

The Pandemic and the Great Reshuffle

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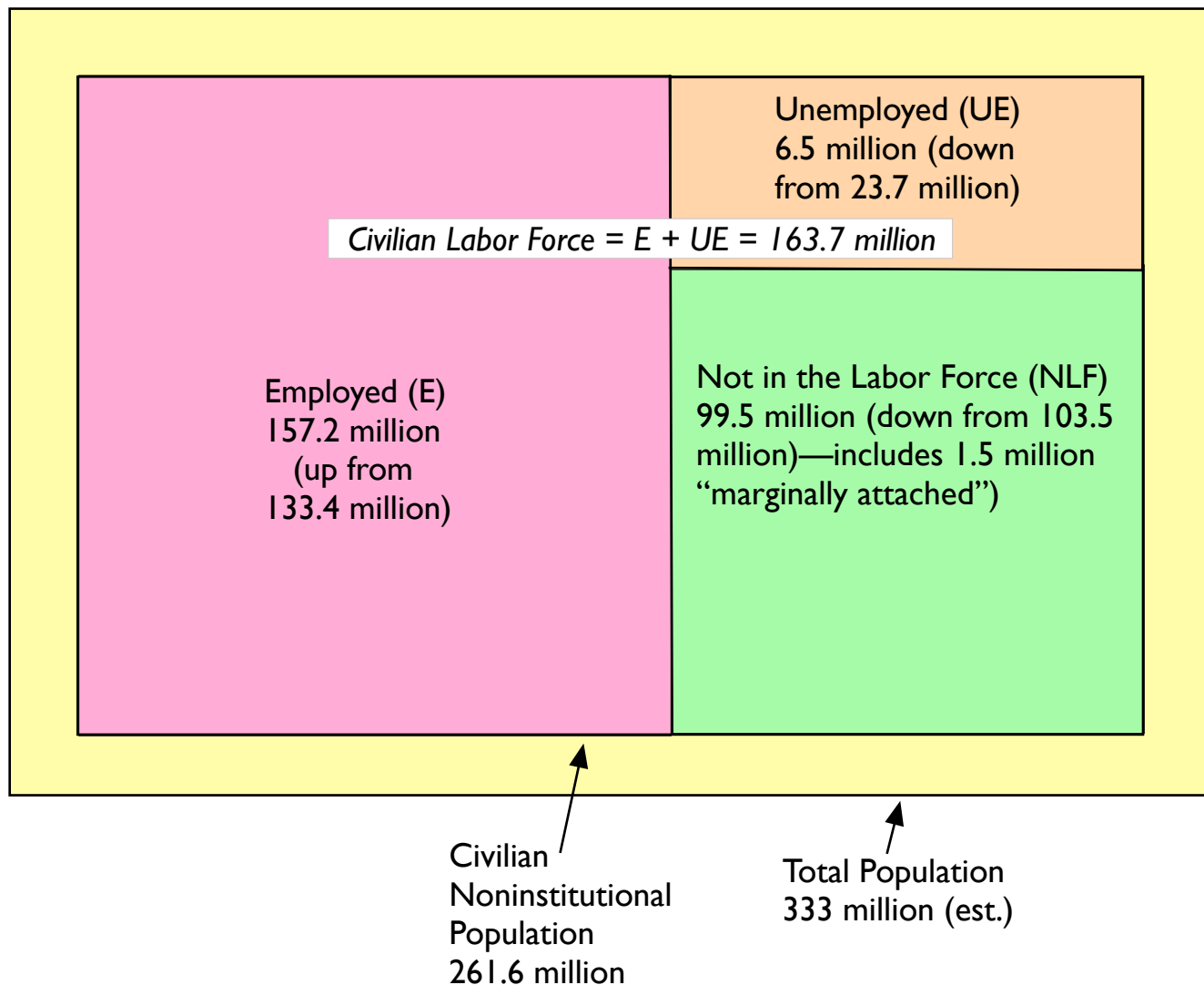
- 1. Labor Market Trends and Recent Changes**
- 2. What about the Great Resignation?**
- 3. The Great Reshuffle (aka Changing Labor Market Structure)**
- 4. A Pessimistic Note**

I. Labor Market Trends and Recent Changes

Per capita GDP (standard measure of living standards) and its growth depend on:

- Productivity (output per worker)
- The proportion of the total population aged 16 or older, not in the military, and not institutionalized (aka the civilian labor force proportion, largely depends on demographics and immigration)
- The employment-population ratio (overall health of the labor market)
 - Labor force participation rate (supply)
 - Employed proportion of the labor force (demand)

