ON THE MONEY

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What Is Happening to the Workforce?

Introduction

The state and national workforce is currently attracting more attention than at any time since perhaps the late 1990s. Now as then, there is a chronic shortage of workers, with employers offering thousands in signing bonuses and referral fees. The major difference now, of course, is the ongoing impact of the COVID-19 pandemic. This article explores these issues.

Labor Force and Unemployment

The most often cited measure of labor conditions is the unemployment rate. This is charted in Figure 1. The series begins in January 2010, as employment was beginning to increase after the recession. After spiking at levels not seen since the Depression – 16.4% in Ohio and 14.8% nationwide – in April 2020, the unemployment rate declined rapidly. In October 2021, Ohio's rate stood at 5.1% and the U.S. rate was 4.6%. These rates were still about a percentage point above their levels in late 2019.

However, as has been pointed out several times in these articles, the unemployment rate suffers from serious shortcomings as a measure of the health of the labor market. This is because the denominator of the unemployment rate, the civilian labor force, is partially driven by the number of people actively seeking employment. This declines in a typical recession as the number of people discouraged over their employment prospects increases. Those who have not actively sought employment in the past 30 days are not included in the labor force, regardless of their availability and willingness to work.

To reflect this issue, Figure 2 charts Ohio's labor force and employment over the same period as Figure 1. The distance between the two lines is the number of unemployed. The recent months show far more variability. This is due to both greater errors in the underlying data and probable errors in the government's seasonal adjustment model as well. In particular, the sharp decline of around a quarter million in the labor force and employment in May 2021 was likely a data error.

In any case, labor force so far this year is averaging 2.7% less than during the same months of 2019, and employment is averaging 3.7% less. Before the pandemic took hold, labor force and employment had both been gradually increasing.

