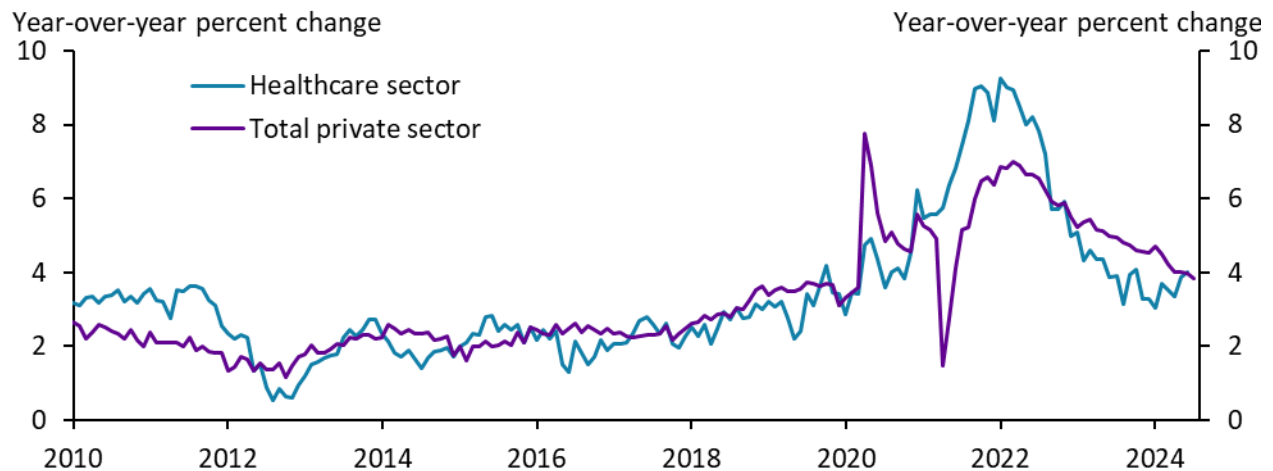
Chart 1: Employment in the healthcare sector has returned to its pre-pandemic trend



Sources: U.S. Bureau of Labor Statistics (Haver Analytics) and authors' calculations.

Indeed, the rebalancing of the labor market has already reduced wage pressures in the healthcare sector to pre-pandemic levels. Chart 2 compares average hourly earnings growth in the healthcare sector (blue line) with that of the total private sector (purple line), which includes healthcare. Prior to the pandemic, wage growth in the healthcare sector was similar to that of the total private sector. However, with healthcare employment remaining well below trend in the wake of the pandemic, healthcare wage growth rose well above that of the private sector, peaking at over 9 percent in January 2022. As healthcare employment has returned to trend, healthcare sector wage growth has also returned to pre-pandemic levels and declined more noticeably than wage growth for the private sector as a whole.

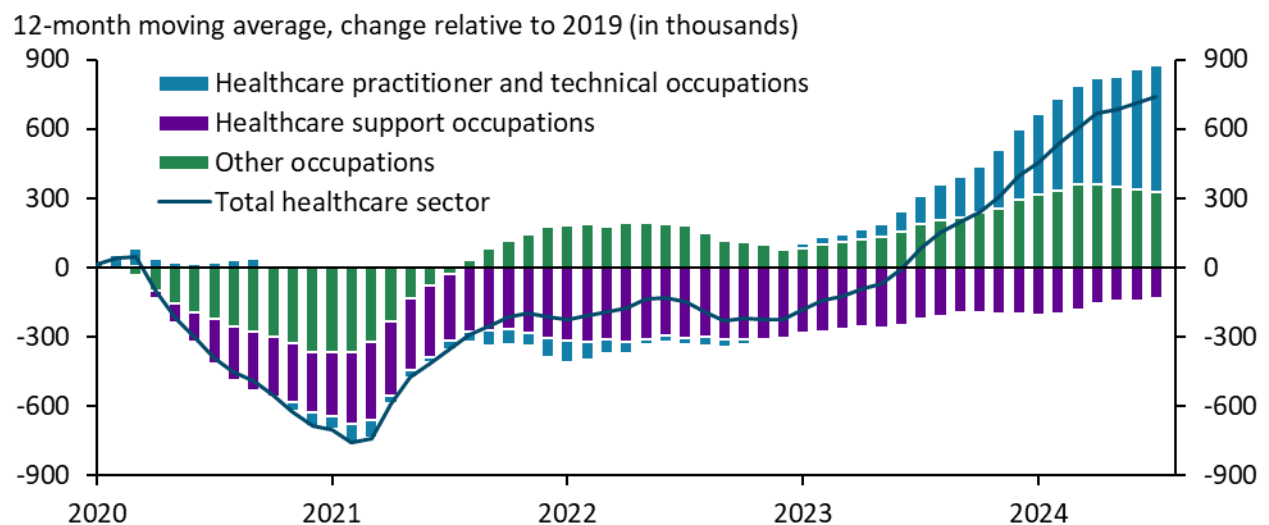
Chart 2: Wage growth in the healthcare sector has returned to pre-pandemic levels



Source: U.S. Bureau of Labor Statistics (Haver Analytics).

