Economic Analysis

Pandemic wipes out decade of job gains

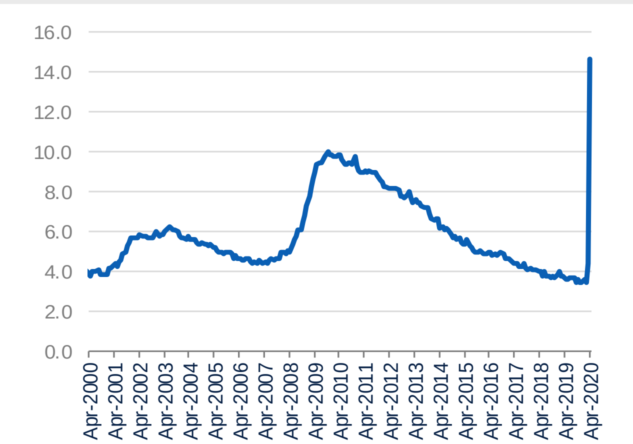
Nathaniel Karp / Boyd Nash-Stacey
May 8, 2020

With 30M people filing for unemployment insurance since March 21st, the precipitous drop in nonfarm payrolls of 20.5M was not a surprise. However, the drop in employment over the past two months has all but erased the job gains since February 2011. In turn, the unemployment rate increased at historic pace to 14.7%. However, since February, there has been an outflow of 8.3M from the labor force and a 8.9M spike in workers classified as employed with a job but not at work that should have been classified as unemployed on temporary layoff. With these adjustments, total unemployment would have been 38.9M and the unemployment rate 23.6% (10.3M and 6.3% in March).

Not surprisingly, the labor force participation rate decreased to 60.2% while the employment-to-population fell to 51.3%. With respect to the demographics of the unemployed, the unemployment rate for teenagers rose to 31.9%, reflecting their high participation in sectors such as accommodation and food service, and hospitality that have been the most acutely affected by the crisis. Similarly, the unemployment rate for Whites, Hispanics and Blacks was 14.2%, 18.9% and 16.7%, respectively. With respect to gender, the unemployment rate for adult men rose 9.0PP while the unemployment rate for women rose 11.5PP, possibly reflecting demands the COVID-19 crisis is placing on working families and the service-oriented nature of this crisis.

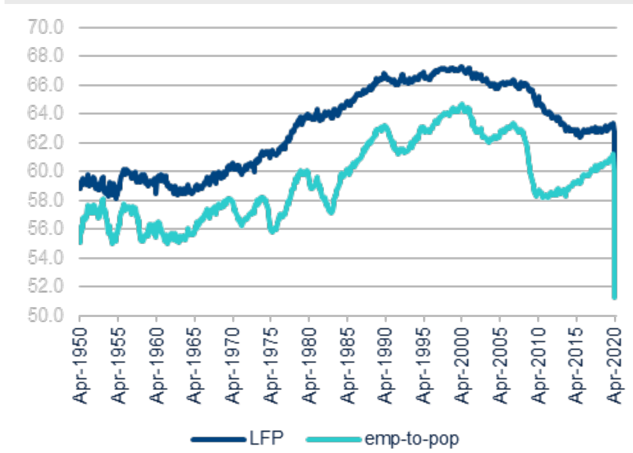
In terms of the industry impact, retail trade (-2.1M), healthcare and social assistance (-2.1M) and leisure and hospitality (-7.7M) lost a combined 11.8M jobs, or around 58% of the total job losses. In terms of the change over-the-year, leisure and hospitality was down 47.2%, other services were down 21.2%, retail trade was down 13.5% while durable goods manufacturing and mining employment dropped 11.5% and 11.3%, respectively.

Figure 1. **Unemployment Rate,** (%)



Source: BBVA Research, BLS & Haver Analytics

Figure 2. **Labor Force Participation and Employment-to-population** (%)

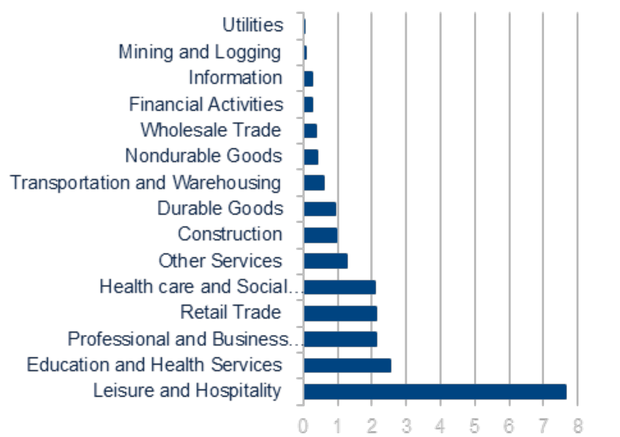


Source: BBVA Research, BLS & Haver Analytics

Due to the steeper drop in low-wage jobs within industries, average hourly earnings increased 4.7% during the month and 7.9% YoY. For the highest three paying industries, hourly earnings increased 1.5% over the month and 4.4% YoY.

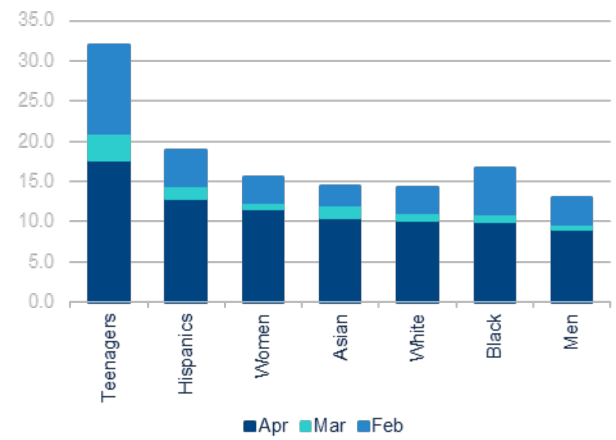
While there is an increasing probability that the economy has reached its lowest point, the labor market conditions over the coming months will remain weak. In fact, if enhanced social benefits and easing of lockdown measures encourage inflows back into the labor force without a similar increase in labor demand there could be steady rises in unemployment. In addition, the knock-on effects to sectors not directly affected by the crisis will grow, adding to the growing stock of unemployed workers.

Figure 3. **Industry Job Losses** (Million, April)



Source: BBVA Research, BLS & Haver Analytics

Figure 4 **Cumulative Unemployment Rate** (%, Feb-April)



Source: BBVA Research, BLS & Haver Analytics

Ultimately, the pace of the labor market recovery will depend on how quickly states can reopen the economy and how effective the different policy responses such as the Paycheck Protection Program (PPP), industry bailouts, payroll tax credits and delays, and the Federal Reserve's loan facilities are at keeping workers attached to the labor force and their employers. Historically, there is evidence that after deep recessions labor force matching has produced structurally higher job openings relative to the number of unemployed, particularly for routine occupations. Moreover, labor market dislocations of this magnitude produce persistent frictions that take years to undo, translating into so-called “jobless” recoveries.

Given the unprecedented circumstances generated by the COVID crisis, it is hard to pinpoint how strong the labor market hysteresis or headwinds will be. However, given the depth of crisis, it is clear that timely and proportionate responses from policy makers will be needed to avoid turning a recession into a depression.