Figure 1: Ohio and U.S. Unemployment Rates, January 2010-October 2021

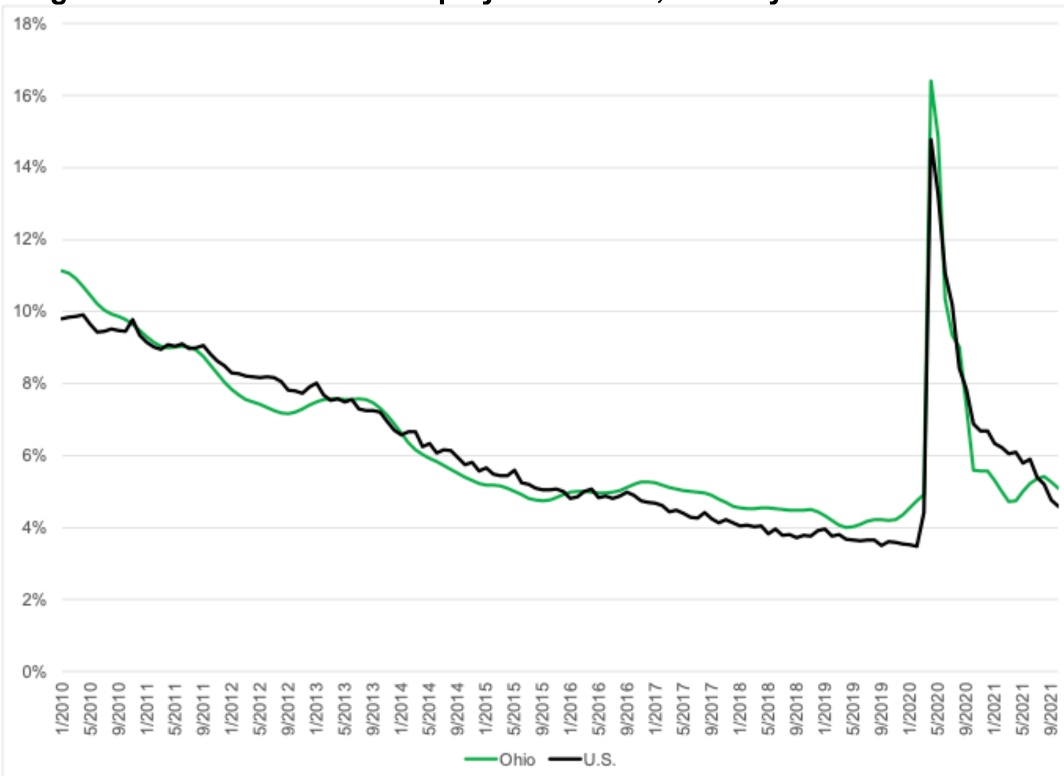
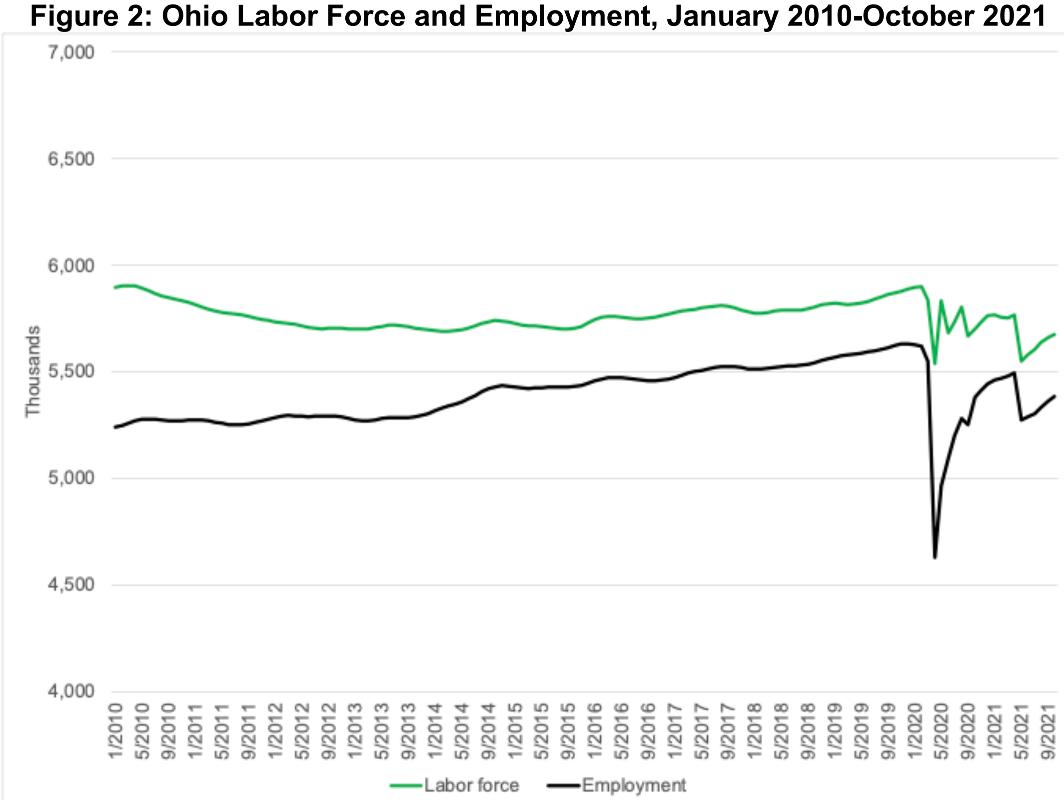


