Discussion: Temporary Unemployment and Labor Market Dynamics During the COVID-19 Recession

By: GKLN

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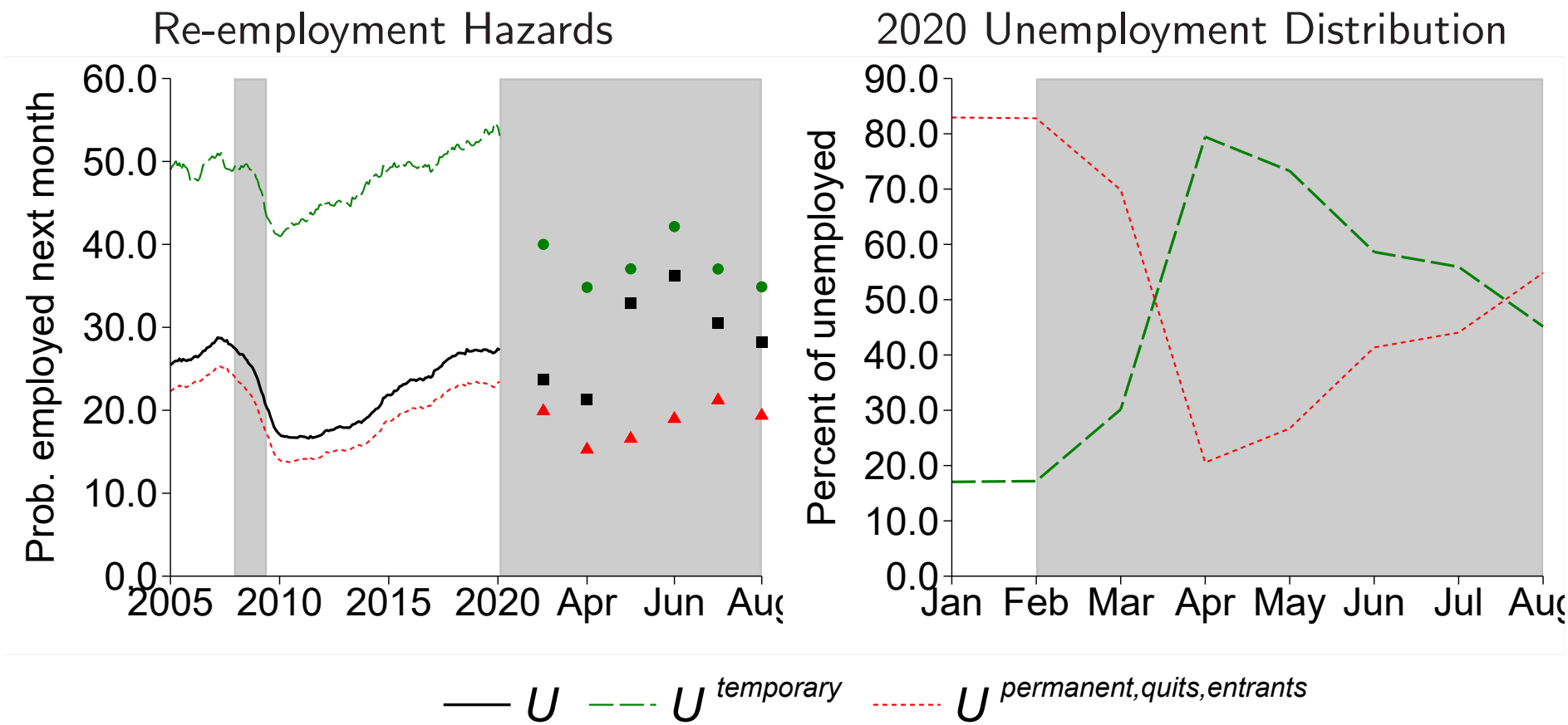
Four key features of COVID labor market

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 Coglianese (2020).

- Left panel: $U \to E$ hazards by unemployment type lower in COVID recession.
- Right panel: dominant share of temporary layoffs among unemployed.
- Increase in overall $U \to E$ 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 $U^{t,p}(d)$.