Although the overall healthcare labor market appears to be coming into balance, some occupations within the sector added more jobs than others, suggesting shortages for some workers may remain. Chart 3 shows total employment gains in the healthcare sector relative to 2019 (blue line) alongside its decomposition into gains for three occupational groups: healthcare practitioner and technical occupations, such as doctors, nurses, and skilled technicians (blue bars); healthcare support occupations, such as assistant and aide roles (purple bars); and other occupations, such as receptionists or IT support (green bars). Healthcare practitioner and technical occupations and other occupations account for all job gains relative to 2019, while jobs in healthcare support occupations are still below their pre-pandemic level. If employment in healthcare support roles returns to its pre-pandemic level, wage pressures in the healthcare sector could further subside.¹

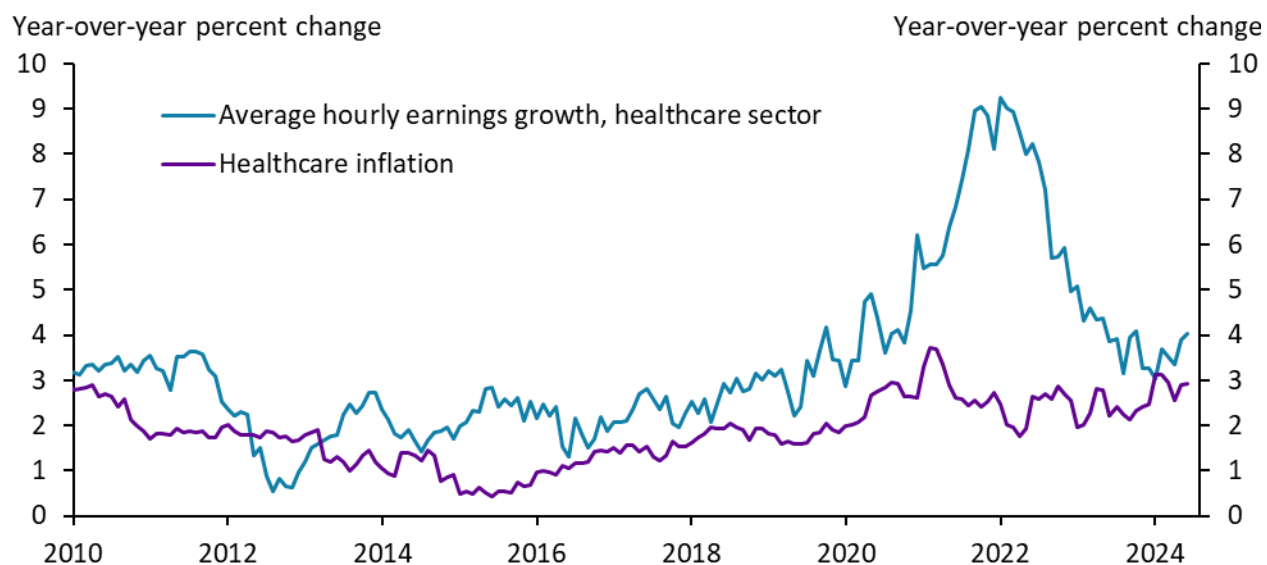
Chart 3: The increase in employment in the healthcare sector is uneven



Sources: U.S. Census Bureau and authors' calculations.

As shown by Bundick, Smith, and Van der Meer (2023), the healthcare sector is labor intensive, and wage growth is therefore historically tied to healthcare inflation. According to estimates from the U.S. Bureau of Economic Analysis, labor accounts for more than 80 percent of output in the healthcare sector. Indeed, as Chart 4 shows, healthcare inflation (purple line) tracked wage growth prior to the pandemic (blue line). However, despite outsized wage gains in the healthcare sector during 2022 and 2023, healthcare inflation has only modestly increased. This observation may in part reflect infrequent price negotiations between insurance companies and healthcare providers, suggesting past wage gains have yet to fully pass through to prices. Alternatively, the gap between inflation and wages in the healthcare sector during 2022 and 2023 could also reflect productivity gains, which increase wages but not prices.²

Chart 4: The decline in wage growth could limit upward pressure on prices



Sources: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics (both accessed through Haver Analytics).

Looking ahead, while previous wage gains could still filter through to inflation, the upside potential for inflation in the healthcare sector may continue to diminish with the labor market in better balance. Although shortages for some healthcare occupations remain, employment has returned to trend, so payroll gains in healthcare may begin to slow and further reduce price pressures in this sector. Indeed, wage growth in the sector has already returned to its pre-pandemic trend. These conditions are in line with the broad deceleration in price pressures across sectors as observed in the May, June, and July inflation readings.

Endnotes

¹ High worker turnover could be contributing to employment in healthcare support occupations remaining below trend. The quits rate for the healthcare and social assistance sector has remained elevated since the pandemic, though it has declined from its pandemic-era peak. However, Frogner and Dill (2022) find that turnover rates were particularly elevated and persistent for aides and assistants.

² The increase in total compensation of employees seems to coincide with an increase in value added, which is a coarse measure for productivity. Additionally, corporate profits in the healthcare sector have been elevated since the pandemic despite rising nominal wages, providing further indirect evidence of productivity gains.

References

- Bundick, Brent, A. Lee Smith, and Luca Van der Meer. 2023. "[Rising Labor Costs in the Healthcare Sector Are Poised to Buttress Services Inflation](#)." Federal Reserve Bank of Kansas City, *Charting the Economy*, September 27.
- Frogner, Bianca K., and Janette S. Dill. 2022. "[Tracking Turnover Among Health Care Workers During the COVID-19 Pandemic](#)." JAMA Health Forum, April 8.

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