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THE US LABOR MARKET AND THE COVID-19 CRISIS: Explanations and Predictions

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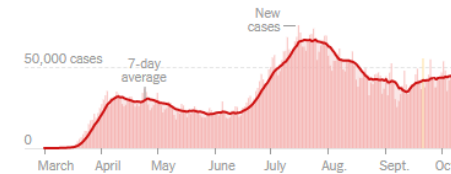
HOW HAS THE LABOR MARKET EVOLVED DURING COVID-19?

- In March, the virus was spreading in the United States
 - March 4th: 100 cases → March 27th: 100,000 cases
 - Feb 29th: 1 State of Emergency issued (WA) → March 30th: 30 stay-at-home orders
 - By mid-June all states had begun reopening

Covid in the U.S.: Latest Map and Case Count

By The New York Times Updated October 14, 2020, 8:20 A.M. E.T.

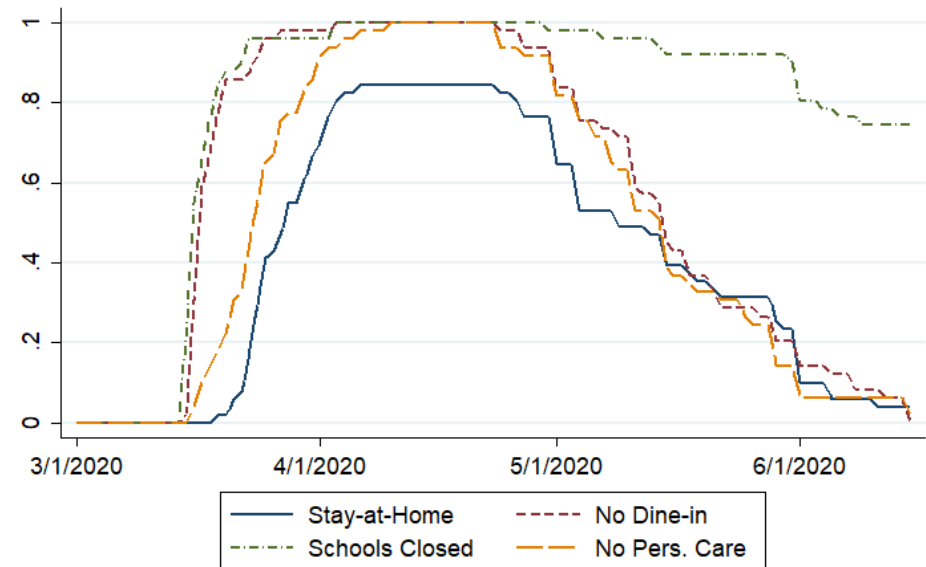
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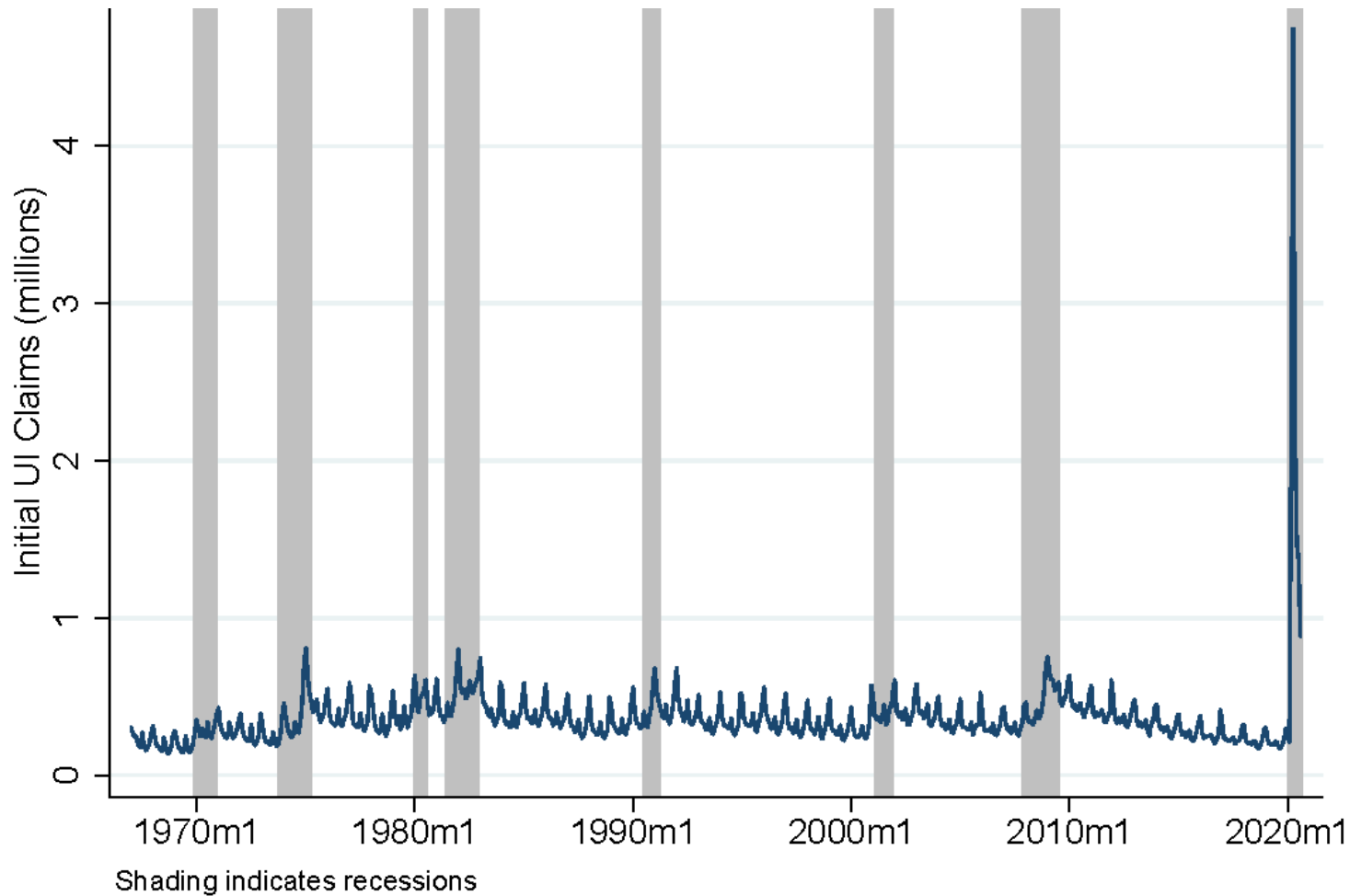