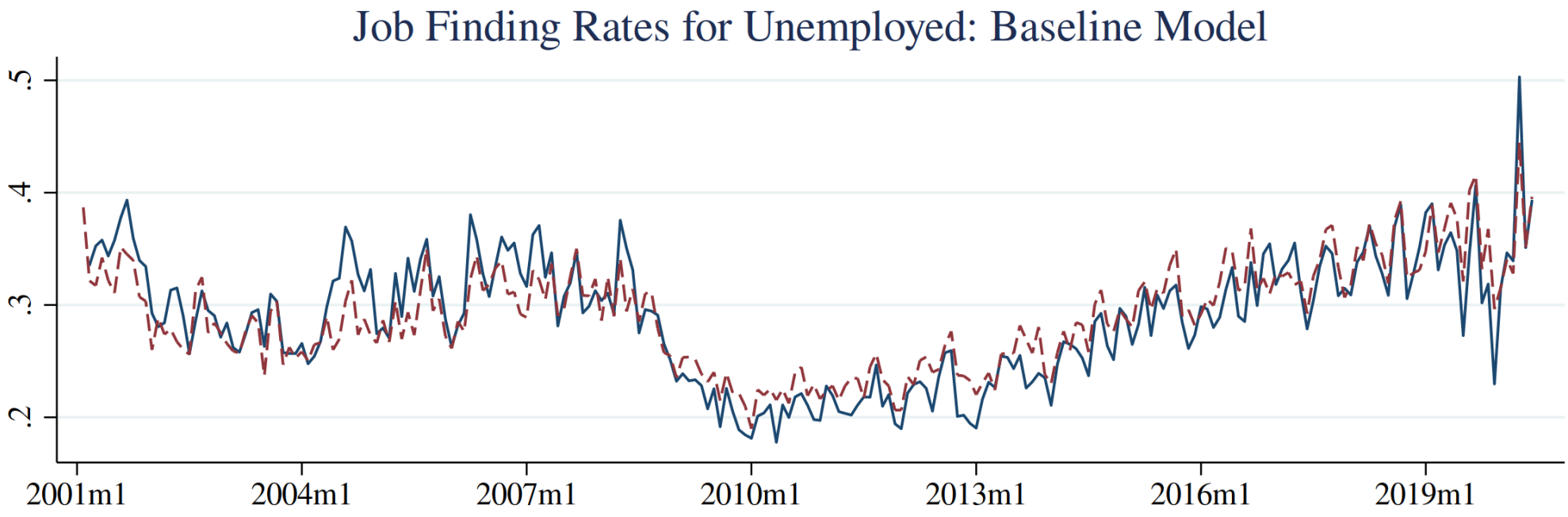
Exogenous forcing variables:

- 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
.2
.3
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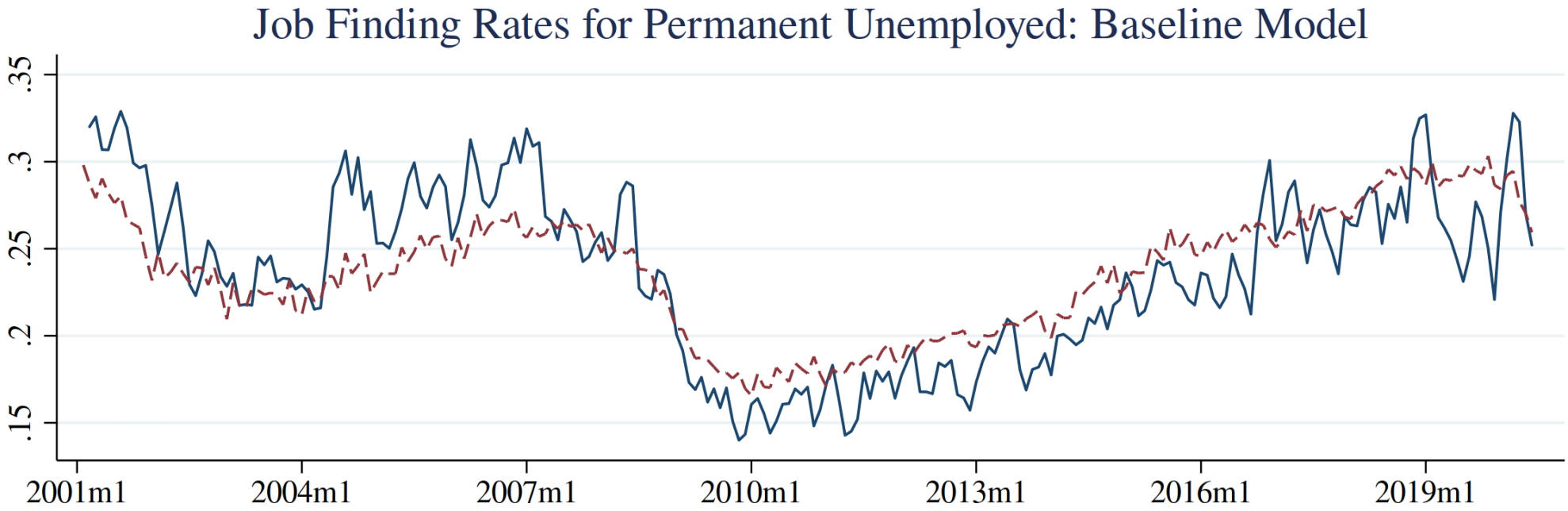
2001m1
2004m1
2007m1
2010m1
2013m1
2016m1
2019m1

