

# WHAT IMPEDES LABOR MARKET RECOVERY AFTER THE PANDEMIC RECESSION?

Minnesota Association of Workforce Boards

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**FEDERAL RESERVE BANK  
OF MINNEAPOLIS**



## DISCLAIMER

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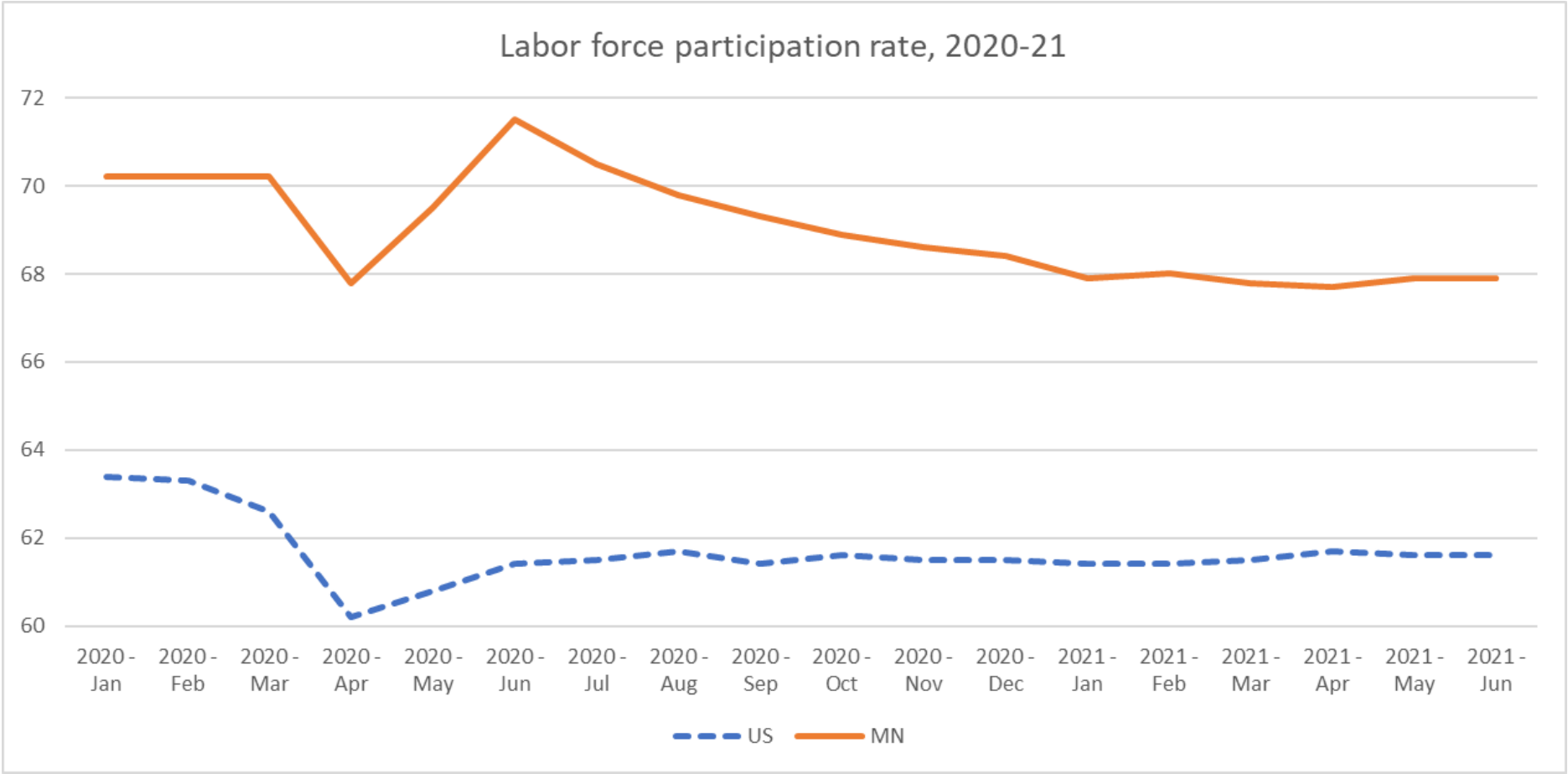


