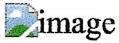


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Migration Drop Slows Labor Supply

THE OUTLOOK |

By Paul Kiernan

Last week, Federal Reserve Chair Jerome Powell said the U.S. labor market has entered “a curious kind of balance.” The demand for workers has cooled, yet the unemployment rate has held steady because the supply of labor has slowed abruptly.

Behind that slowing in the labor supply is a dramatic swing in immigration, from one of the biggest waves in U.S. history to almost none. Economists say that could have subtle but lasting consequences.

A virtual halt to unauthorized border crossings, plus stepped-up deportations and a souring climate for foreigners, means net migration this year could be negative for the first time in decades, some experts predict.

That has a short-run benefit, as Powell alluded to. It means slumping labor demand won't necessarily push up the low 4.2% unemployment rate. But in the long run it could limit the economy's potential growth and generate wider budget deficits. Note

From 2010-19, a net 917,000 people entered the U.S. annually, on average, the Congressional Budget Office says. That leapt to 3.3 million in 2023 and an estimated 2.7 million in 2024, one of the biggest such surges in American history.

In a recent paper for the conservative American Enterprise Institute, economists Wendy Edelberg, Stan Veuger and Tara Watson estimated net migration will drop to negative 205,000 this year, give or take roughly a quarter-million. They attribute that to a combination of minimal illegal immigration and a surge in out-migration to between 675,000 and 1.02 million above typical rates, assuming increased deportations and voluntary departures in response to the Trump administration's policies.

The last time annual net migration was consistently so low was the 1960s. But back then, the baby boomers were entering the workforce and powering the economy. Now they are retiring, leaving the labor supply more dependent on immigrants. Note

Economists and demographers say immigrants already account for the vast majority of growth in both population and labor supply. With zero net migration, Apollo Chief Economist Torsten Slok estimates, the U.S. economy would be able to sustainably add only about 24,000 nonfarm jobs a month, compared with an average 155,000 from 2015 through 2024.

Not everyone expects a net outflow. Goldman Sachs forecasts net immigration to stabilize around 500,000 a year, in part because of the difficulty of further scaling up deportations.

The actual flow of immigrants and emigrants is impossible to measure precisely in real time. The U.S. doesn't keep comprehensive records on people who depart the country, and the Trump administration has stopped publishing regular data on deportations. People living here illegally might enter and exit without leaving any statistical trace.

There are claims that net migration has already turned negative, such as a report by the Pew Research Center last week. In an Aug. 14 news release, Homeland Security Secretary Kristi Noem said 1.6 million unauthorized immigrants had left the U.S. in her first 200 days on the job. Spokeswoman Tricia McLaughlin said in an email that figure "comes from our own numbers," without providing detail.

However, Noem's release included a chart copied and pasted from the Center for Immigration Studies, a group that advocates for less immigration that recently estimated 1.6 million unauthorized migrants have left since January.

Both that figure and Pew's rely heavily on one source: the Census Bureau's monthly Current Population Survey. But the agency cautions against using the CPS to estimate the population of immigrants over time.

The CPS is based on a monthly sample of about 60,000 households, which is extrapolated to match independent estimates of the population size that are likely out of date. Moreover, since November, the number of noncitizens responding to the CPS plunged 18%.

"Lower response rates would lead to incorrectly low estimates of the immigrant population in surveys," said Michelle Mittelstadt, a spokeswoman for the Migration Policy Institute. "It's incredibly unlikely that 1.6 million unauthorized immigrants have left the U.S. so far during this Trump administration."

While the decline in net immigration can't be measured precisely, it is being felt. Between May and July, the economy added just 106,000 nonfarm payrolls, or 35,000 a month, the lowest three-month stretch since the Covid-19 pandemic. The fact the unemployment rate didn't rise at the same time suggests fewer people were entering the labor force in search of jobs, evidence of the immigration crackdown.

Because economic output depends on the number of workers and their productivity, lower immigration mechanically lowers the growth rate. Economists surveyed by The Wall Street Journal last month expect Trump's immigration policies to subtract around 0.2 percentage point from growth in 2025 and 0.3 point in 2026.

For some sectors, the drop could be more severe. In 2023, noncitizens made up 33% of maids and housekeepers, 30% of construction laborers and 24% of landscaping workers, according to annual census data compiled by IPUMS Center for Data Integration. The Agriculture Department recently estimated that 42% of crop workers were immigrants without work authorization.

The immigrant population shrank between roughly 1930 and 1970, as a prior wave of Southern and Eastern European immigration subsided. The difference now is that U.S. fertility rates are near record lows.

Without positive net migration, the population will start to shrink. That would strain public finances and curb demand in some sectors such as housing.

"Certainly economies can function with very low population growth," Watson said. "There's just less dynamism and less income per capita usually in the long run."