VALIDATION


Job Finding Rates for Permanent Unemployed: Baseline Model
.15
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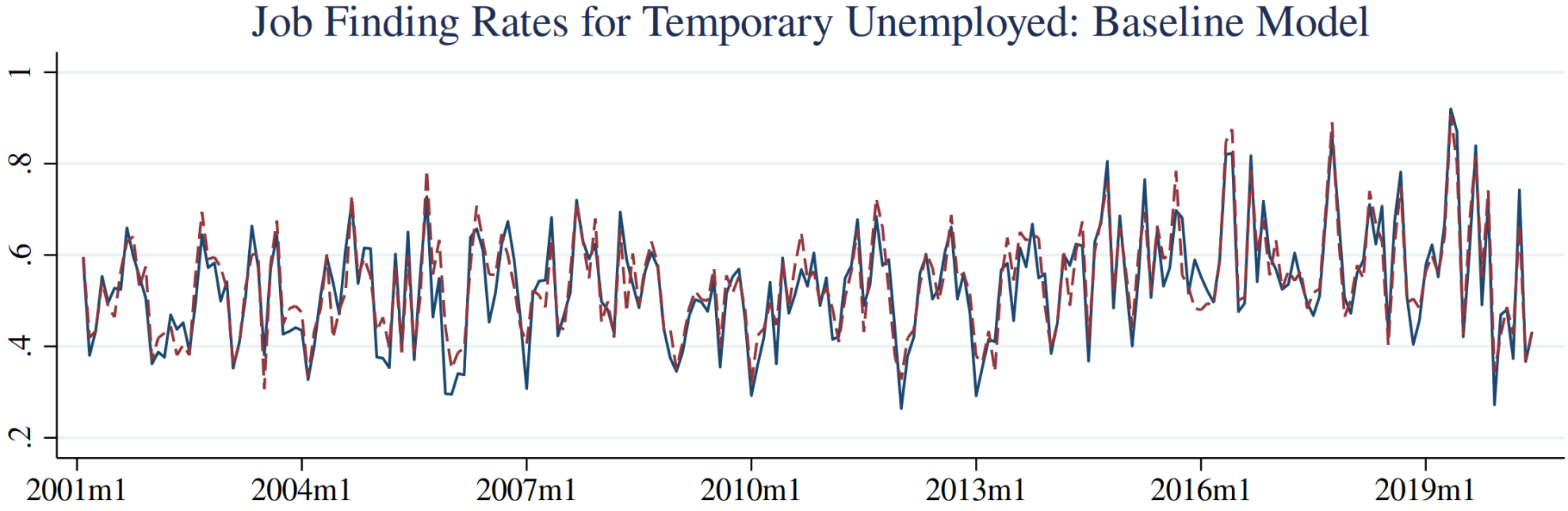
2001m1
2004m1
2007m1
2010m1
2013m1
2016m1
2019m1


Job Finding Rates for Temporary Unemployed: Baseline Model
.2
.4
.6
.8
1
2001m1
2004m1
2007m1
2010m1
2013m1
2016m1
2019m1