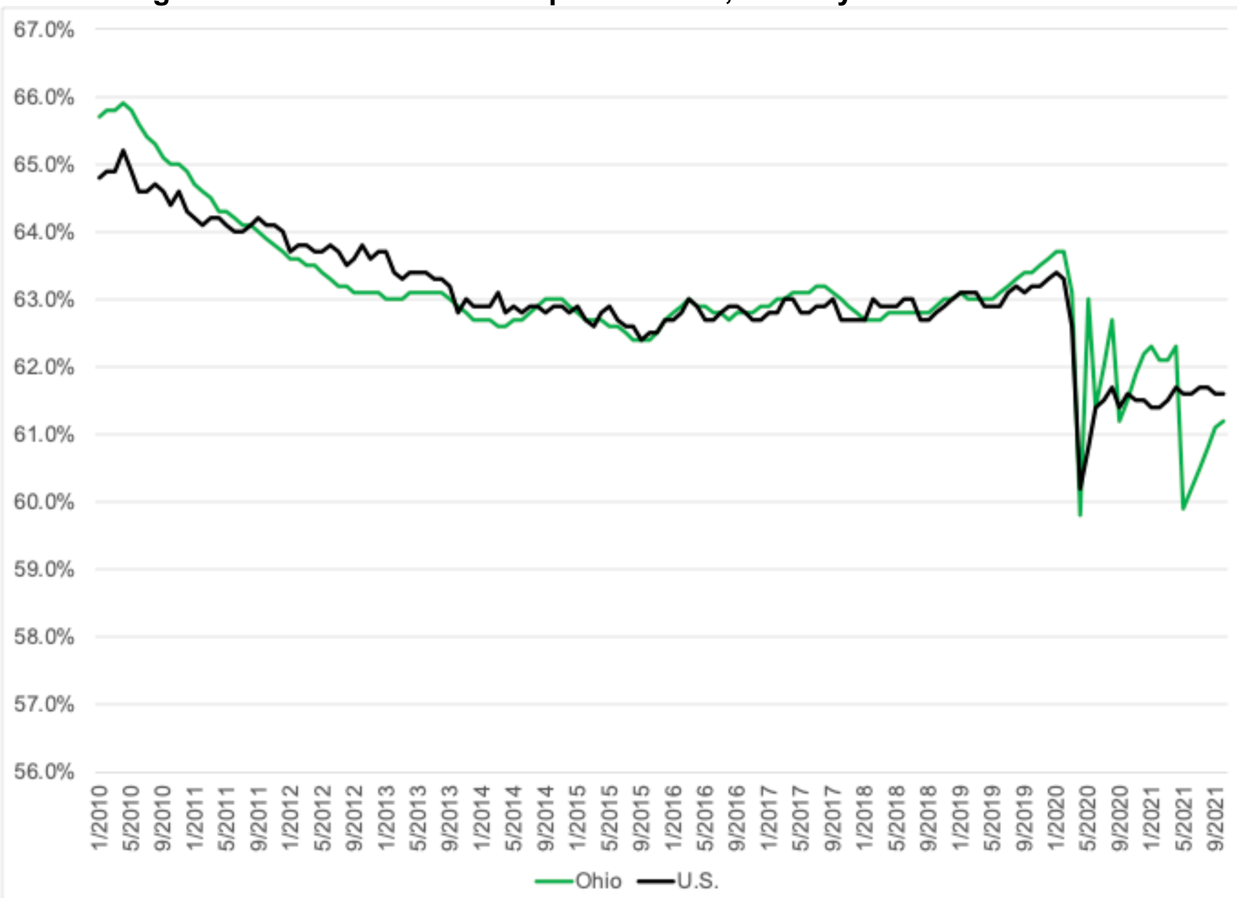
Figure 2: Ohio Labor Force and Employment, January 2010-October 2021



Source: Local Area Unemployment Statistics and Current Population Survey, U.S. Bureau of Labor Statistics.

Another way of assessing the status of the labor force is the participation rate. This is the reported labor force divided by the noninstitutionalized population 16 years and older, with no upper bound on age. This is shown in Figure 3 for Ohio and the U.S. monthly beginning in January 2010. Ohio's participation rate exceeded the U.S. rate early in the period but has closely tracked the national average more recently. The extreme volatility and possible data errors in the state series in 2020 and 2021 makes drawing specific conclusions difficult, but neither series has shown any sign of returning to its pre-pandemic level.