# THE MINNESOTA AND NATIONAL LABOR MARKET CONTEXT

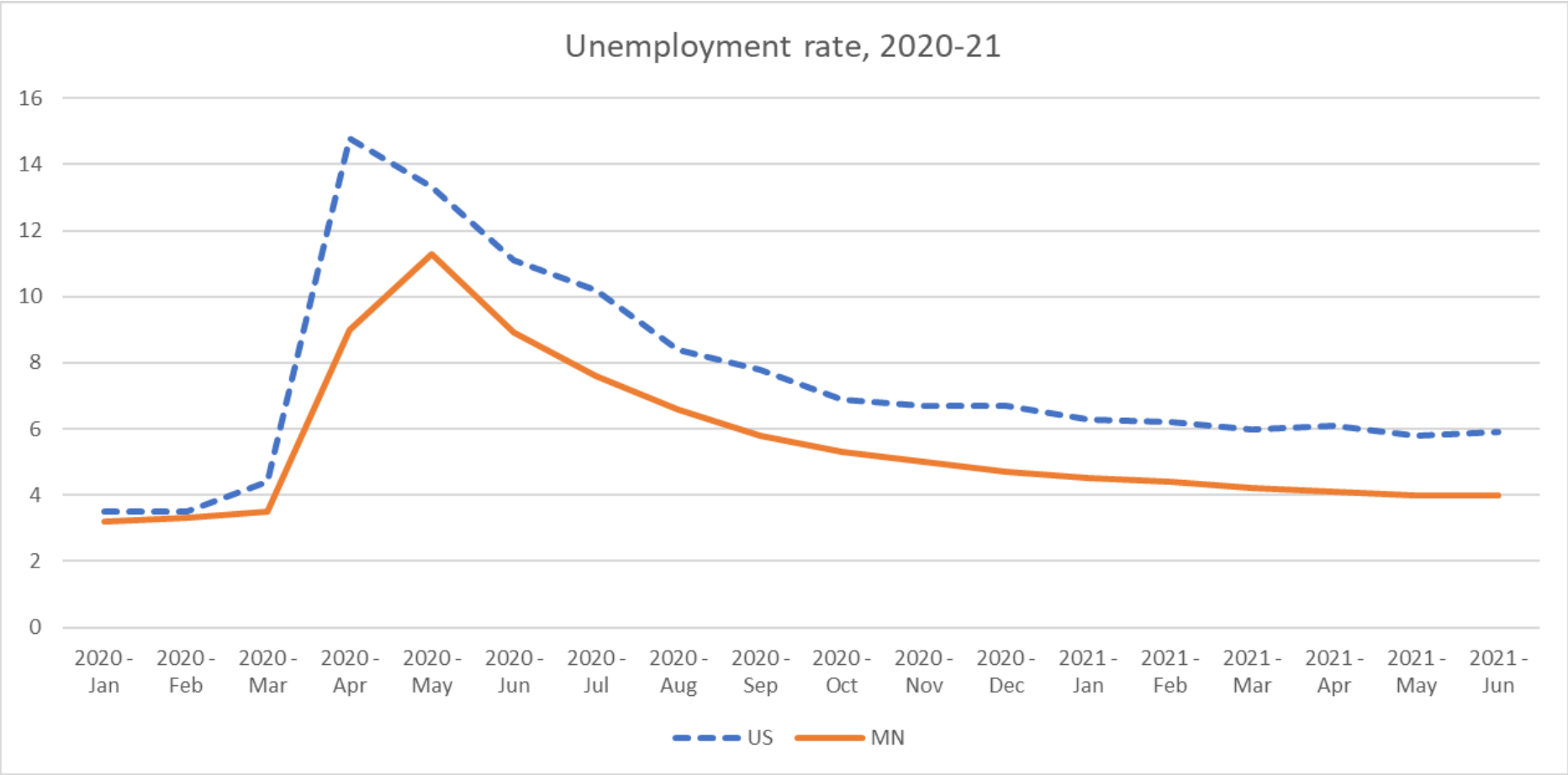
- **Strong labor market just before the pandemic**
  - Persistently high LFPR in MN relative to US
  - Very low early-2020 unemployment in both MN and rest of US
  - Relatively high wage growth, especially for low-income workers
- **Unprecedented severity and brevity of 2020 recession**
  - 22 million lost jobs in US from Feb 2020 – April 2020
  - But recession only lasted two months
- **Minnesota had a less severe recession than rest of US**
  - But MN and US still short of pre-pandemic trends
  - Depressed labor force participation is especially concerning
  - Strong overall outcomes for MN conceal racial disparities