	TOTAL REPORTED	ON OCT. 13	14-DAY CHANGE
Cases	7.8 million+	54,512	+21% →
Deaths	215,781	826	-2% →

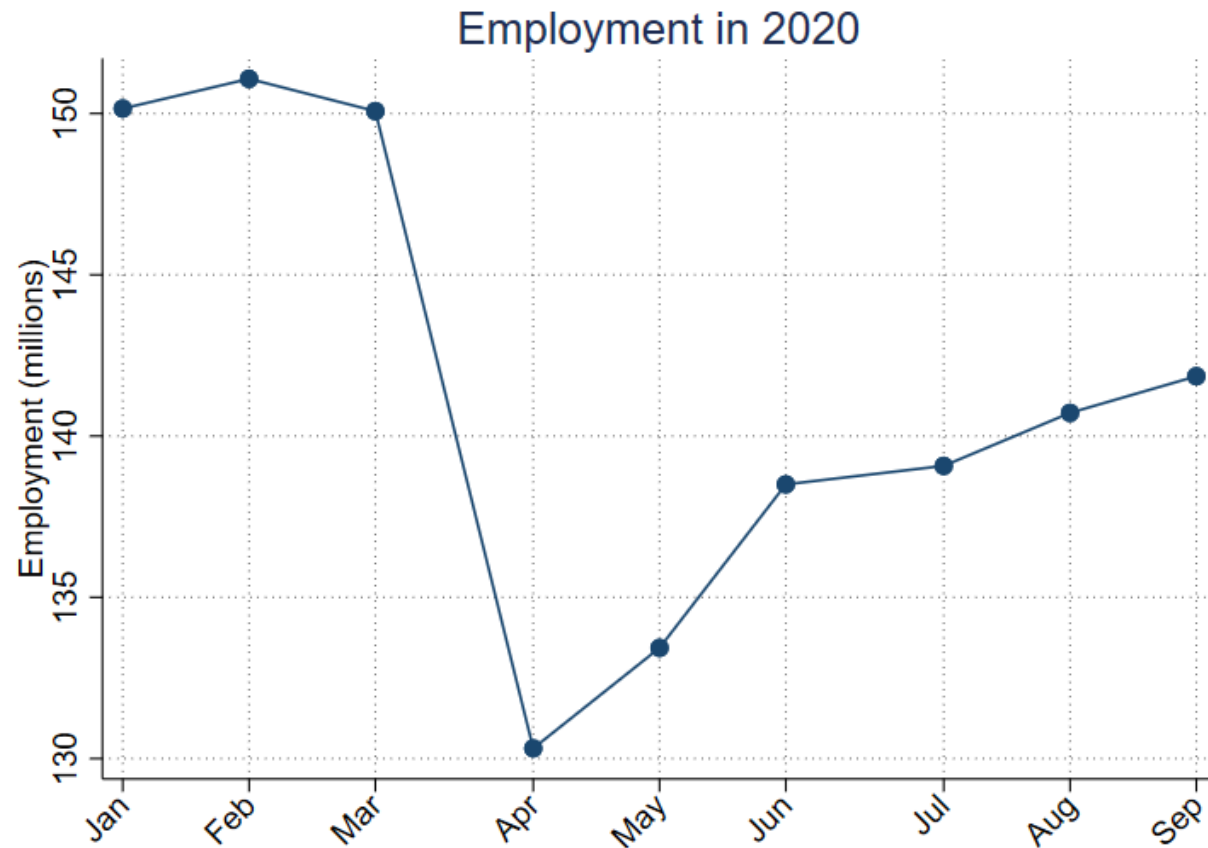
■ Day with data reporting anomaly.
Includes confirmed and probable cases where available. 14-day change trends use 7-day averages.

Social Distancing Policies in Place Fraction of US-States





Unemployment insurance claims reached an historic peak, and remains elevated



The economy was in free fall in spring 2020, experienced 2 months of recovery, and has stagnated since.

- What happened during the collapse? What was the role of shut downs?
- What happened during the early recovery? Why has it slowed?
- What should we expect moving forward?