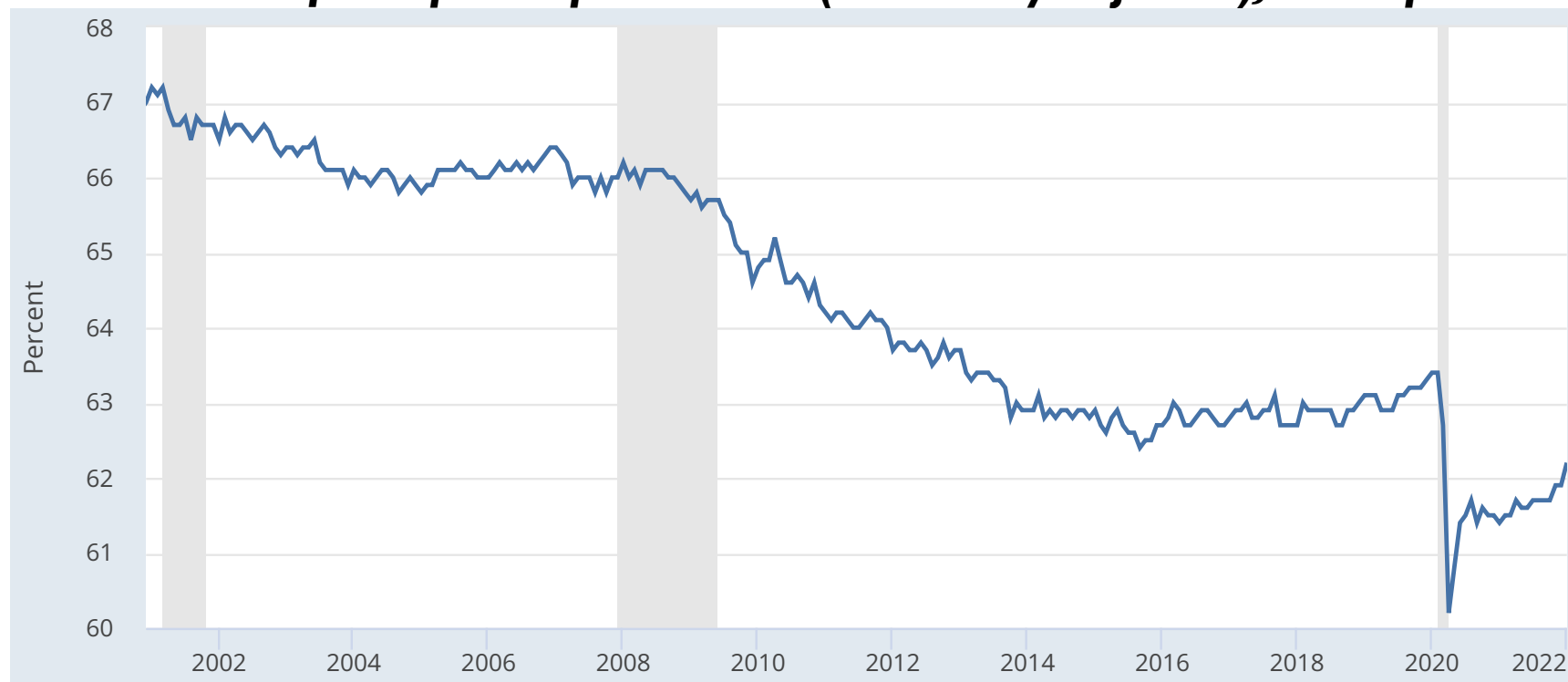
The labor market in January 2022



Key indicators

- **labor force participation rate (LFPR)**
- **the employment-population ratio (E/P)**
- **the unemployment rate (UR)**

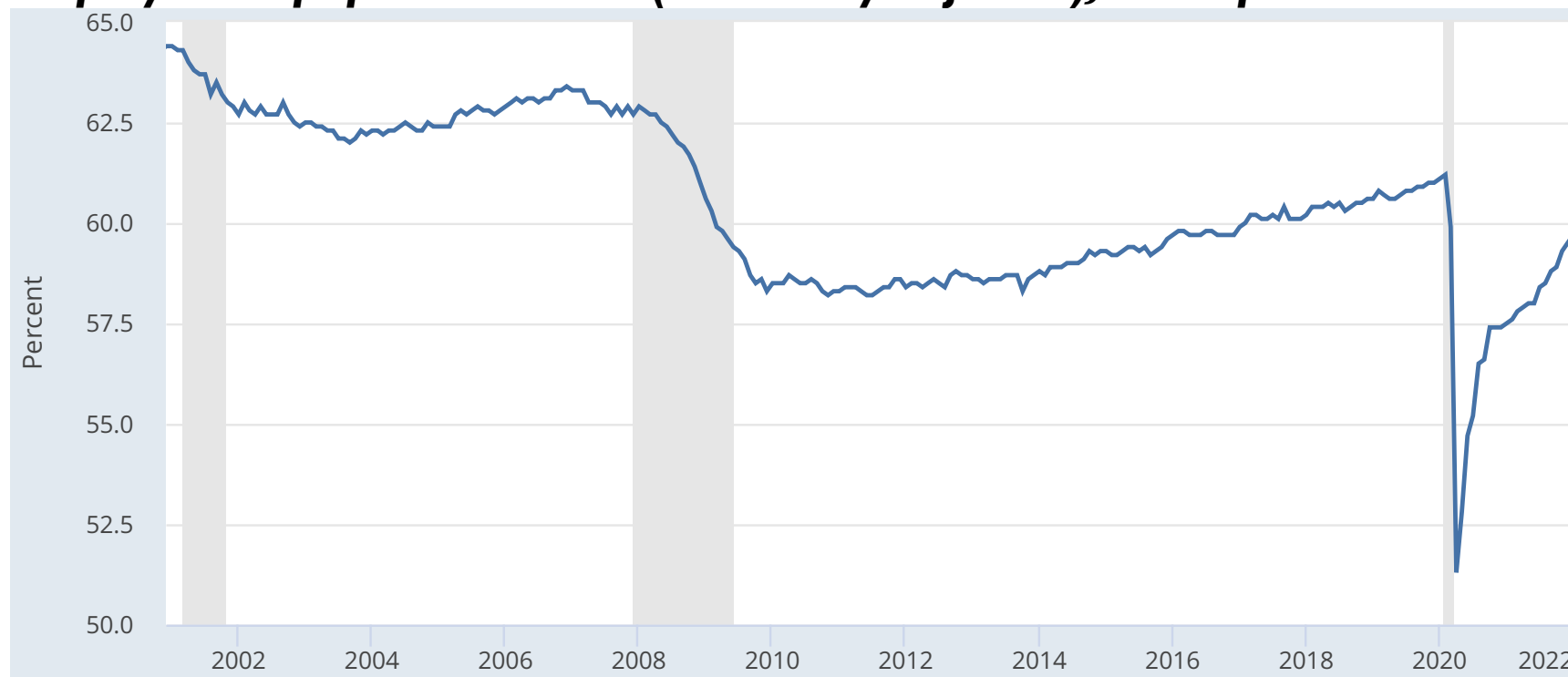
Civilian labor force participation rate (seasonally adjusted), 1970–present