# UNUSUALLY HIGH LABOR FORCE PARTICIPATION IN MN



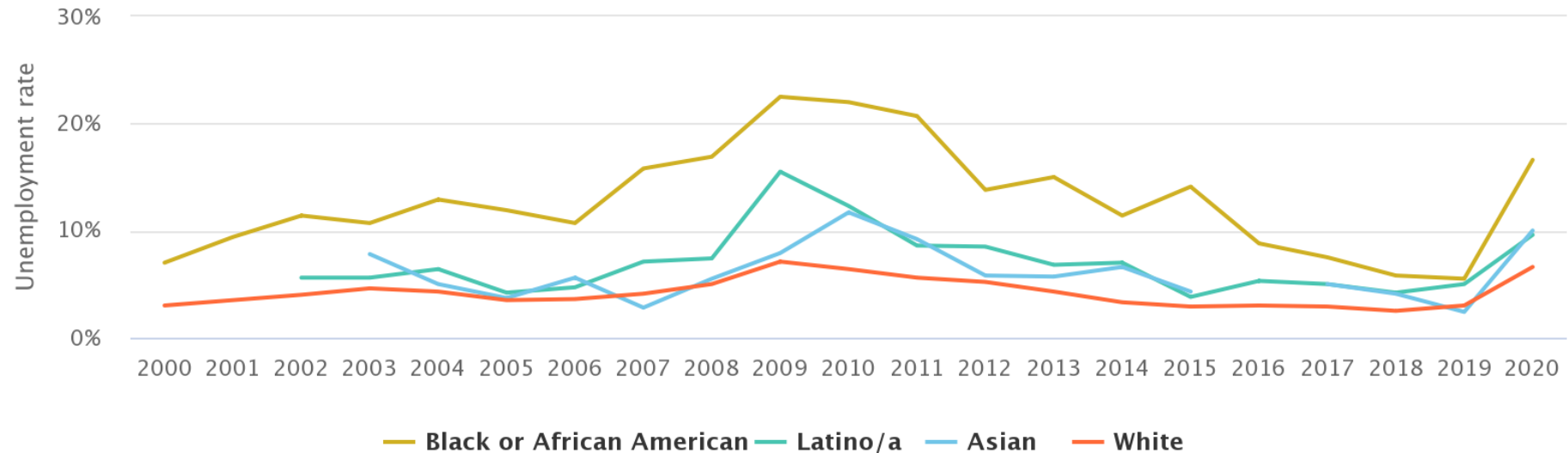
# MINNESOTA FARED BETTER THAN OTHER STATES



# BUT MN RACIAL DISPARITIES ARE ESPECIALLY LARGE

2

Minnesota unemployment rate by race/ethnicity, 2000-2020



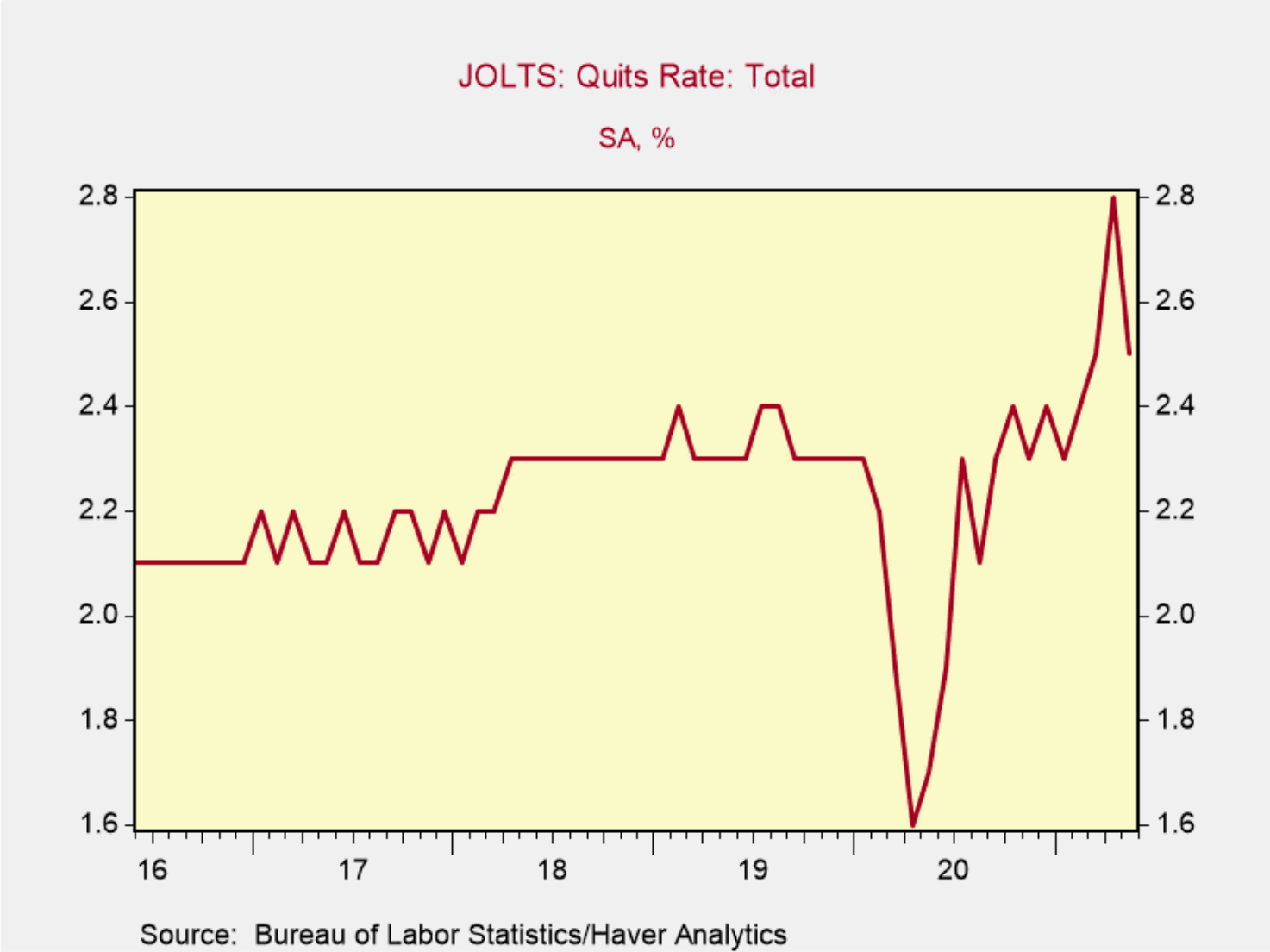
Note: Workers age 16 and older are included in these calculations. For 2020 estimates, we use Current Population Survey microdata to estimate the six-month lagging average unemployment rate by racial and ethnic group for August 2020. Source: Current Population Survey 2020 microdata retrieved from IPUMS, and authors' calculations.