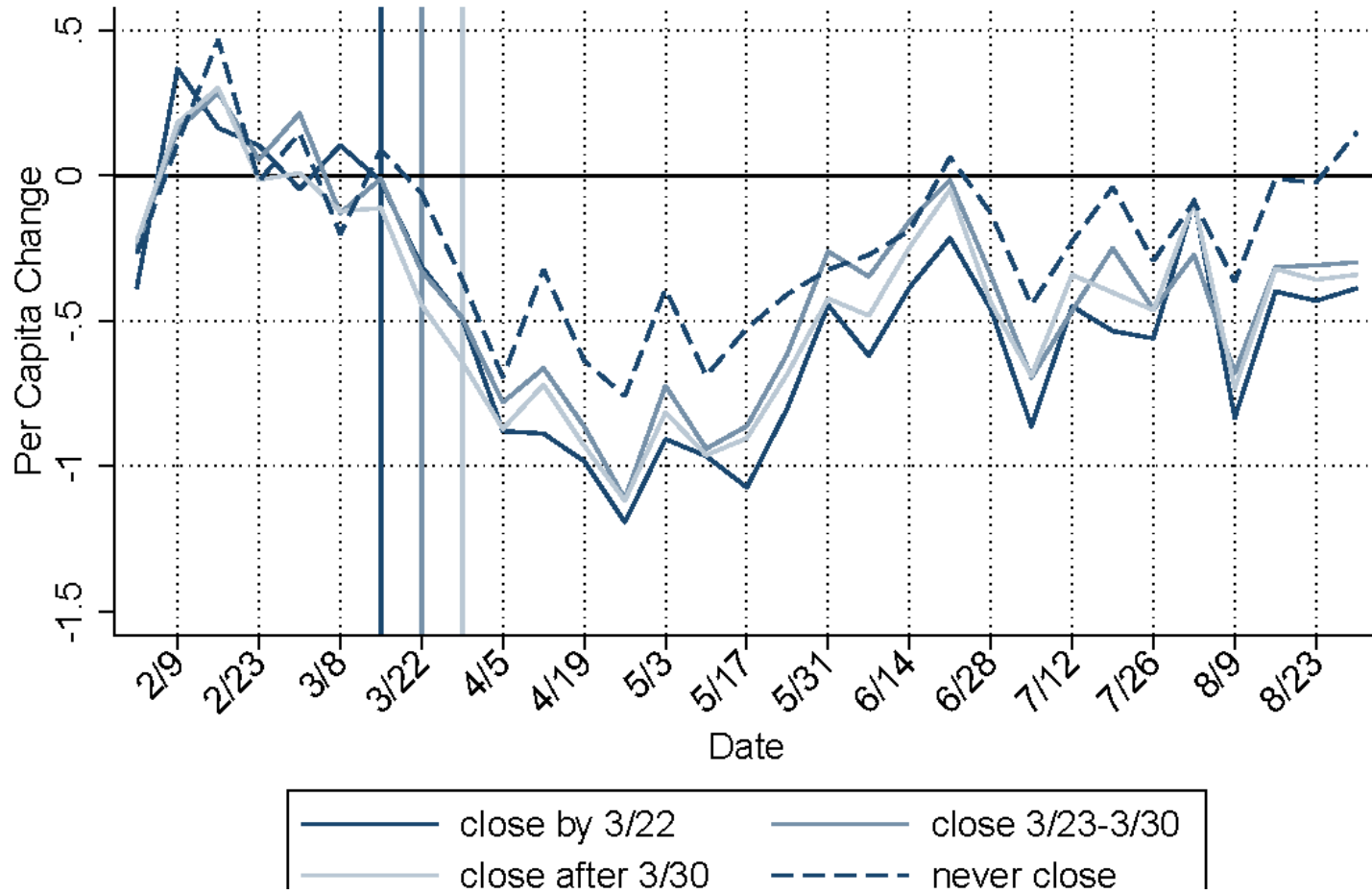
DIAGNOSING THE COLLAPSE

- To what extent did the stay-at-home orders cause the economic crisis?
 - Earlier collapse in states with earlier stay-at-home orders?
 - Larger collapse in non-essential industries?
 - Larger collapse in non-teleworkable jobs?

DIAGNOSING THE COLLAPSE

- To what extent did the stay-at-home orders cause the economic crisis?
 - Earlier collapse in states with earlier stay-at-home orders? → NO
 - Larger collapse in non-essential industries? → NO
 - Larger collapse in non-teleworkable jobs? → NO

BG Postings



Collapse was synchronous across the U.S.

DIAGNOSING THE COLLAPSE

- **To what extent did the stay-at-home orders cause the economic crisis?**
 - Earlier collapse in states with earlier stay-at-home orders? → **NO**
 - Larger collapse in non-essential industries? → **NO**
 - Larger collapse in non-teleworkable jobs? → **NO**
- **For the most part all jobs took a large hit.**
 - Small differences emerged in expected directions, though these have largely been erased
 - Job vacancies showed an across-the-board collapse
- **The damage was not solely caused by stay-at-home orders and is not undone simply by lifting them.**
- **Instead, aggregate demand collapse, worry about the virus, supply chain disruptions, etc. clearly driving early behavior.**

WHAT'S DIFFERENT ABOUT THE COVID RECESSION

- **Estimated 20 million workers were put on temporary layoff.**
 - Almost no unusual movement in previous modern recessions
 - Indicates employers believed the shock would be temporary
- **Many were recalled in May and June.**
 - Positive sign that employers and employees were able to maintain their connection
 - Promising for a rapid V-shaped recovery
- **However, the pace has slowed dramatically since June.**
- **The #1 policy response will be to get the virus under control.**