Implications in GKLN

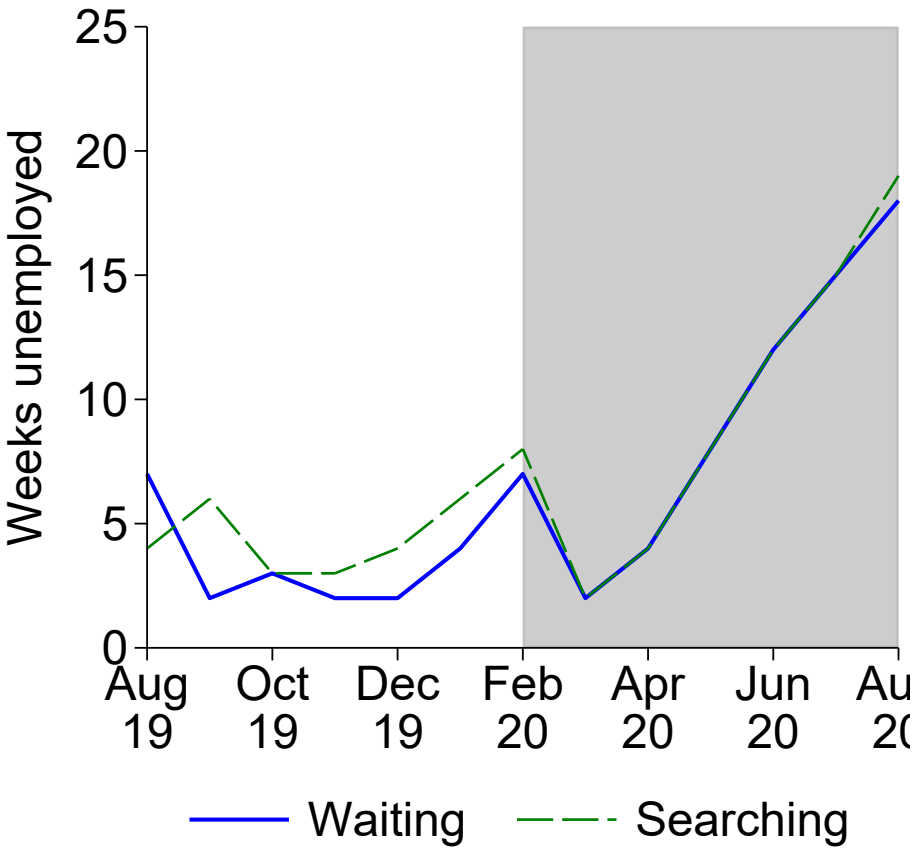
- Potential for historically rapid labor market recovery.
  - Much faster than assumed by government/professional forecasters.
  - Driven by rapid re-employment of those on temporary layoff and declining separations into unemployment.
  - Point in their favor: forecasters have revised down unemployment 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

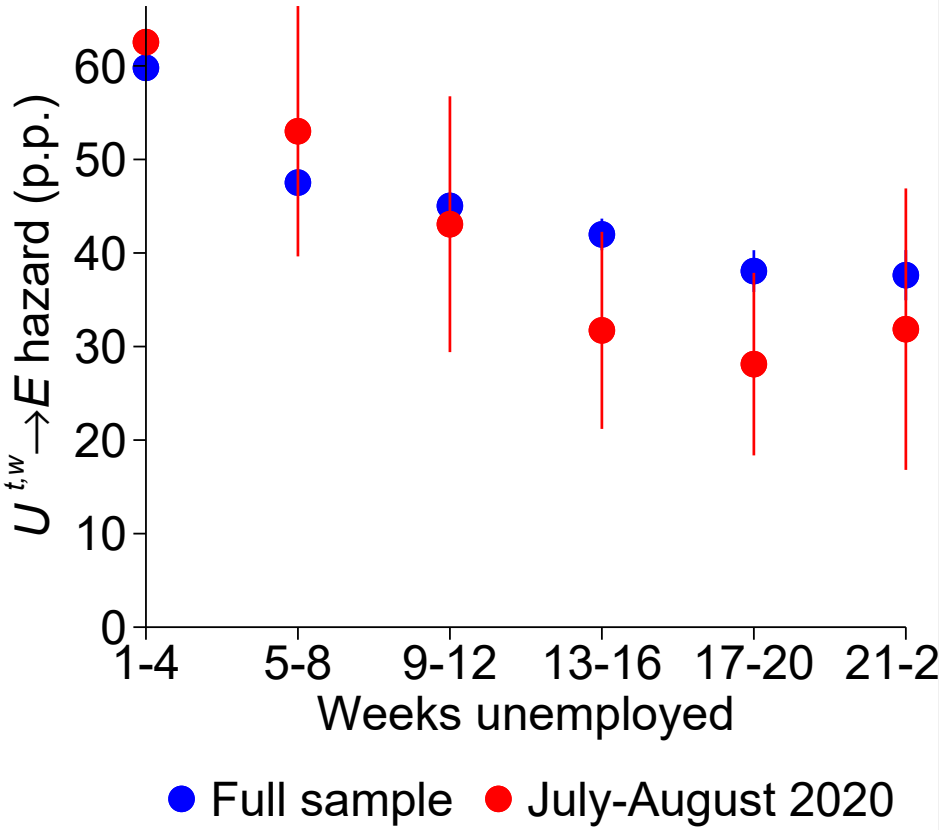
1. Will re-employment rates of temporary unemployed remain high?
2. Will inflows into unemployment fall?
3. How quickly will labor demand recover?

