

The US COVID-19 recession – Will this time be different?

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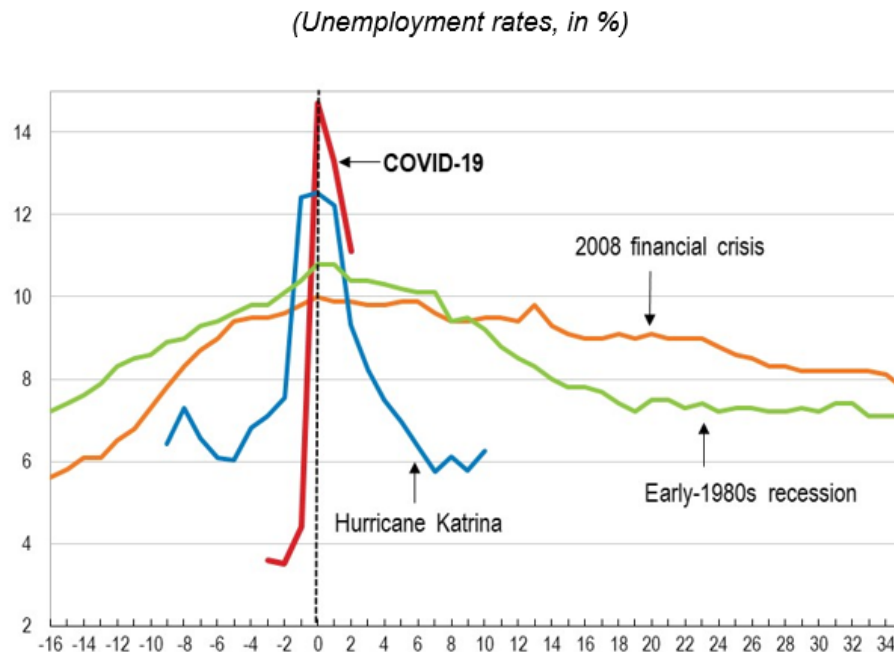
As COVID-19 hit the United States, non-essential businesses had to shut down and large numbers of workers lost their jobs. The unemployment rate went from a low point of 3.5% in early 2020 to a post-war record high of 14.7% in just two months. With the easing of confinement and the reopening of businesses, many workers were recalled and the unemployment rate fell back to 11.1% in June 2020. After this initial rapid improvement, however, further declines are likely to be slower. The OECD projects that unemployment will still be in the range of 8-10% at the end of 2021, depending on how fast the coronavirus epidemics is controlled, leaving millions of workers without a job (OECD, 2020a).

Business cycle regularities

A striking regularity of business cycles is that unemployment always rises much faster than it falls. The US economy has a remarkable capacity to create jobs after recessions, bringing unemployment back down to a low range of 3-5%. However, this takes time. Many workers lose their link to a previous employer during recessions and need to go through a time-consuming process of job search, retraining, relocation, and temporary contracts before securing stable employment (Gregory et al., 2020). As a consequence, after a recession, the unemployment rate typically declines at the slow average pace of about 0.55 percentage point per year (Hall and Kudlyak, 2020). After the 1981-82 recession, unemployment did not reach 5% until 1989. After the 2008 financial crisis, it took 10 years for the economy to return to full employment (Figure 1). If this historical regularity still applies, the United States

may not return to full employment until the early 2030s. Adopting policy reforms to hasten the return to work would mitigate the impact on job seekers in terms of earning losses and well-being (Davis et al., 2011).

Figure 1 – US unemployment usually rises much faster than it falls



Source: US Bureau of Labour Statistics

Note: Monthly unemployment rates during the 1982-82 recession, 2008 financial crisis, Hurricane Katrina devastation (New Orleans and Metairie), and COVID-19 recession; t = 0 at top of unemployment cycle.