MOVING FORWARD

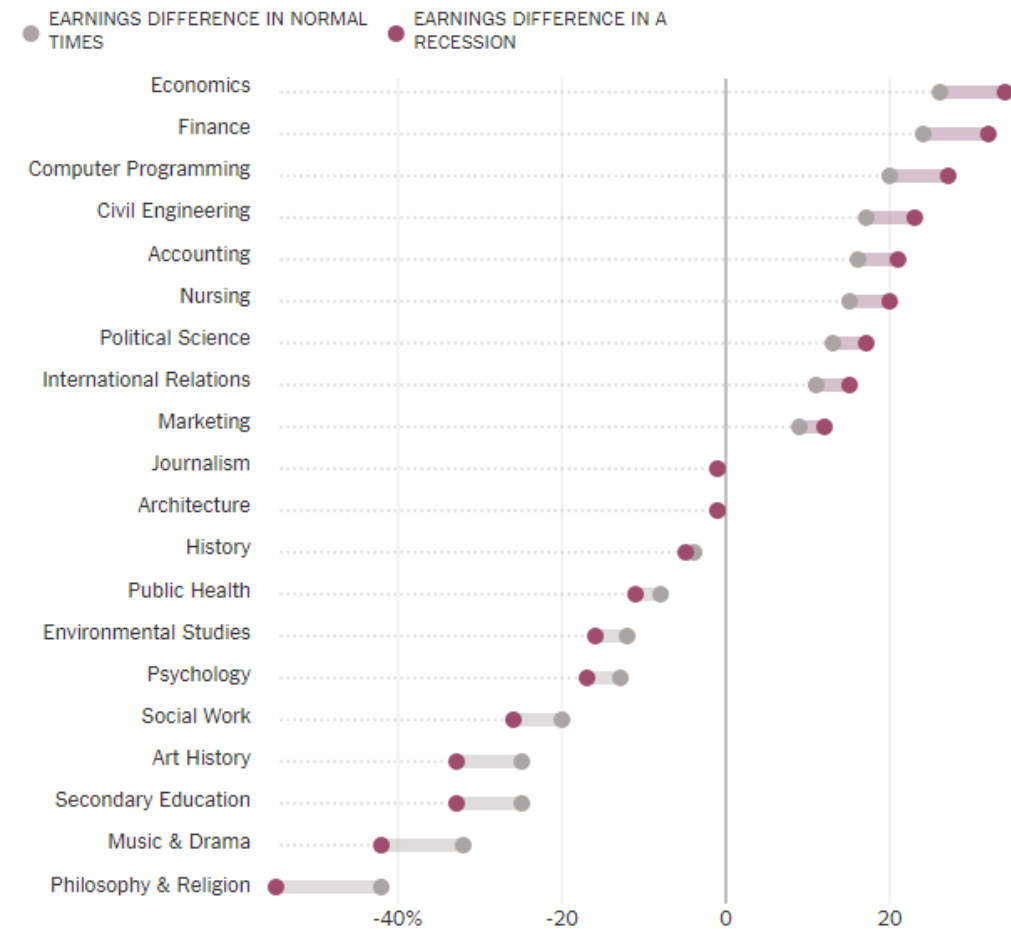
- **Between 4 and 9 million workers will need to be matched to NEW employers.**
 - Will temporary layoffs become permanent?
 - Will discouraged workers reenter the labor market?
- **This process is slow in the best circumstances.**
- **In a recession, we worry about mismatch.**
 - The Great Recession saw a concentrated adoption of labor-replacing technologies (Hershbein and Kahn 2018)
 - The COVID Recession has already changed the way we live and work
 - But so far, we have not seen effects of increased telework, e.g., on employment

Recent graduates face long-lasting earnings losses in a recession, but effects vary across major.

The Earnings Effect of Graduating Into a Recession

For high-earning majors, graduating into a recession increases their earnings advantage, and for low-earning ones, it increases their disadvantage.

Percent difference from the earnings of an average major, during normal economic times and during large recessions.



Source: Lisa B. Kahn, Joseph G. Altonji and Jamin D. Speer, Yale University

CONCLUSION

- **The COVID recession saw a broad-based collapse.**
 - Nearly all industries, occupations, and geographic areas were hit
- **The recovery was initially swift thanks to an historically large group of temporary layoffs and recalls.**
- **The recovery slowed dramatically with the second COVID wave in July.**
- **Moving forward, we have a large pool of workers who need to find NEW employment.**
 - We will continue to monitor signs for structural change and mismatch
- **After the recovery, remember the class of 2021!!!**