

DISCUSSION:
TEMPORARY UNEMPLOYMENT AND LABOR MARKET
DYNAMICS DURING THE COVID-19 RECESSION
BY: GKLN

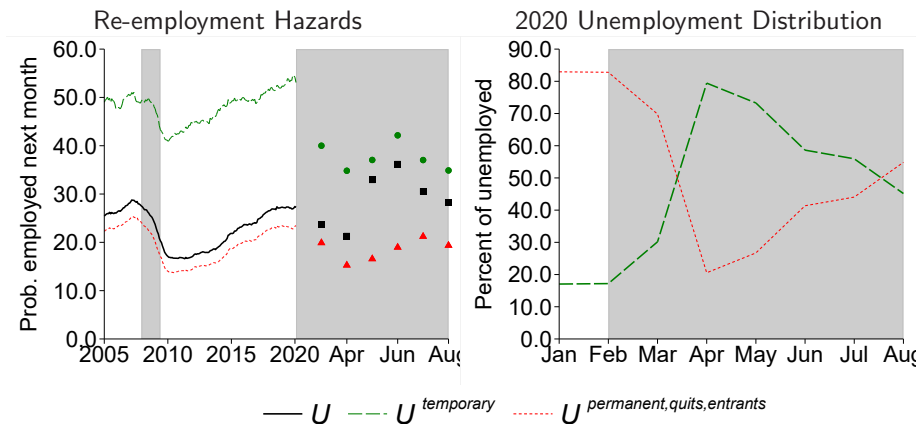
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BPEA
September 24, 2020

FOUR KEY FEATURES OF COVID LABOR MARKET

- ① Stable relative job-finding rates by category of unemployed.
- ② High share of unemployed on temporary layoff with high recall rate.
- ③ Separation rates from employment into unemployment remain high.
- ④ Therefore lots of churn.

IMPORTANCE OF COMPOSITION OF UNEMPLOYED



Source: Chodorow-Reich and Coglianesse (2020).

- Left panel: $U \rightarrow E$ hazards by unemployment type lower in COVID recession.
- Right panel: dominant share of temporary layoffs among unemployed.
- Increase in overall $U \rightarrow E$ hazard entirely due to composition.

GKLN EXERCISE

Heterogeneity among unemployed:

- Temporary layoff and waiting $U^{t,w}$, roughly 75% of temporary layoffs.
- Temporary layoff and searching by duration $U^{t,a}(d)$.
- Other unemployed by duration $U^{t,p}(d)$.

Exogenous forcing variables:

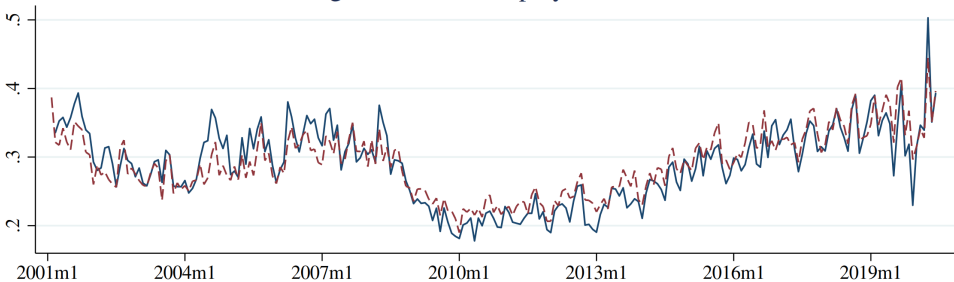
- Monthly vacancy rate.
- Separations from employment into unemployment, not in labor force.
- Transitions between unemployment and not in labor force.
- Recall rate for those on temporary layoff and waiting ($U^{t,w}$).

Endogenous outcomes:

- Job finding rates of unemployed searchers by duration and not in labor force.