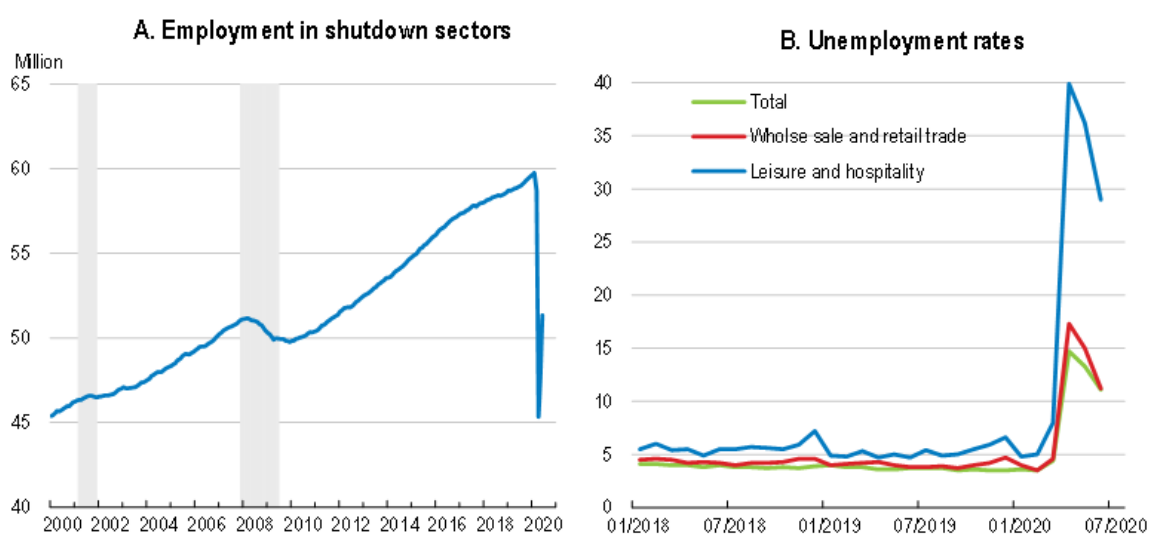
¹ A longer version of this note is available on www.oecd.org/economy/united-states-economic-snapshot/

A large reallocation shock has hit workers providing in-person services

The COVID-19 crisis is not a typical recession. Instead of coming from the accumulation of imbalances (inflation in early 1980s, credit bubble in 2008), it results from government lockdown orders to protect the population from the pandemic. Once businesses reopen, some workers are quickly reemployed. Judging from the experience of New Orleans after Hurricane Katrina, unemployment can decrease fast as sectors such as retail trade, education and social services restart their activity (Figure 1). However, the COVID-19 pandemic is likely

to have a longer-lasting impact: sectors such as air transport, leisure, entertainment, accommodation and food services may remain depressed for a long time if distancing and customer anxiety continue to prevail. In June 2020, despite progress in reopening, 10 million jobs had still been lost in shutdown sectors, and the unemployment rate was still close to 30 percent in the leisure and hospitality industry (Figure 2).

Figure 2: Employment has declined sharply in sectors providing in-person services*



* Air transportation, retail trade, leisure and hospitality, health care & social assistance, and other services.

Source: Bureau of Labour Statistics.

The coronavirus crisis has been characterized as a “reallocation shock” (Barrero et al, 2020) because many workers providing in-person services will have to find work in other parts of the economy. Past sector-specific shocks show that such a reallocation can be difficult. After the China shock of early-2000s (Autor, 2016), which hit the manufacturing industry hard in the Midwest, it took 15 years to return to earlier levels of employment in this region.

The new Job-to-Job dataset of the Census Bureau shows that many manufacturing workers were able to move to other industries or to other parts of the country after the China shock, but low skilled and seniors faced greater difficulties (Azzopardi et al, 2020). The same dataset suggests many construction workers struggled to return to work after the

2008 burst of the housing bubble. This is worrying because the sectors presently locked down employ a large share of workers who will have difficulties moving to new industries, and these jobs are often entry points for workers joining or re-joining the labour force. If previous patterns once again emerge, the sluggish reallocation of workers may prevent the United States from returning quickly to full employment.

Lessons from the past also suggest that a set of regulatory easing measures and support to dismissed workers could help. Regulations introduced in past decades at the state level – especially mandatory occupational licenses, non-compete contracts, and housing regulations – hinder the fluidity of the worker-job matching process and slow down the reallocation of workers across industries (Hermansen, 2019). Easing these restrictions, for instance by eliminating these requirements when not clearly justified or through interstate reciprocity agreements, would quicken the return to full employment. Similarly, a reform of unemployment benefits from passive support to active policies favouring labour-market reintegration, reskilling and geographic mobility – would help the return to work of job seekers and avoid long spells of unemployment and their scarring effects. These policy options are detailed in the new OECD Economic Survey of the United States (OECD, 2020b).

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