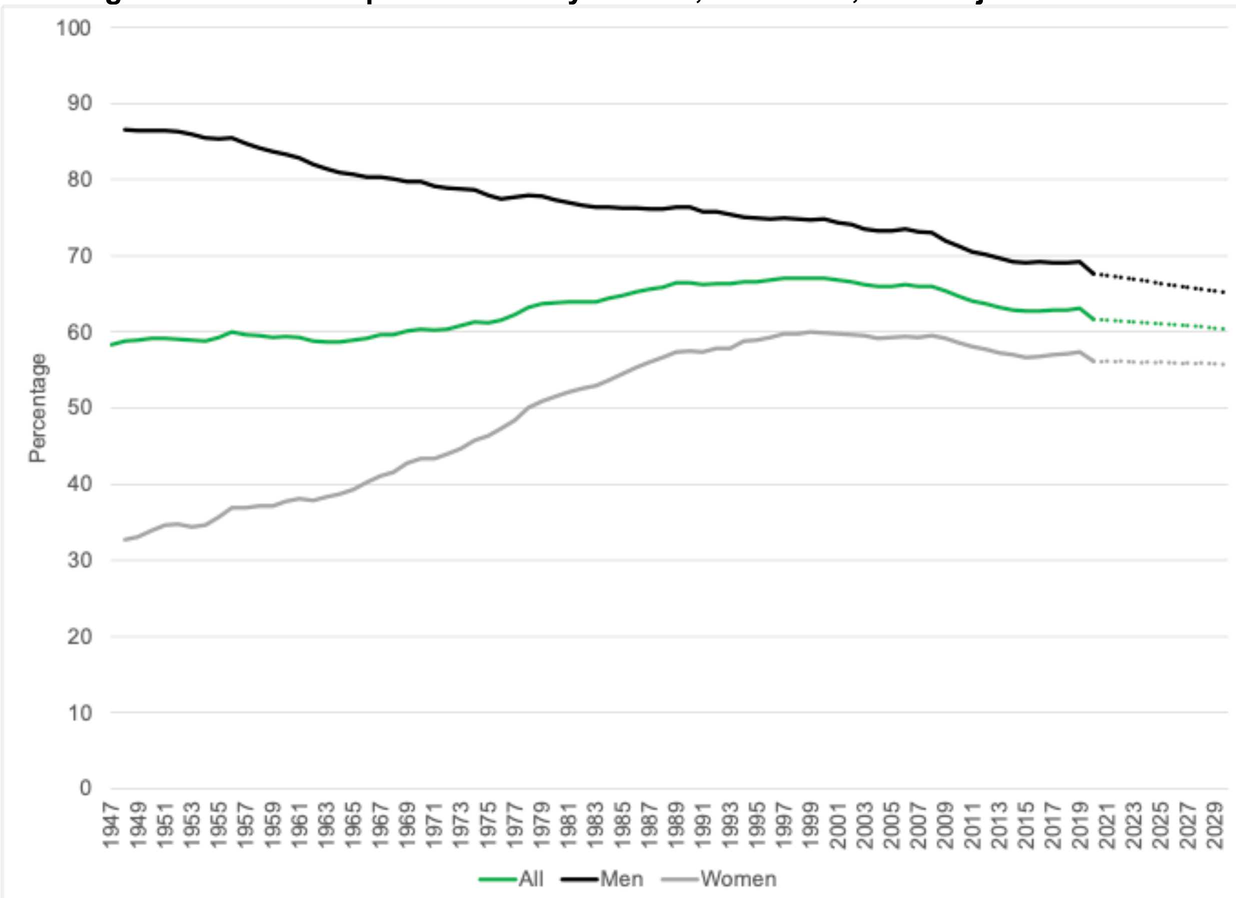
Figure 3: Ohio and U.S. Participation Rates, January 2010-October 2021



Source: Local Area Unemployment Statistics and Current Population Survey, U.S. Bureau of Labor Statistics.