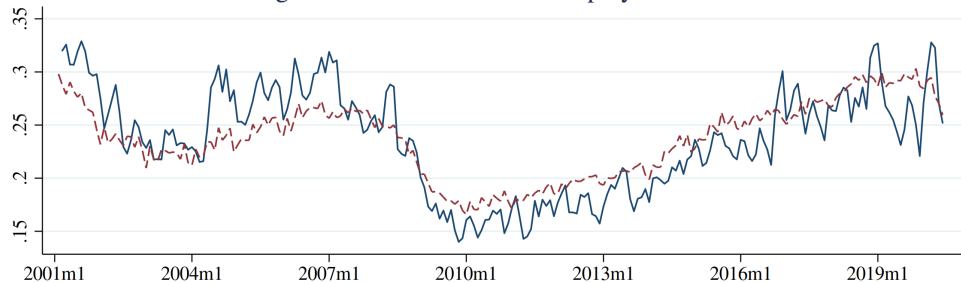
VALIDATION

Job Finding Rates for Unemployed: Baseline Model

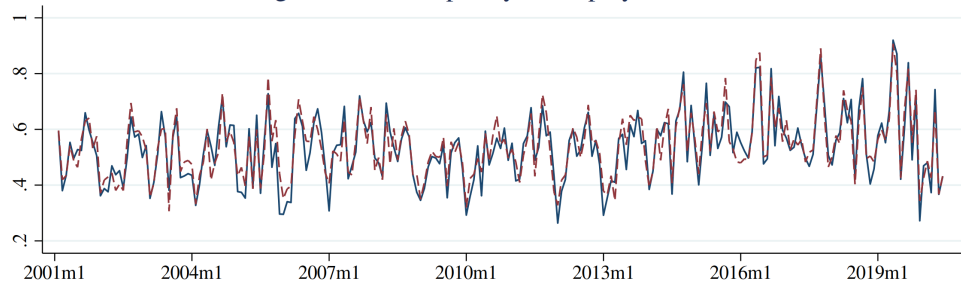


VALIDATION

Job Finding Rates for Permanent Unemployed: Baseline Model



Job Finding Rates for Temporary Unemployed: Baseline Model



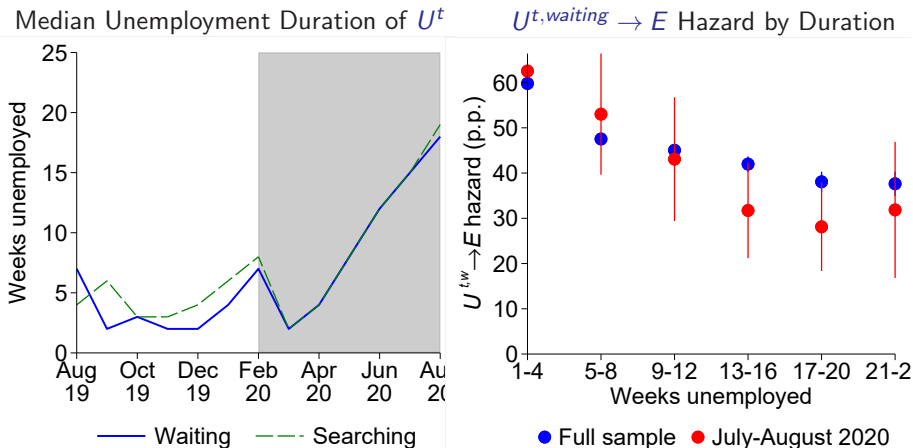
IMPLICATIONS IN GKLN

- Potential for historically rapid labor market recovery.
 - ▶ Much faster than assumed by government/professional forecasters.
 - ▶ Driven by rapid re-employment of those on temporary layoff and declining separations into unemployment.
 - ▶ Point in their favor: forecasters have revised down unemployment rate. E.g. Fed SEP median for 2020Q4 from 9.3% to 7.6%.
- Relatively little long-term unemployment.
 - ▶ Consistent with Chodorow-Reich and Coglianese (2020).
 - ▶ Key is high churn.

THREE KEY QUESTIONS

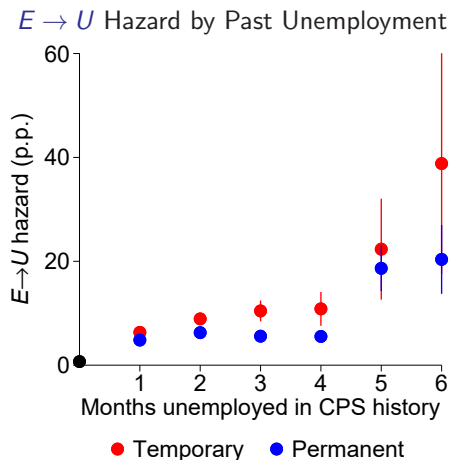
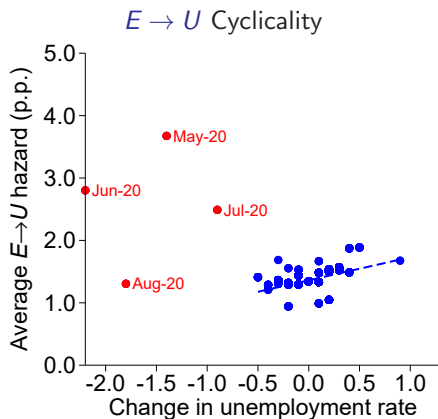
- 1 Will re-employment rates of temporary unemployed remain high?
- 2 Will inflows into unemployment fall?
- 3 How quickly will labor demand recover?

1. WILL RECALL RATES REMAIN HIGH?



- GKLN baseline: recall rate *rises* by 10.5 p.p. over 24 months.
- Duration dynamics suggest it could *fall* over next few months.
- Right panel: $\mathbb{I}\{E_{i,t+1} | U_{i,t}^{t,w} = 1\} = \delta_t + \sum_j \beta_j \mathbb{I}\{\text{Duration} = j\} + \varepsilon_{i,j,t}$.

2. WILL INFLOWS INTO UNEMPLOYMENT FALL?



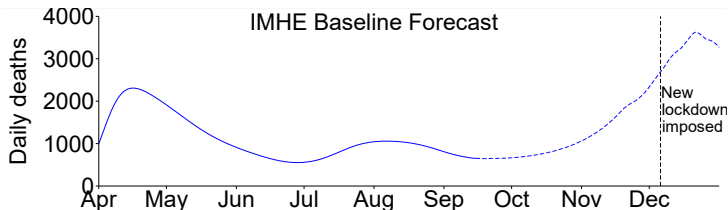
- Recent separation rate unusually high given decline in unemployment.
- Historically employed workers with recent spells of non-employment more likely to separate (Jarosch, 2015; Coglianese, 2018; Hall and Kudlyak, 2019). GKLN assume no history dependence among employed.

3. HOW QUICKLY WILL DEMAND RECOVER?

- Not a question this paper well-posed to answer.
- But main driver of driving forces: recall rates, vacancies, separations all depend on demand returning.
- Optimistic scenario: vaccine.
- Pessimistic scenario: new wave of infections during flu season.

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CONCLUSION

- Very nice summary of COVID labor market and forecasting exercise.
- Highlights importance of accounting for temporary layoffs. I agree!

(Also: Chodorow-Reich and Coglianese, 2020; Gregory, Menzio, Wicze, 2020; Hall and Kudlyak, 2020.)

- GKLN optimistic about recovery from here forward. I offer some reasons for concern:
 - ▶ Duration dependence lowers exit rate from temporary layoff.
 - ▶ History dependence raises separation hazard into unemployment.
 - ▶ Renewed decline in labor demand.