1. Will recall rates remain high?

Median Unemployment Duration of U^t

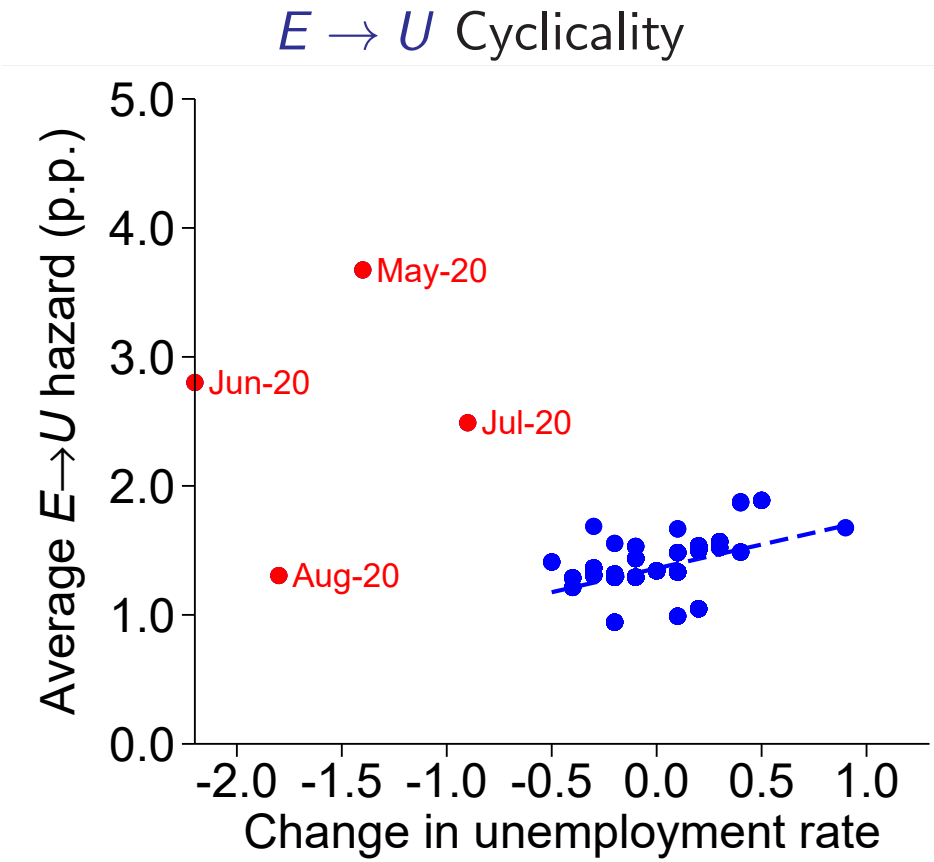


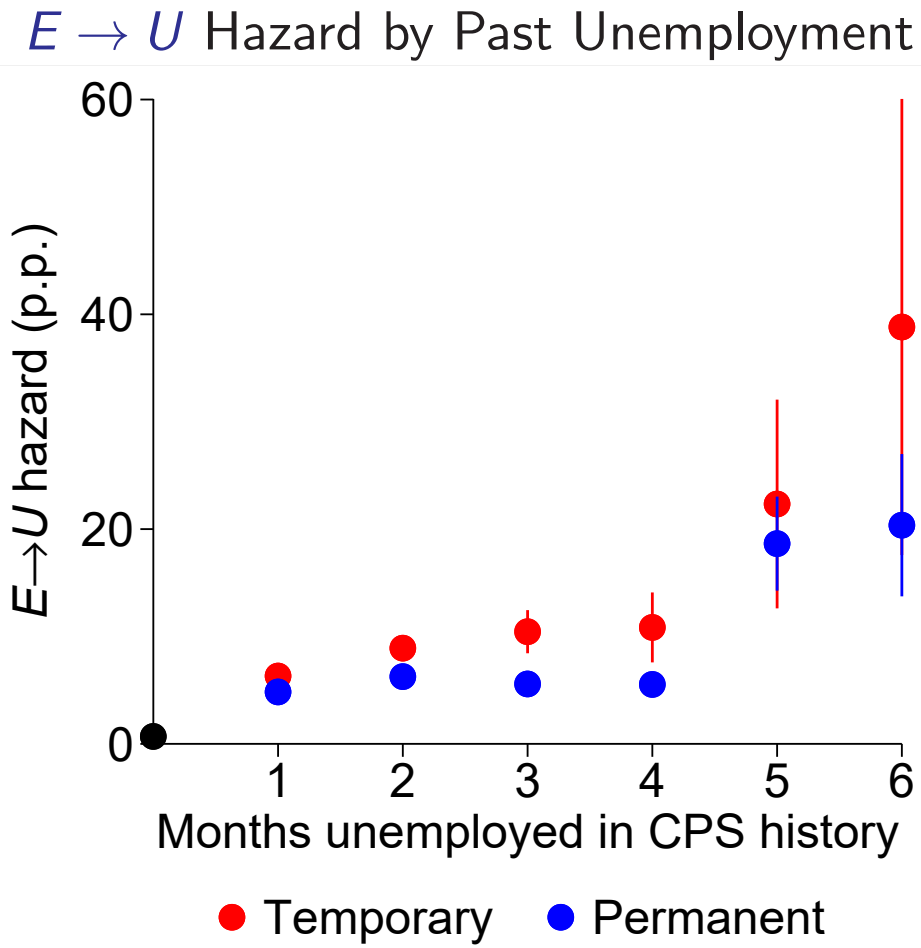
$U^{t,waiting} \to E$ Hazard by Duration