Source: Data from U.S. Bureau of Labor Statistics; graph from Federal Reserve Economic Data (FRB St. Louis)

- The LFPR is still below its pre-pandemic level
- Only about half the decline since 2008 can be attributed to changing demographics (mainly aging of the labor force)

Employment-population ratio (seasonally adjusted), 1970–present



Source: Data from U.S. Bureau of Labor Statistics; graph from Federal Reserve Economic Data (FRB St. Louis)

- The E/P ratio has not recovered to its pre-pandemic level

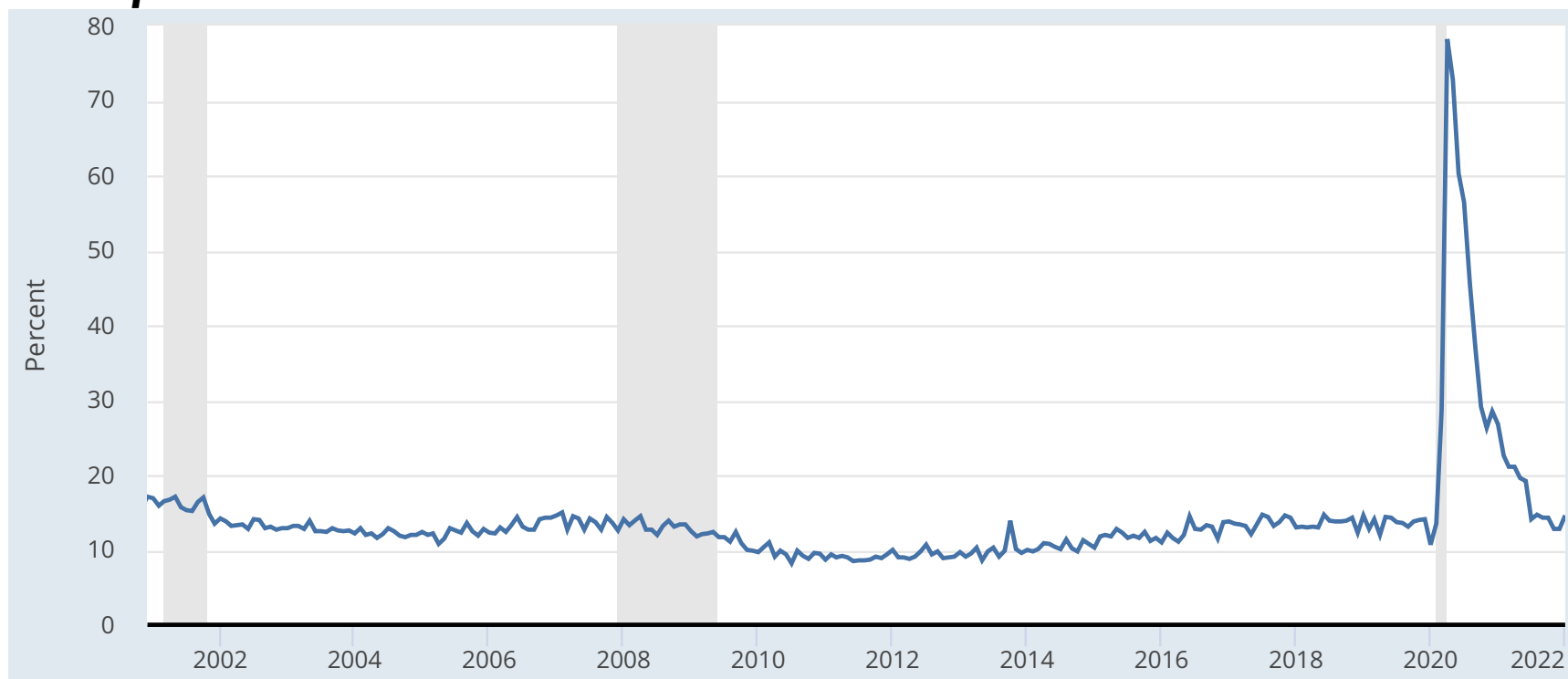
Unemployment rate (U-3, seasonally adjusted), 1970–present



Source: Data from U.S. Bureau of Labor Statistics; graph from FRED (Federal Reserve Economic Data, Federal Reserve Bank of St. Louis)

- But the unemployment rate labor market has recovered to (nearly) its pre-pandemic level — the official unemployment rate (U-3) is back almost to where it was in early 2019

