

## US: (in)complete recovery of the labour market

The COVID-19 outbreak led to the most severe adjustment in the US labour market since the Great Depression. In just two months, the number of people in employment fell by 15%, equivalent to just over 22 million people. For reference, during the global financial crisis of 2008-2009, the cumulative decline amounted to 6% (around 9 million). Looking at the unemployment rate, one of the most commonly used indicators for tracking the labour market, it rose from an exceptionally low 3.5% in February 2020 to around 15% in April 2020.

Since then, the labour market has made a dramatic recovery: more than 11 million people have now found a job. But to what extent is there still room for further recovery in the labour market? In the context of high inflation and highly accommodative monetary policy, this question is particularly important.

### Recovery of the labour market: it depends how you look at it

The unemployment rate stood at a contained 5.8% in May 2021, not far off the natural rate of unemployment estimated by the Congressional Budget Office (4.5%). In addition, various business surveys point to difficulties in filling job vacancies. These include the ISM survey (in both the manufacturing and the service sector), the NFIB survey conducted on small businesses, and the Fed's periodic field study known as the Beige Book. The

number of available vacancies has risen to historic highs (9.3 million in April) and now exceeds the number of people who have not yet returned to employment. In fact, in April there were as many unemployed people as there were vacancies. As a result, average wages have increased significantly in recent months: a cumulative 1.2% between March and May, despite the fact that most of the jobs being created are concentrated in professions with below-average wages. All of this adds weight to the idea that the US labour market is experiencing a buoyant recovery.

However, if we look at a wider range of labour market indicators, the message is more nuanced. Despite the rapid increase in employment, there are still some 7.5 million fewer people in employment than there were prior to the outbreak of the pandemic. Moreover, not only has the recovery been uneven at the sector level (since the measures imposed have forced certain business activities to shut down for months on end), but also between different social groups: it is occurring slower among women, African Americans and Latinos, for instance.<sup>1</sup> The shock is also proving more severe among younger people and those with a lower level of education.

In the attached tracker table, we show various metrics that allow us to assess the margin that still exists for the labour market to continue to recover. Consistent with the patterns just mentioned, the assessment differs

### Labour market tracker

	Latest value	2021 average	2020 average	2019 average
Unemployment rate (%)	5.8	6.1	8.1	3.7
U6 unemployment rate (%)	10.2	10.7	13.7	7.2
African American unemployment rate (%)	9.1	9.5	11.5	6.1
ISM manufacturing employment index (level)	50.9	54.5	44.3	50.9
ISM services employment index (level)	55.3	55.8	46.0	55.0
Businesses unable to fill vacancies (%)	48.0	41.4	32.3	36.4
Businesses planning to hire (%)	26.0	20.8	16.0	19.0
Long-term unemployed (27 weeks) (as % of total people unemployed)	40.3	41.5	18.3	21.1
Labour force participation (%)	61.6	61.5	61.7	63.1
Labour force participation >55 years (%)	38.4	38.3	39.2	40.2
Unemployed to employed (as % of people unemployed)	24.8	24.4	28.0	27.7
Weekly unemployment benefit applications (thousands)	385.0	661.8	1,531.9	219.3

**Note:** The values in green lie around the average for the most recent expansionary cycle (2014-2018) and are indicative of a use of standard labour resources. The light blue values indicate that labour market utilisation remains incomplete or is below normal levels. The orange values, meanwhile, are indicative of high labour market utilisation, or that there is some mismatch between the supply and demand of labour resources.

**Source:** CaixaBank Research, based on data from Refinitiv.

1. One might think that these social differences are largely due to these groups being overrepresented in the sectors that have been forced to close. However, even taking these differences into account the recovery is still uneven. For the case of women, see the study by M.S. Fabrizio, D.B. Gomes and M.M. Tavares (2021). «COVID-19 She-Cession: The Employment Penalty of Taking Care of Young Children», International Monetary Fund. And <https://libertystreeteconomics.newyorkfed.org/2021/02/black-and-white-differences-in-the-labor-market-recovery-from-covid-19.html> for the case of African Americans.

depending on which indicator we look at. However, as the Fed rightly concludes, most indicators suggest that there is still room for further recovery.<sup>2</sup>

### **Difficulties filling vacancies with a large number of jobs still to be recovered: how do these two realities coexist?**

Among the main reasons behind the relative shortage of labour, there are two factors that reduce participation in the labour market, which in May 2021 stood at 61.6%, almost 2 pps below pre-pandemic levels.

Firstly, a large number of people are unable to return to the labour market because of family issues: caring for the sick or for children whilst education centres are closed, a phenomenon that has affected women more than men. According to the household survey, some 3 million people are not looking for work because of these direct effects of the pandemic. If we were to include these individuals again in the labour force and treat them as unemployed, the unemployment rate would be around 7.5%.<sup>3</sup>

Secondly, a high percentage of American baby boomers have taken early retirement. Since the beginning of the COVID-19 crisis, the number of employees over the age of 55 has fallen by around 2 million, by far the cohort with the highest incidence. Moreover, around 60% of these people have stopped seeking employment (presumably because many of them have decided to retire) and are no longer counted as part of the labour force.<sup>4</sup> As a result, the participation rate among people aged over 55 has fallen to almost the lowest level in the past 15 years.

One last factor that does not affect the participation rate, but which may also explain the difficulty in filling vacancies, is the extra unemployment aid that has been approved during the crisis.<sup>5</sup> These higher subsidies seem to have reduced the incentives for people to seek employment, even though these individuals remain classified as part of the labour force (unemployed).<sup>6</sup>

### **What can we expect in the short-term?**

Early retirement is a structural factor that will continue to weigh on the labour market and which suggests that the benchmark level of employment is slightly lower than the pre-crisis level. Thus, while there are approximately 7.5 million jobs still to recover to reach pre-pandemic levels, it is likely that employment could only increase by 5 million.

However, the other factors are more temporary in nature and should moderate over the coming months as the vaccination campaign and the easing of restrictions (including the reopening of schools) continue. Also, an extension of the extra unemployment aid seems unlikely. In fact, in July, half of all states are no longer supplementing most unemployment aid, and by September all such subsidies will have come to an end.

Thus, from Q3 onwards we should see a recovery in many labour market indicators. Furthermore, we should not be surprised to see a spike in the unemployment rate at some point during this recovery, as some of the individuals who had left the labour force rejoin it. This more widespread improvement ought to continue and gain momentum during the course of Q4.

With inflation well above target, labour market indicators have taken centre stage in the Fed's monetary policy strategy. Indeed, the central bank has established that it will not make changes to its accommodative measures until «substantial progress» is made towards achieving full employment. Given the unusual nature of this crisis, both in the decline and in the recovery, we expect the Fed to remain very cautious, resulting in a very gradual withdrawal of the monetary stimulus.

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2. For further information, see <https://www.frbsf.org/economic-research/files/el2021-15.pdf>.

3. Much closer to alternative unemployment rates, such as that produced by the Dallas Federal Reserve with various universities (Real-Time Population Survey).

4. Some studies point towards an even higher number of early retirements among baby boomers. See <https://www.economicpolicyresearch.org/jobs-report/the-pandemic-retirement-surge-increased-retirement-inequality>.

5. The number of people receiving some form of aid has remained stable at around 16 million since March, well above the pre-pandemic level.

6. It should be noted, however, that there are one or two studies which suggest this factor has a lesser effect than that indicated in numerous journalistic articles (<https://www.frbsf.org/economic-research/files/el2021-15.pdf>).