However, as with other pandemic trends (online shopping, remote work, videoconferencing) the lower participation rate is an acceleration of an existing trend. This is shown in Figure 4, which graphs annual U.S. participation rates for men, women, and in total beginning in 1947. Male participation has been declining for the entire period. This is due to increasing longevity, allowing larger numbers to retire. In contrast, the female rate increased sharply from 32.7% in 1948 to 60% in 1999. The rate has fallen subsequently as the entry of women into the labor force was increasingly offset by retirements. Bureau of Labor Statistics projections suggest that these trends will continue over the next decade. By 2030, only 65% of adult men and less than 56% of adult women will be in the labor force. As a result, the overall participation rate will be 60.4%, which by then will be a 60-year low.

Figure 4: U.S. Participation Rates by Gender, 1947-2020, and Projected to 2030



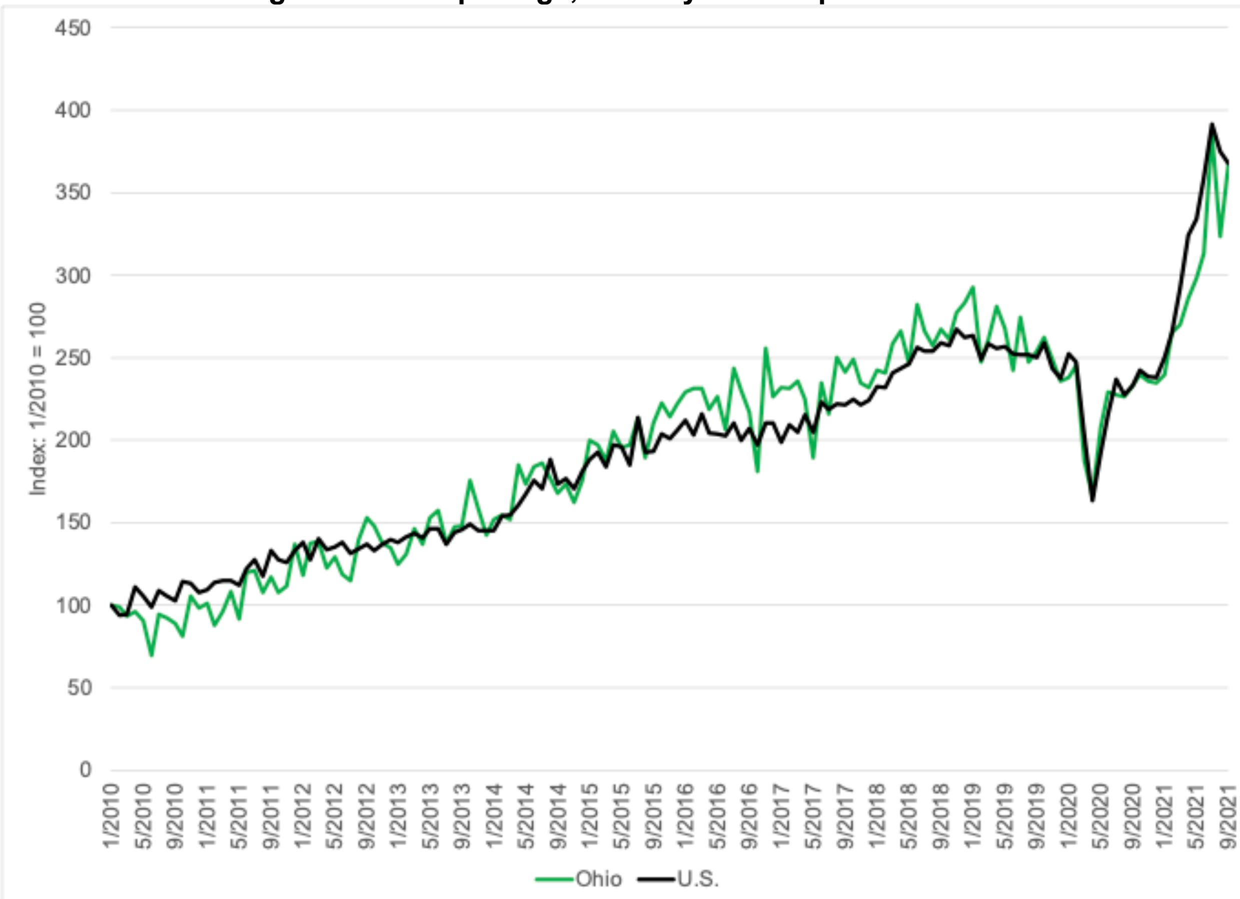
Source: Current Population Survey and Population Projections, U.S. Bureau of Labor Statistics.