Job Losers on Temporary Layoff as a Percent of Total Unemployment, 1970–present

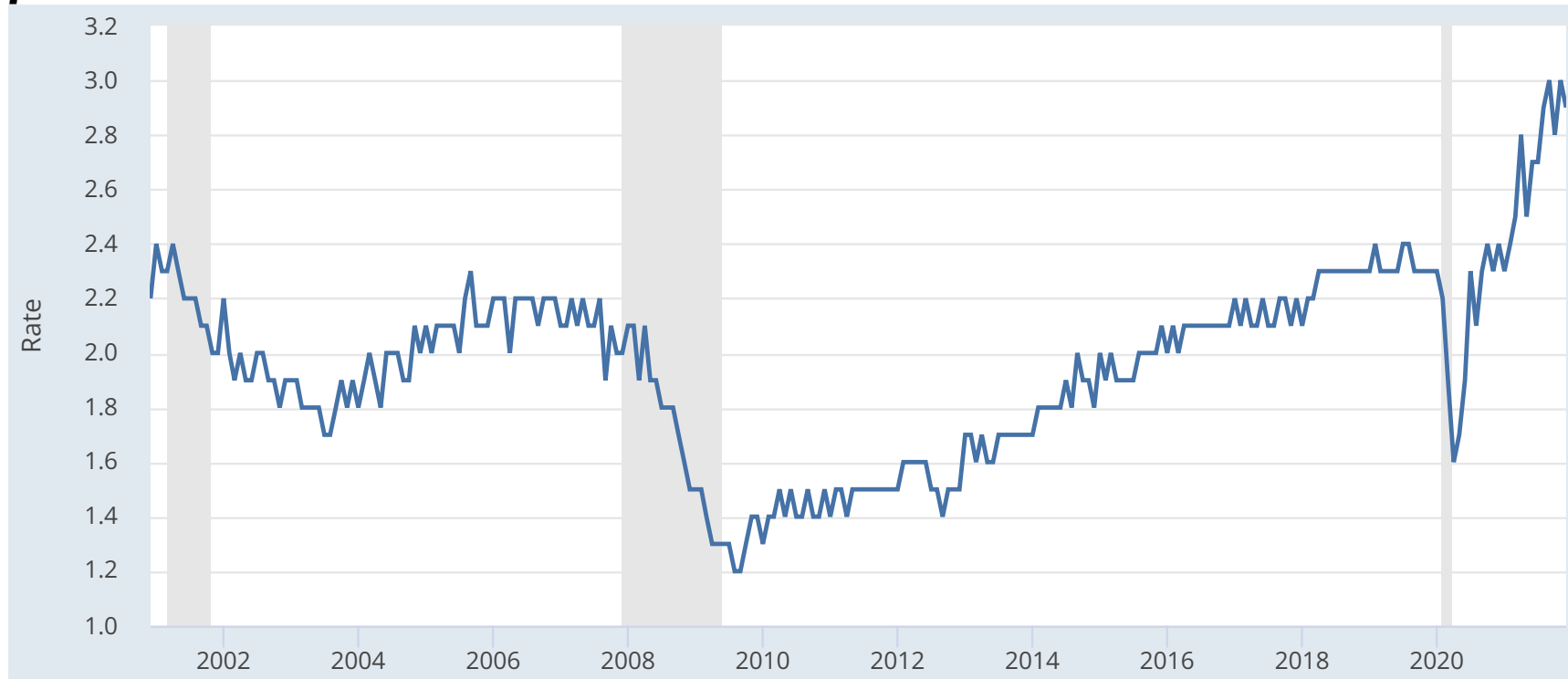


Source: Data from U.S. Bureau of Labor Statistics; graph from Federal Reserve Economic Data (FRB St. Louis)

- Temporary layoff unemployment was simply off the charts in the pandemic recession, but it is back in the “normal” range
- Fears that the “temporary” layoffs would turn into permanent job losses appear to have been unfounded

2. What about the Great Resignation?

Monthly quit rate, total nonfarm employment (seasonally adjusted), 2000–present



Source: Data from U.S. Bureau of Labor Statistics; graph from Federal Reserve Economic Data (FRB St. Louis)

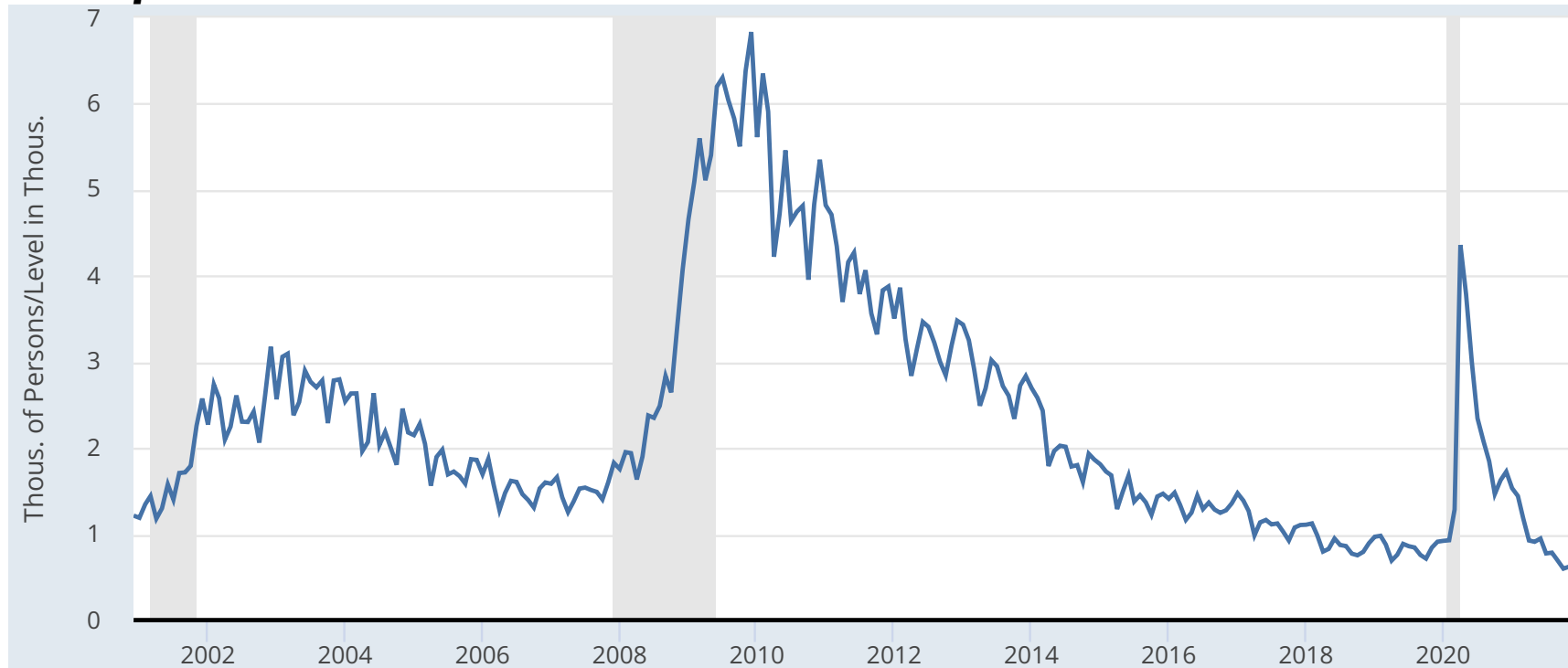
- The monthly quit rate was high even before the pandemic
- And it has reached its highest level ever last fall