# WHAT SLOWS LABOR MARKET RECOVERY IN 2021?

- **COVID-19**
  - Mostly private responses to COVID-19 danger, but some role for shutdown orders
  - People most likely to respond have likely now been vaccinated (speculative)
  - Hard to predict extent and time profile of COVID danger
- **Difficulty of reallocating labor**
  - Can't just return to March 2020 status quo
  - Job search is slow and costly
  - UI could be facilitating slower but more productive reallocation (speculative)
- **Access to child care and schooling**
  - Mothers experienced large declines in participation during 2020
  - Will child care and in-person schooling be universally available in 2021-22?
  - So far, limited effects on the overall labor market but important for caregivers



# REALLOCATION: QUILTS ARE ELEVATED





# BUSINESS FORMATION ROSE DURING THE PANDEMIC

## High-Propensity Business Applications

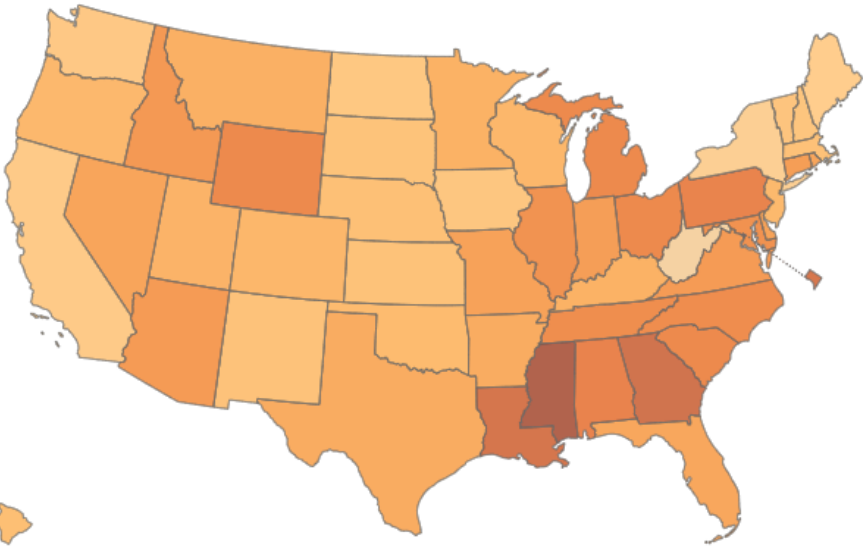
Change From February 2020 to February 2021  
(Seasonally Adjusted)



Type:

Month:

Change:



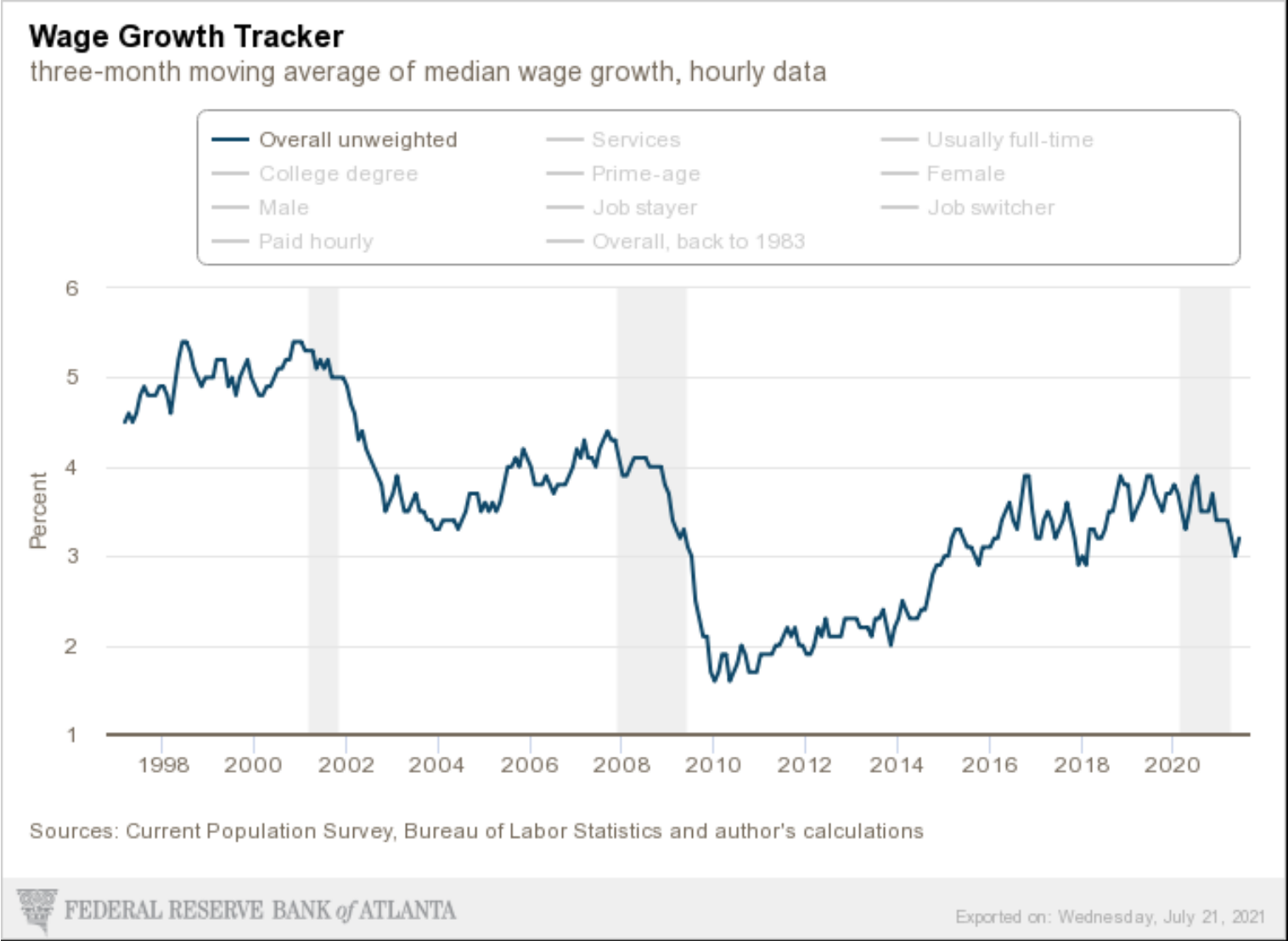
February 2021  
U.S. Total

146,978 Applications

▲ 29.4%



# RECOVERY NOT YET PRODUCING MUCH WAGE GROWTH

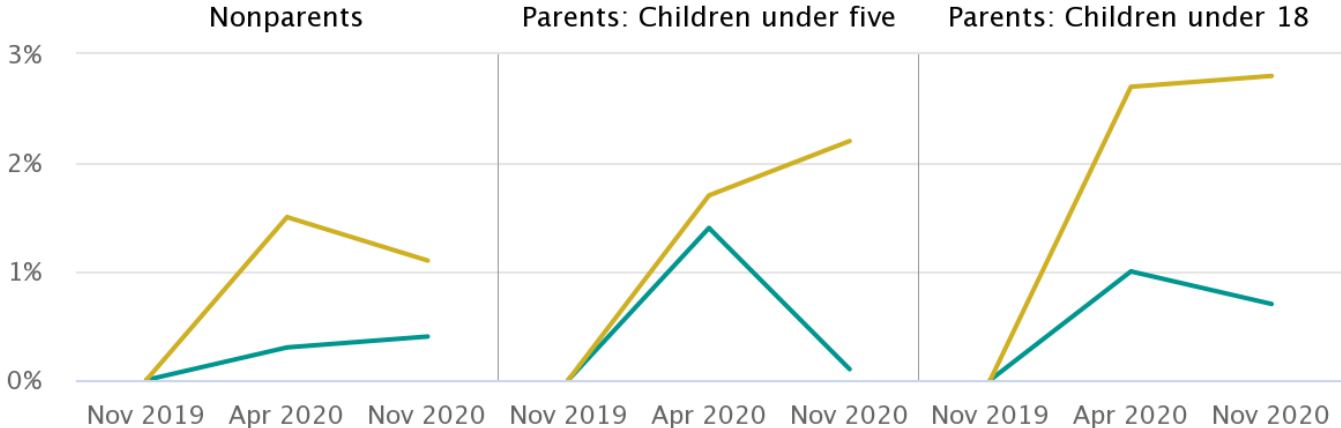


# WOMEN LEFT LABOR FORCE FOR CAREGIVING

## 2

Mothers have increasingly left the labor force because of care responsibilities

Percentage point change over time in share of individuals not in the labor force due to home or family care, for male and female individuals



Note: The estimates show the change from November 2019 in the number of people in each group that they are not in the labor force due to home or family care, divided by the total population of each group. Estimates include only 25- to 54-year-olds. *Parents: Children under 18* includes parents whose youngest child living in their home is 17 or younger. *Parents: Children under five* includes parents whose eldest child living in their home is four or younger. *Nonparents* are those who do not have children of any age living in their home.

