Labor Demand and Wage Growth During and After the Pandemic

Lisa B. Kahn

University of Rochester, NBER, and IZA

Labor Markets During and After the Pandemic Conference
November 19, 2022

Draws heavily from:


How Has the Pandemic Changed Labor Demand?

1. Long-run trend of rising inequality and polarization

2. Recessionary forces push towards reallocation
   ▶ Accelerated automation in the Great Recession
     (Hershbein and Kahn 2018, Jaimovich and Siu 2020)
   ▶ Low-skilled workers disproportionately harmed
     (Hoynes et al. 2012)

3. COVID-specific factors could have exacerbated these trends
   ▶ Exposure risk impacted product demand
   ▶ Technological adoption rapidly expanded remote work/consumption
   ▶ Labor supply changes will feedback into demand
How Has the Pandemic Changed Labor Demand?

1. Do we see evidence of widespread reallocation?
2. Have employers changed what they are looking for?
3. If so, what has that meant for inequality?
4. What should we expect moving forward?
How Has the Pandemic Changed Labor Demand?

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3. If so, what has that meant for inequality?
4. What should we expect moving forward?

→ 2.5 years after the onset of COVID-19, the labor market looks remarkably as it did before

→ Labor supply factors drive the main changes we do see
The Acute Phase
What Happened to 25 Million Displaced Workers?

- Vast majority were not searching for work in April, 2020
  - 60% on temp layoff
  - <10% searching unemp
  - 30% out of labor force
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FKLW 2022, Hall and Kudlyak 2022, Gertler et al. 2021, Bartik et al. 2020
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- Limited scope for reallocation given widespread recalls
- The labor market was fairly tight throughout the pandemic
Market Tightness is Now at a Historic Peak
The Mix of Industries and Occupations
Was COVID a Reallocation Shock?

\[ R_t = \frac{1}{2} \sum_{g \in G} \left| \frac{\text{Emp}_{g,t}}{\sum_{g \in G} \text{Emp}_{g,t}} - \frac{\text{Emp}_{g,t-3}}{\sum_{g \in G} \text{Emp}_{g,t-3}} \right| \]

t – time periods, g – groups (e.g., industries or occupations)

- Tracks net movements across areas of economic activity
- Rolling to better compare with earlier time periods:
  - How different is the economy today from 3 years ago?
  - “New normal” will be reflected by complete reversion at 3 years
The Reallocation Rate has Almost Entirely Converged Back

by Industry (CES)

by Occupation (CPS)

Sum of absolute deviations

Date

2-digit

3-digit

2000

2005

2010

2015

2020

2025

2006

2010

2014

2018

2022

Kahn (Rochester) Labor Market During COVID-19

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Reallocation Driven by Low-Skilled Services

Employment shares (CPS)

Rate of change from 2019

2020m1

2020m7

2021m1

2021m7

2022m1

2022m7

Date

Professional

Low-skill Services

Sales/Admin

Blue Collar
Reallocation Driven by Low-Skilled Services

Occupations

Employment shares (CPS)

Vacancy shares (BG)

Rate of change from 2019

Date

Professional

Low-skill Services

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Blue Collar
Summing Up Employment Reallocation

- No evidence of reallocation in excess of a typical 3-yr amount
- Stark contrast to earlier recessions → new normal
- Labor supply driven employment shortfall in low-skilled services
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- Are employers demanding a different mix of skills?
  - Leverage rich content of the near-universe of jobs posted online using Burning Glass (now Lightcast)
Skill Requirements
No Shift Towards Job Descriptions Typically Associated with Automation

Kahn (Rochester) Labor Market During COVID-19
Summing Up Skill Requirements

- Downskilling is in sharp contrast to persistent upskilling in GR
- Regression analyses show similar results holding constant composition of ads (ind/occ/firm)
- Effects are similar across service/non-service occupations
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- Downskilling is in sharp contrast to persistent upskilling in GR
- Regression analyses show similar results holding constant composition of ads (ind/occ/firm)
- Effects are similar across service/non-service occupations
- Consistent with employer reactions to tightening labor market
- No evidence of strong changes to job descriptions from keywords
  Hansen, Lambert, Bloom, Davis, Sadun, Taska (2022) on WFH
Worker Mobility
Has Individual Worker Mobility Increased?

- Individuals could still be doing very different things
  - The “Great Resignation” suggests this channel
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- We explore monthly individual-level transitions in the CPS

\[ \text{Occgroup}_{i,t+1} = \beta_1 \text{Acute}_t + \beta_2 \text{Recovery}_t + \text{I}^{\text{month}} + \epsilon_{i,t+1} \]

conditional on Occ group status in \( t \)
for \( j \in \text{prof, admin, blue collar, service occs, or non-emp} \)
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\[
\text{Occgroup}_{i,t+1} = \beta_1 \text{Acute}_t + \beta_2 \text{Recovery}_t + l^{\text{month}}_{i,t} + \epsilon_{i,t+1}
\]

conditional on Occ group status in \( t \) for \( j \in \text{prof, admin, blue collar, service occs, or non-emp} \)

\( \beta_2 \rightarrow \) change in transition matrix across large occ groups in the last 18 months, rel to 2015-2019
Table: Occupational Monthly Transitions

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Percentile point coefficients on 4/2021-10/2022 period; standard errors in parentheses clustered by date; controls for seasonality.

Baseline rates
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Conclusion
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  - Job vacancies are elevated but composition is similar
  - Job descriptions appear similar
- Employment has shifted away from low-skilled services
  - Not due to labor demand
  - Early retirements opened positions further up the job ladder
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- COVID is a constant fixture in our lives still
  - Is it too early to look for widespread reallocation?
  - Is reallocation restricted to more subtle forms, i.e., more WFH in a given job, more variation in how we consume

- Even while COVID presented ripe conditions for increasing inequality, we have not seen it on the labor demand side
Extra Slides
The Waiting Room emptied, largely back to employment.
### Table: Mean Transition Rates

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