Possible reasons (this is mainly speculation—too little research!)

- Longer-term effects (possible overhang?) from topped-up and extended UI benefits
- Reluctance to return to work out of health concerns
- Parents' inability to return due to school closings and lack of alternative child care
- Changes in the tasks associated with existing jobs, which leads to searching for a better match

The result has been a very tight labor market

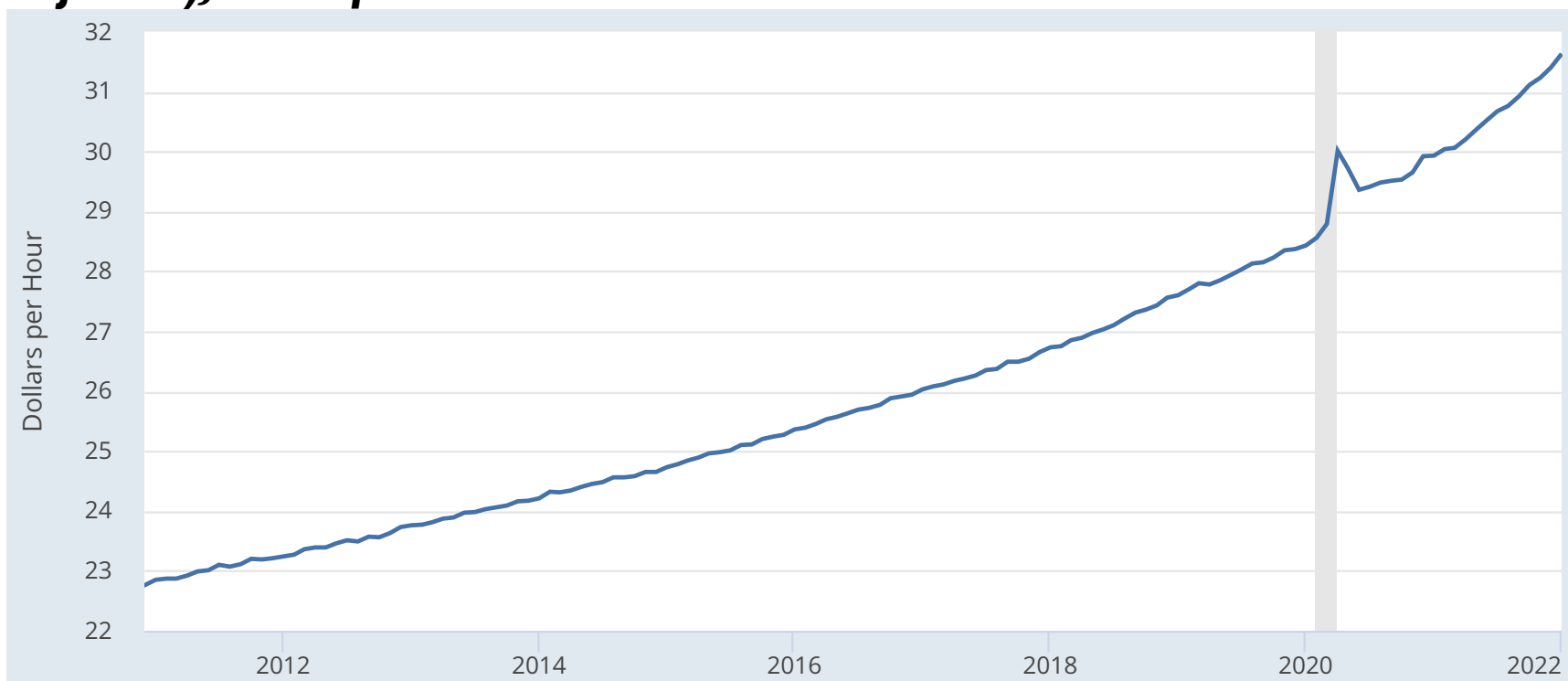
Number of unemployed persons per job opening (seasonally adjusted), 2000–present