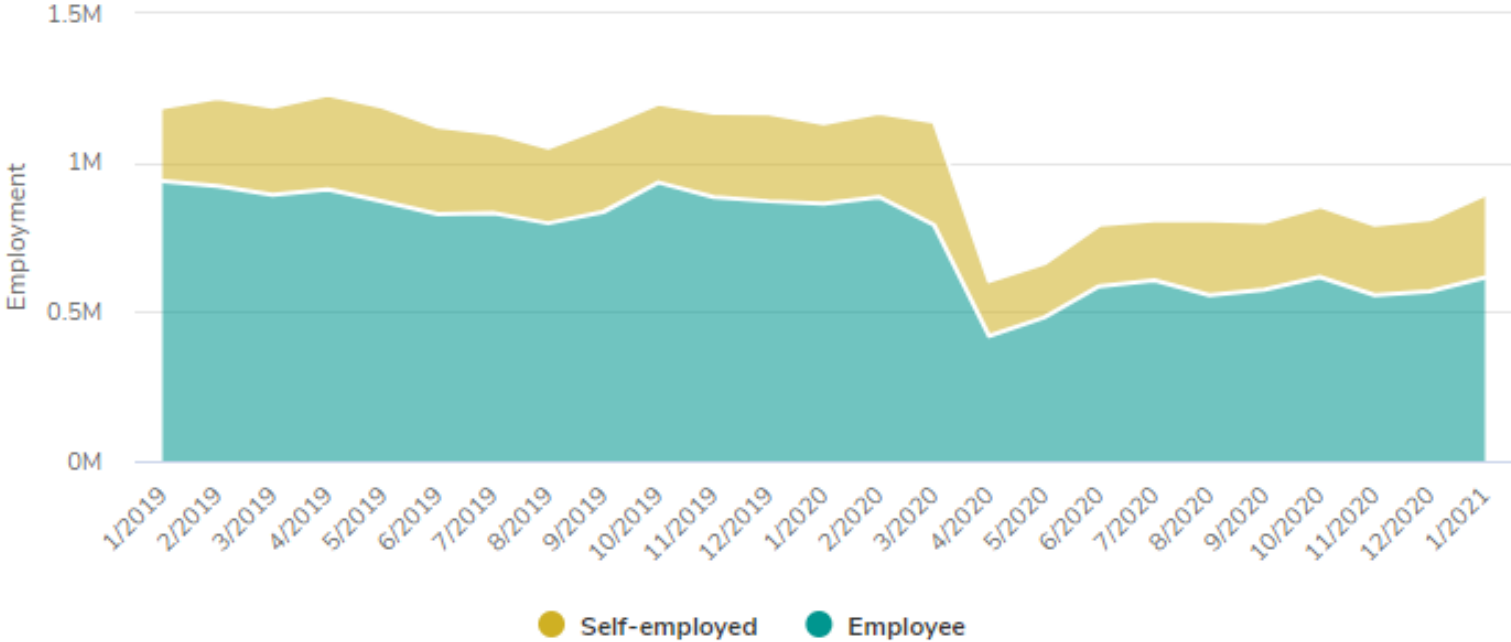
Source: Authors' calculations using data from the Bureau of Labor Statistics Current Population Survey 2019-2020 (accessed via IPUMS-CPS).

