

## COVID-19 IMPACT ON LABOR MARKETS

The COVID-19 outbreak has adversely impacted the labor markets as 56 million Americans have filed for unemployment claims between March 15th and August 13<sup>th</sup>. In every single week since the pandemic hit, roughly over the course of the last 21 weeks, more weekly insurance claims have been filed than in any week in history, with claims arriving at a rate of 6-7 million per week in April and the most recent 4-week moving average at 1.25 million as of August 13<sup>th</sup>. In comparison, the previous worst weekly loss of jobs on record (records kept back to 1948) was 1.07 million, set in January of 1982. In addition, the U.S. unemployment rate increased from a 50-year low of 3.5% in January to an all-time record high of 14.4% in April. Although this number has subsequently dropped in recent months to 10.2% in July and labor markets have started the journey to healing as the economy slowly reopens, the level of weakness remains unprecedented. In this write-up, we explore the different statistics used to assess the health of the labor markets, how coronavirus has impacted the calculation of those statistics and how the current situation compares to previous recessions.

### Labor Markets Statistics

Data on unemployment is compiled by the Bureau of Labor Statistics (BLS) monthly in the Current Population Survey (CPS) which includes about 60,000 households. This is also referred to as the household survey. During the pandemic, people's behavior has been different than in prior recessions, which has had an impact on the survey results. Typically, individuals that lose jobs during a recession will transition into unemployment, usually over an extended period. However, with nonessential businesses closed and stay-at-home mandates in place, people out of work were less likely to actively look for a job in the current environment. In addition, the closing of schools might have left many who became unemployed with childcare responsibilities that prevented them from looking for a job. The dynamics in 2020 were different than in a typical downturn. Therefore, it is important to consider all three key measures compiled by the BLS to evaluate the damage caused by the pandemic: employment-to-population ratio, the unemployment rate, and labor force participation rate.

The employment-to-population ratio measures the portion of the civilian population currently employed against the total U.S. working-age population (anyone over 16, not including inmates of institutions and those who are not on active duty in the Armed Forces). Based on BLS data, employment-to-population ratio was 51.3% in April, its lowest level recorded since 1948 after reaching 61.2% in early 2020. In comparison, the unemployment rate accounts for the number of people that are unemployed, who are actively looking for work. Discouraged workers who stop looking for work are reclassified out of the labor force, hence, the actual unemployment rate may be understated. Labor force is measured as the total number of people who are employed plus the unemployed who are seeking work. To be considered in the labor force, an individual must be available, willing to work and have been looking for work recently. The employment-to-population ratio is viewed as being a broader measure of the labor markets since it considers those not in the labor force and captures those discouraged about the prospects of finding a job. However, it is important to consider all three statistics in relation to one another.

The unemployment rate statistic is likely to be understated during recessions, but the pandemic presented other challenges that may skew the numbers even further. Generally, the speed at which the unemployment claims increased in the early weeks was unprecedented and the U.S. labor market information system is not set up to track changes that happen this rapidly. Measurement challenges occurred during the coronavirus outbreak as the virus has limited in-person data collection efforts. The challenges have resulted in an approximately 10 percentage point decrease in the response rate. Furthermore, there has been a sharp decline in labor force participation according to the U.S. Bureau of Labor Statistics. As indicated previously, someone that is out of work but is not actively looking for a job, is not counted as "unemployed". There were 8.3 million Americans who stopped working between February and April 2020, who were not counted by the BLS as unemployed but rather reclassified as having dropped out of the labor force. The Congressional Budget Office predicts that labor force participation will likely fall from a level of 63.2% in the first quarter to 59.8% in the third quarter, which would be the lowest percentage since the 1970s. There are also a lot of workers who were worried about returning to work out of fear of contracting the virus, so they have chosen not to work even though under normal circumstances they might have been actively been looking for a job. Additionally, there are workers that continue to mistakenly be classified as employed rather than unemployed on temporary layoff. The current measure of the unemployment rate does not consider these changes in labor force participation or the unique challenges presented by the pandemic.