Source: Data from U.S. Bureau of Labor Statistics; graph from Federal Reserve Economic Data (FRB St. Louis) (Unemployment Level/Job Openings:Total Nonfarm)

- Number of unemployed persons per job opening is the lowest it has ever been since BLS started tracking it—0.6 unemployed workers per job opening

**Which has led to wage growth:
Average Hourly Earnings of All Employees, Total Private (Seasonally
adjusted), 2006–present**



Source: Data from U.S. Bureau of Labor Statistics; graph from FRED (Federal Reserve Economics Data, Federal Reserve Bank of St. Louis)

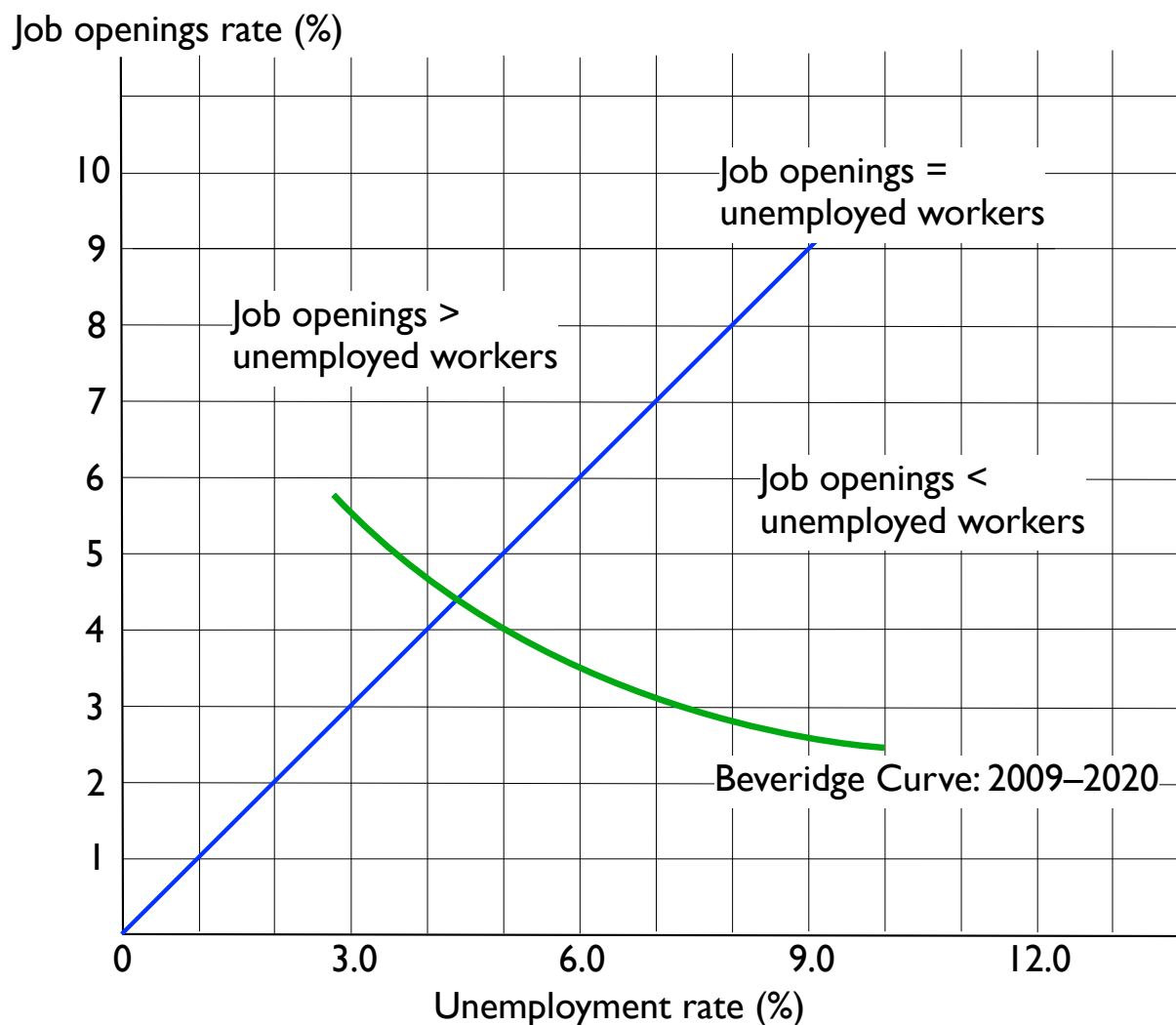
- Wage growth averaged ~2.0–2.5% from June 2009–June 2017
- Then increased to ~4.0–4.5% until the pandemic recession
- Since the recession, wages have increased by 5.7% (but eaten away by inflation)

The industries where job opening rates are relatively high suggest where the wage growth is taking place (average is 6.8%)

- accommodation and food service (10.2%)
- health care and social services (8.4%)
- transportation, warehousing, utilities (8.1%)
- professional and business services (8.0%)
- nondurable goods manufacturing (7.3%)
- information (7.2%)