# CHILD CARE EMPLOYMENT DROPPED DRAMATICALLY

1



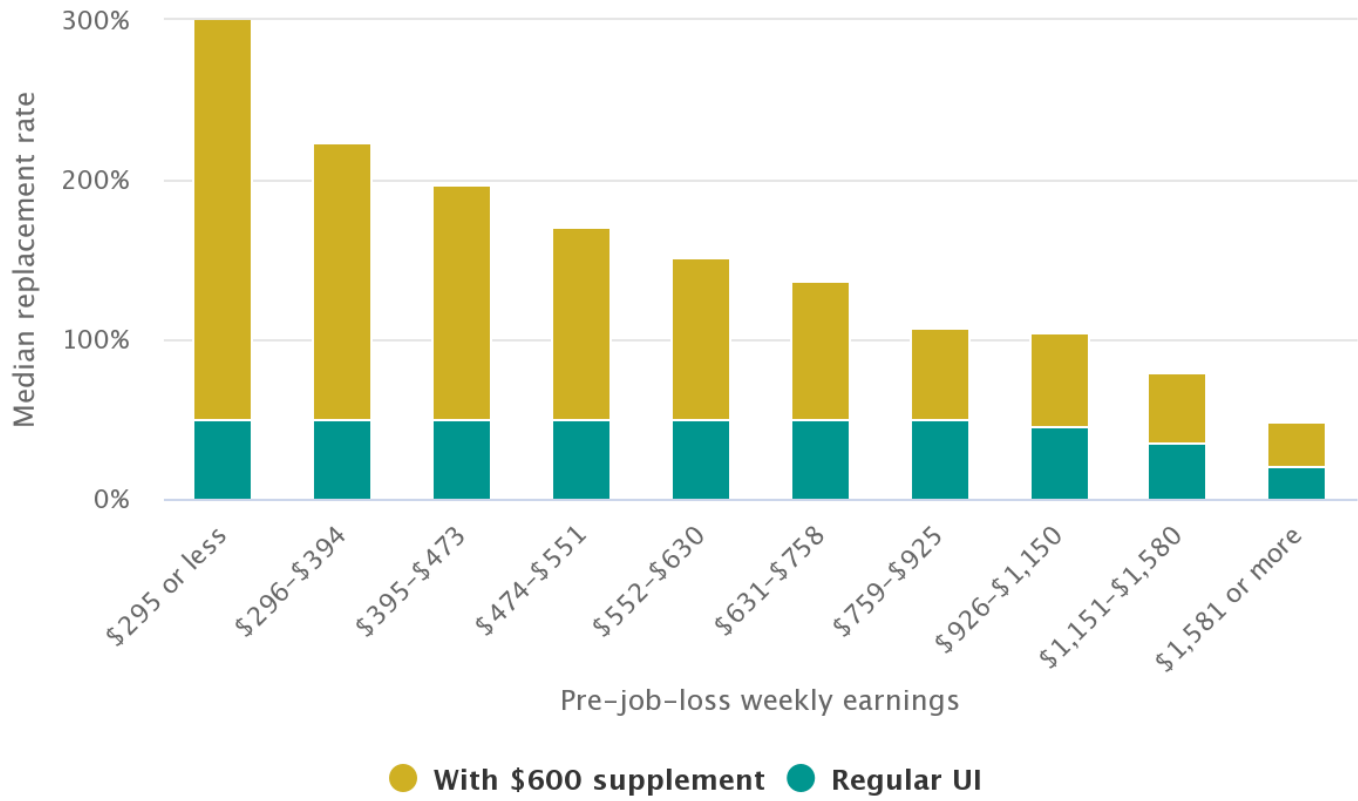
Child care employment has recovered only modestly from a large decline



Note: Number of child care workers at work during the reference week by self-employment status. Workers are considered employed if they were "at work last week."  
Source: Authors' calculations using data from the Bureau of Labor Statistics Current Population Survey (CPS) 2019–2021 (accessed via IPUMS-CPS).

# UI WAS UNUSUALLY GENEROUS IN 2020

## Pandemic UI replaced large shares of lost income



Note: Figure reproduced from Ganong et al. (2020) showing the median fraction of pre-tax earnings replaced by unemployment benefits among unemployed workers between April and July of 2020.

Highcharts.com

**THANK YOU**



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