Worker Demand and the Great Resignation

This labor force decline is colliding with a far greater demand for that labor force. The closing of the economy last year and the stimulus payments sent the savings rate surging to record levels. People are now wanting to spend those accumulated savings and businesses are eager to build inventories to accommodate that demand. The result was an annualized gross domestic product (GDP) gain of greater than 6% in the first half of 2021. However, the snags in the supply chain caused in large part by the lack of workers, together with rising COVID cases, led to a GDP gain of only 2.1% in the third quarter, half the consensus expectation.

The demand for workers is apparent in the surging number of unfilled positions, as displayed in Figure 5. Openings increased from 7.1 million nationally and 254,000 in Ohio in January 2021 to record levels of 11.1 million and 409,000 in July. In September, there were 10.4 million job openings nationwide and 389,000 in Ohio.

Figure 5: Job Openings, January 2010-September 2021



Source: Job Openings and Labor Turnover Survey, U.S. Bureau of Labor Statistics.

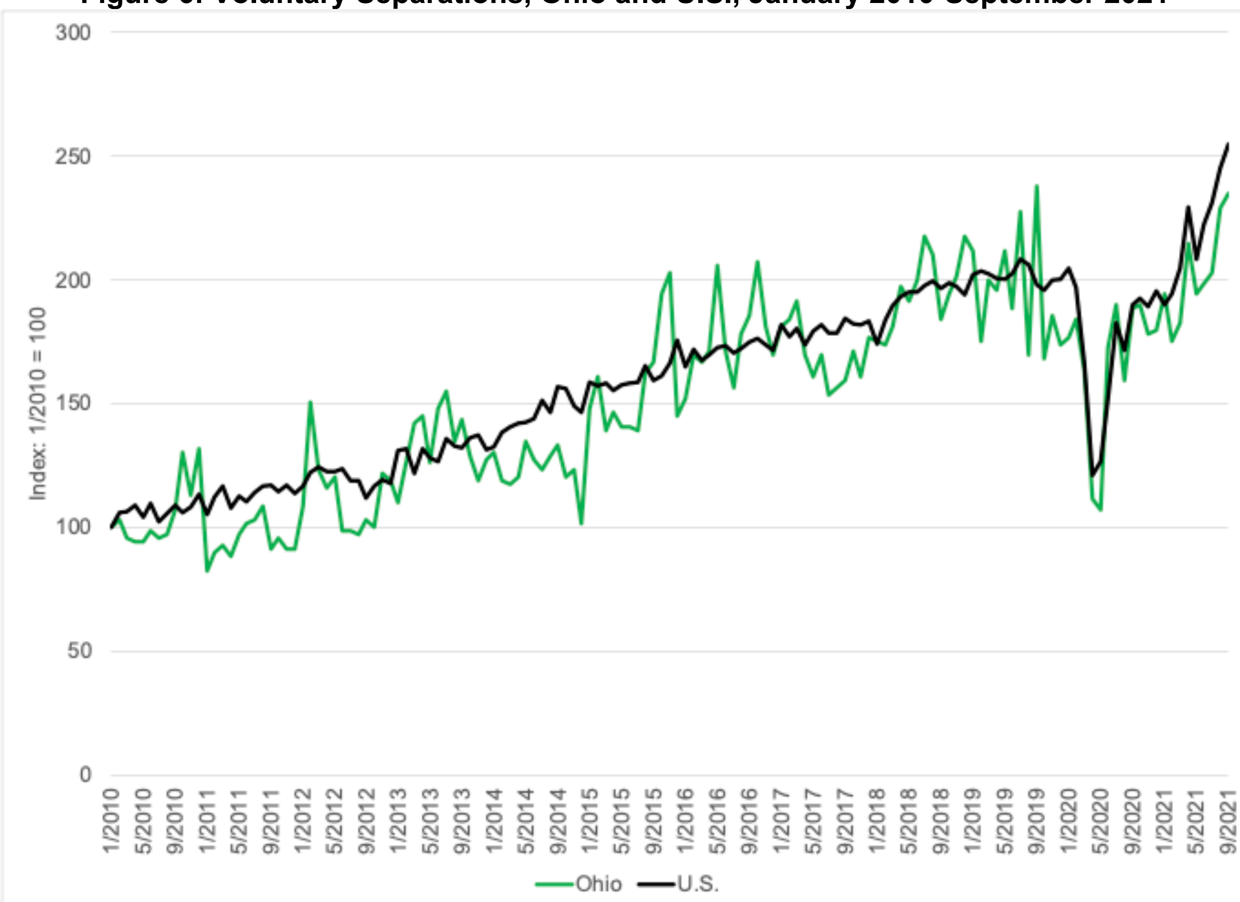
There was hope that the end of supplemental unemployment benefits over the summer would cause a surge in the labor force, but as is apparent in the labor force trend in Figure 3, that did not happen in Ohio. Other states' experience is similar. For example, Missouri ended their $300 supplemental benefit on June 12. Workforce officials in the state saw virtually no increase in applicants in the first few weeks afterward. The job search service Indeed reported that clicks on job postings in states that ended their benefit were below average.