These represent a mix of skill levels

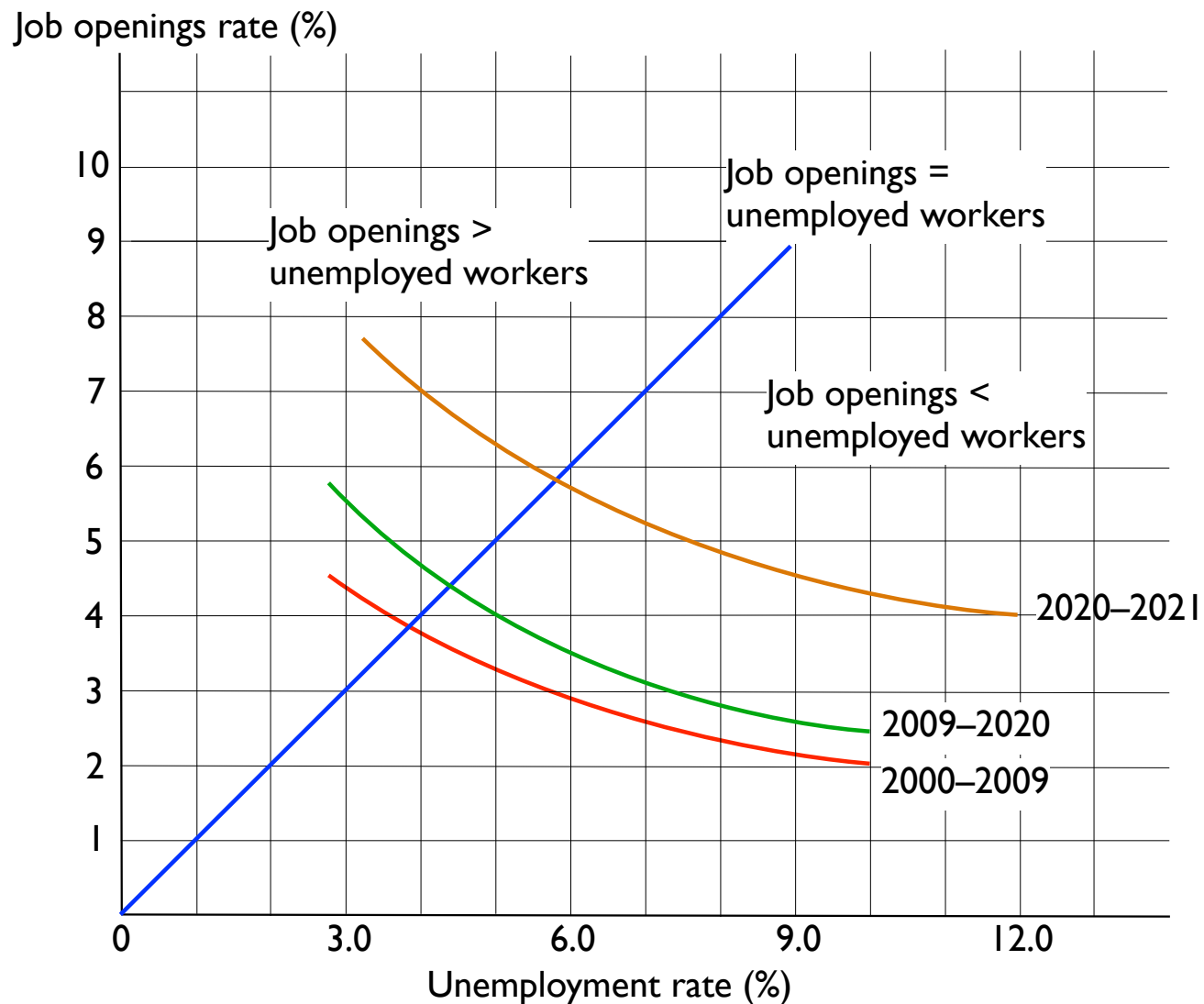
3. The Great Reshuffle (aka Changing Labor Market Structure) *The Beveridge curve: Job openings rate and the unemployment rate*



Notes on the Beveridge curve

- The Beveridge Curve (aka the UV curve) plots the unemployment rate (on the x-axis) against the job openings rate (on the y-axis)
- Over a business cycle, the U rate and the V rate vary systematically—when the V rate is low (employers have few vacancies), U rate tend so be high
- The slope is not constant—in a recession, a 1 point increase in the V rate buys a reduction of 3 points in the U rate
- But when U rate is low, a 1 point increase in the V rate only buys a reduction of 1–1.5 points in the U rate
- The only times job openings have exceeded the number of unemployed workers have been October 2017–February 2020 and since May 2021

The Beveridge curve has been shifting out: Less efficient matching



Where the curve lies depends on several factors

- The most common interpretation is that, the farther the curve is from the origin, the less efficient the labor market is in matching workers to jobs
- This could happen if workers' skills and the available jobs were mismatched, or if unemployed workers were in different locations than the vacancies