### Unemployment Rate Across Sectors

Job losses during the pandemic have mostly impacted low-wage workers. Just in the month of April, 37% of workers that fall in the bottom fifth of the wage distribution lost their jobs, compared to 9% in the top fifth, and 21% of workers overall. By late May, the unemployment level among low-wage earners was 30%. From a sector perspective, employees of industries most vulnerable to “social distancing” are also some of the lowest paid in the workforce.

According to Pew Research Center, one in four U.S. workers, or about 38 million out of 157 million, are employed in industries that were directly impacted by the pandemic, particularly leisure and hospitality, transportation, restaurants, childcare services, and retail trade sectors. In February, nearly 17 million Americans worked in the leisure and hospitality sector which consists of arts, entertainment and recreation, including spectator sports, museums and amusement parks and gambling, as well as accommodation and food services, and by April that number had fallen nearly 50% to 8.7 million. As of the end of July, the unemployment rate of this sector remains at 25%. Nearly all jobs in this sector involve some form of in-person interaction which became impossible to maintain when social distancing practices were put in place. While some businesses have tried to adapt to the new economic reality, such as restaurants moving to take-out orders and contactless delivery, others like sports arenas and movie theaters have had to remain closed, either voluntarily or because it is state mandated. Another subsector that saw a large reduction in positions was personal and laundry services, which includes hairdressing, dry cleaning, laundromats, pet services etc. Although laundry workers are classified as essential in some states, they have seen business volumes drop sharply not only because customers are avoiding trips to maintain social distancing but because many employees working from home are no longer in need of these services. The real estate market also has taken a hit as unemployed tenants struggle to make rent payments. The short-term emergency cash, enhanced unemployment benefits and eviction bans that were placed in the beginning might have helped keep renters afloat in the early months. As unemployment benefits expired at the end of July and many still remain without work, this may lead to an increase in delinquent rents and further potential problems for owners that may need to foreclose on properties if they are not able to cover mortgage payments.

### Labor Markets Today vs. Previous Recessions

The employment situation during the COVID-19 induced recession is worse when compared to previous recessions. As stated earlier, the unemployment rate reached 14.7% in April, the highest level since the Great Depression, although the similarity may be somewhat artificial since the causes of the existing economic contraction are different from the Depression era and the government has access to more policy tools than it did in the 1930s. The Great Depression was caused by structural economic imbalances and most of the job losses were permanent while the most recent recession was triggered by a pandemic and a lot of employees were temporarily being laid off or furloughed and expected to return to work. That doesn't mean that many of the job losses won't ultimately become permanent depending on the scope of business failures and how long it takes for economic activity to get back to pre-pandemic levels, but it will likely be easier for many of the individuals that are currently unemployed to find employment once there is a vaccine and we no longer experience rolling economic shutdowns. According to the National Bureau of Economic Research (NBER), there have been two other times in history when the unemployment rate has breached 10%, in December of 1982 and October of 2009. The speed at which the rate has increased in this recession is unmatched in modern history, going from a half-century low of 3.5% to the double digits in just a few weeks. By comparison, it took more than a year during the Depression era to witness a similar increase and 3 years during the Great Recession of 2008, when the number of unemployed increased 8.8 million, from December of 2007 to June of 2009.

The country has turned the corner from the most recent recession and the unemployment rate has come down over the summer, but the road to recovery could be long. For many states that reopened earlier, the unemployment rate has dropped even further, however this has come at the cost of rising infection rates, illustrating the tough tradeoff between saving lives and savings jobs. Many states have had to roll back re-opening plans which may push many employees into longer-term unemployment. As some job losses became permanent, workers will have to look for employment in other sectors, although their mobility may be hindered by the potential need to seek a new skill set through occupational licenses and certifications. Certain industries will likely be substantially reduced in size requiring a reallocation of workers among sectors. It will take years matchings this labor demand to the supply and bringing down the unemployment rate. The unemployment rate has recovered by 0.85 percentage points per year following previous recessions. If we follow a similar pace in this recovery, it may take more than a decade to get back to pre-pandemic levels. However, the challenges presented by the health crisis make it difficult to assess the permanent damage to the economy and labor markets and making forecasts about how long it will take to make a full recovery. Much of the pace and speed of the recovery in labor markets will depend on the public health response and how the country manages the pandemic until there is a vaccine.

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