The ongoing impact of the pandemic, including the autumn 2021 surge in infections, has an impact on people's willingness to return to work. So does the ongoing shortage of daycare services. There were 105,000 fewer employees of child daycare services nationally in October than in February 2020, a 10% net loss. Part of the cause, as stated above, is the speed of the reopening. Labor is a necessary input into the production of goods and services just as any other supply, so the labor shortage is both a cause of the supply shortage and a part of it.

But there is a larger dynamic at work as well. The dislocations caused by the pandemic gave workers time to reflect on their careers, the importance of quality of life, and what constitutes meaningful work. A February Pew survey found that two-thirds of Americans unemployed during the pandemic had seriously considered changing their career. LinkedIn has reported that the number of users changing jobs in 2021 is up 50% from 2020 and up 30% from pre-pandemic levels in 2019. A recent Visier survey of 1,000 full-time employees found that nearly 90% have experienced occupational burnout over the past year, and more than a quarter reported that they experience burnout all the time. With so many open positions, employees that remain must do more with less. Resignations are one response. Further, workers know that they are in demand and are bargaining for higher wages and better benefits. But other factors, such as workplace culture, are also at play.

The result is a sharp increase in voluntary separations – the number of workers quitting their job. This has been referred to as the “great resignation,” and is shown for Ohio and the U.S. in Figure 6. The Ohio series is far more volatile than the nationwide series because of larger margins of error, but generally tracks the national average closely. Seasonally adjusted U.S. quits in September were more than 2.5 times their level at the beginning of 2010 and up nearly one-quarter from January 2020.

Figure 6: Voluntary Separations, Ohio and U.S., January 2010-September 2021



Source: Job Openings and Labor Turnover Survey, U.S. Bureau of Labor Statistics.

The labor force situation will eventually return to normal, although when this will happen is still unclear. One result may be a permanently higher wage structure. After all, the share of productivity gains going to workers has been declining for decades, and this period could lead to a reckoning. If so, the broader economy will benefit from higher household income. There will also be more automation as the cost of automation declines and the cost of labor increases. But just because a process *can* be automated does not mean that it *will* be. It all depends on each method’s ability to satisfy customers.