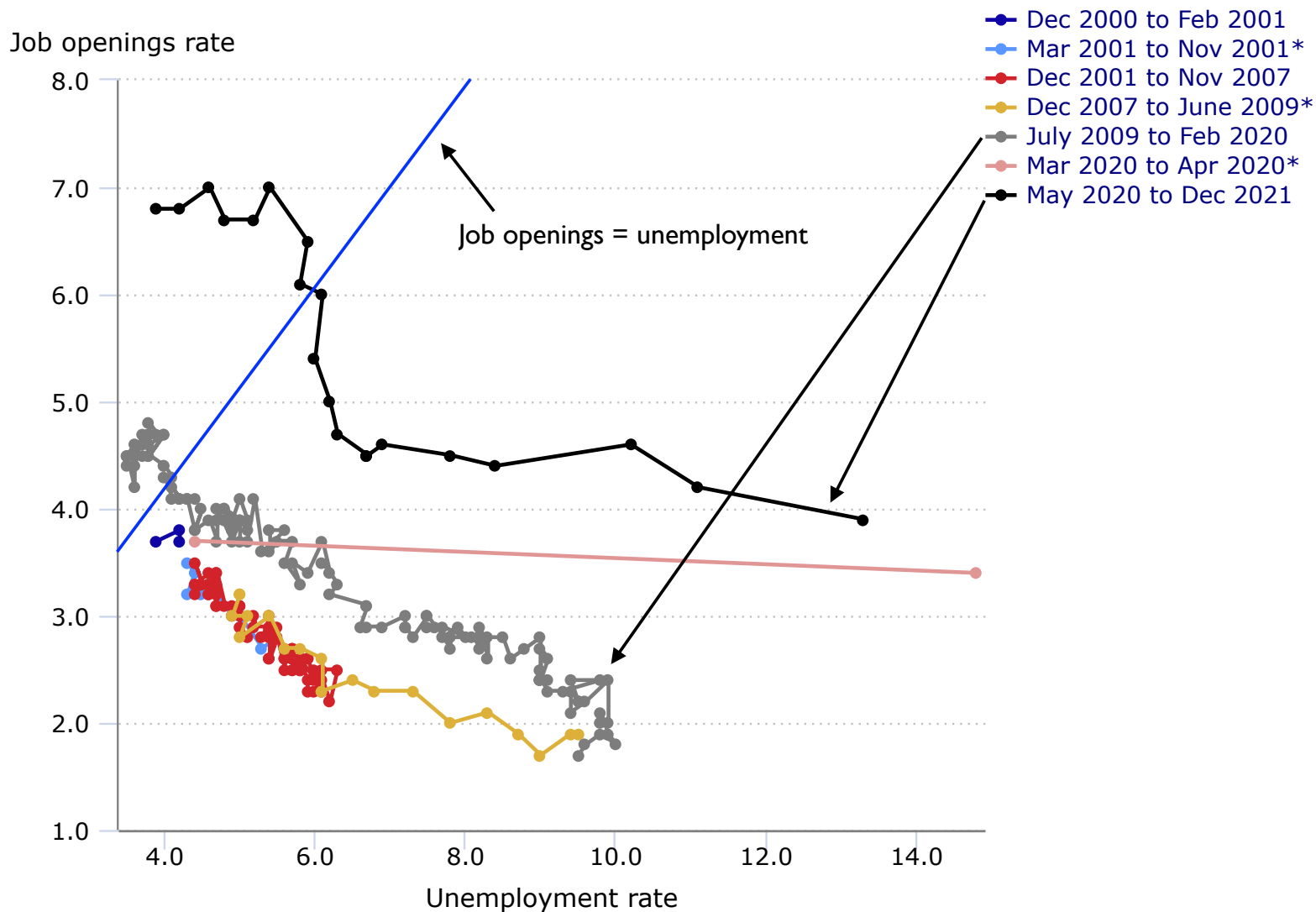
The labor market changed following the Great Recession

- The Beveridge Curve for 2009–2020 is farther from the origin than the Beveridge Curve for 2000–2009
- The labor force had been shrinking more than could be explained by demographic change—a possible long-term effect of the Great Recession due to long-term unemployment (Alan Krueger)

But the reasons are still debated

- Were employers having trouble replacing aging baby-boomers with younger workers?
- Did the behavior of employers in posting openings changed? I.e., posting more openings and then being more selective in hiring? (Davis and Haltiwanger)

The Beveridge curve: Job openings rate and the unemployment rate



What about the more recent shift?

- First: The labor market was extremely tight even before the pandemic
- The only times job openings have exceeded the number of unemployed workers have been October 2017–February 2020 and since May 2021
- But matching of unemployed workers to job vacancies has become *massively inefficient!*
- Early in the pandemic: lock-downs and uncertainty kept workers out of the labor market

But mainly, the Great Resignation is really the Great Reshuffle

- Structural change—reallocation of labor to different employment
- There is bound to be mismatch between workers' skills to employers' demands, especially when the change is happening so rapidly

Reallocation can be between industries, but much is within an industry

- Retail trade has been shrinking overall, but within retail there is a shift from traditional store tasks to “buy online, pickup in store,” which results in changed staffing
- Food service is also shrinking overall, but within food service, there is a shift from standard restaurant and cafeteria work (because more people work at home) to take-out and delivery and “ghost kitchens”
- Professional and business services and IT are both growing, but in addition they are changing internally to accommodate remote work

This is mainly acceleration of change that was already taking place

- Remember: The labor market was already very tight even before the pandemic
- BLS originally projected large occupational changes due strictly to the pandemic, but it has revised its predictions closer to the pre-pandemic levels
- Most of the changes would have occurred in any case

But because the changes have accelerated and are taking place so rapidly, they are very costly and difficult

- That is why we are seeing inefficient matching as shown by the shifting Beveridge Curve

4. A Pessimistic Note

- In the last year, we have seen the most serious price inflation in 40 years
- Why the inflation? A combination of three factors:
 - Monetary stimulus (zero interest rates)
 - Fiscal stimulus [2.2 trillion CARES Act (03/20) the \$1.9 trillion ARP Act (03/21)]
 - Problems on the supply side (supply chain snafus, bottlenecks, real shortages)
- We last saw this combination in the late 1970s

- Two consequences:
 - Erosion of wage increases
 - The Fed is about to raise interest rates and/or buy back securities

- The last time this happened, the outcome was not pretty—the double-dip recession of the early 1980s
- Will the Fed be able to pull off a “soft landing” this time?

Thank you!