- 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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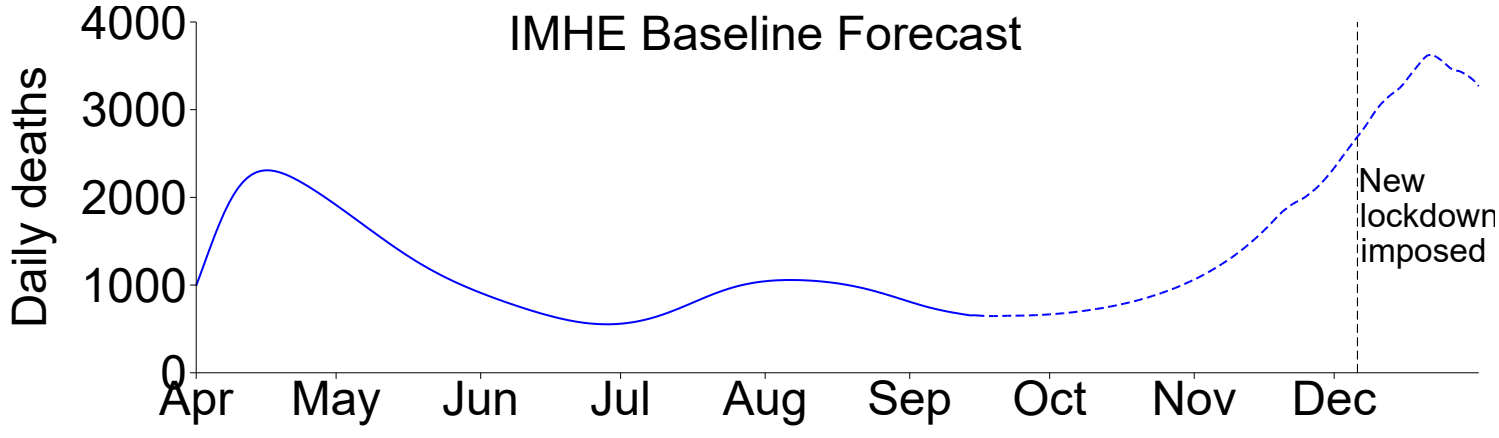

Conclusion

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