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THE CURRENT: Why did U.S. jobs growth slow in April?

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(MUSIC)

PITA: You're listening to The Current, part of the Brookings Podcast Network. I'm your host, Adrianna Pita.

As more of the U.S. population gets vaccinated and infection rates start to slow, with local pandemic restrictions easing and non-essential business starting to pick up, April's jobs report showed a disappointing gain of just 266,000 jobs, far below what many economists forecasted.

Here to help us understand these jobs numbers and what they mean for the U.S. economic recovery is Stephanie Aaronson, vice president and director of Economic Studies here at Brookings. Stephanie, thanks so much for talking to us today.

AARONSON: Happy to be here with you.

PITA: What can you tell us about what happened with hiring in April – why has it dropped off so far from what we saw earlier this year, and so far off from what economists expected to happen?

AARONSON: Let me start by saying that, first of all, the economy still added over 200,000 jobs last month, which is a very decent number in normal time. Also, I think it's very important not to make too much of one month of data. The employment data are noisy, they're measured with errors; and if we look through the last three months, trying to smooth through some of the noise, the economy still added over 500,000 jobs on average over the past three months, which is a lot. So, I don't think we should be too disappointed by this number.

That said, the economy is still far from the level of employment that existed prior to the pandemic, and we all want to get back to that number. But I think we might have to temper our expectations that employment is going to return to its pre-pandemic level as fast as GDP has. Even with the decline in COVID cases and the reopening of the economy that seems to be under way, hiring is likely to be slower as firms and workers still have to find each other. The labor market – there's a matching process where firms need to find workers who are a good fit, and workers need to find jobs that suit their needs and their pay expectations. That can just take time.

Also, it's possible that during the pandemic there's been a lot of restructuring in our economy. Some jobs may have disappeared entirely and employers could be looking for new skills. This will require workers to switch fields; they might have to undergo some training. And some individuals are going to have made labor supply decisions over the past year, decisions about whether to work or not, that will keep them out of the labor force for a while longer or which could hamper their efforts to find a new job. For instance, some parents could be staying home with their children, and they might, having been home

with their kids over the past year, they might decide to do so for a little longer. People could have made decisions to attend school which will keep them out of the labor force. And finally, although I don't think this is the most important story, there could also be workers who are hesitant to work because they don't feel safe yet, even as more of the country is becoming vaccinated, and that could hold employment back a bit going forward.

PITA: On that note, we're hearing some anecdotal reports so far from employers, especially in the lower and minimum wage industries, that generous unemployment benefits are what are giving them trouble in terms of hiring workers, while some workers are saying, look, the standard wages aren't high enough to compensate for coming back to – especially public-facing work – while there's still a pandemic on. Give us some more of your read on that balance, and especially what you make of some states like Montana and South Carolina planning to withdraw from federal unemployment benefits in June, which is well ahead of the September expiration of those benefits?

AARONSON: So, we still have almost 10 million unemployed people in our economy, and only about 3.7 million people are receiving unemployment insurance benefits. So, while I do think it's possible that some workers are making the decision to return to work because of the unemployment benefits that they're receiving, I wouldn't want to overstate the importance of that number. Also, it's important to remember that there's a lot of variation in unemployment across states, and so while, on average, the national unemployment rate is about 6%, in a state like South Dakota it's actually closer to 3%. And there are other states for whom it's closer to 7%. So, states are in really different positions in terms of how much slack they have in the labor market, in other words, how many people are available to work. That is one reason why we've often left unemployment insurance up to the states or allowed for state variation in unemployment insurance benefits, because of these differences.

So, the unemployment insurance is, as you said, providing an option for some people who just don't feel comfortable going back to work yet, especially to these forward-facing jobs, but I don't think that's the main factor. We do have also – there's a way that employers can resolve that problem, which is to pay higher wages to make it more appealing for workers to return to work, and in fact, we have been seeing wages rising, which could eventually induce some workers to come back into the labor force.

These states also that are planning to eliminate the federal benefits are also talking about providing bonuses to workers who do return to work, and I think that's another possible way to make it more appealing for workers to return to work and help them to better balance the risk that they may feel in going back into the labor force with the benefit of their being there.

We also have to remember that although the country is coming along in terms of its vaccinations, there is still some benefit to people reducing their activities, being out in public less, because that does help us to reduce the transmission of the virus during this time when the majority of the country still isn't finished being vaccinated. There's actually some social benefit to the unemployment insurance if it allows people who want to stay home to stay home and reduce the spread of the virus. I think the interconnection between unemployment insurance benefits, the job openings, the vaccine, and the spread of the virus, it's very complicated, and there isn't a one-size-fits-all solution to that.

PITA: One significant story out of the pandemic has been how disproportionately women have been affected – not just being temporarily laid off or unemployed, but for many women dropping out of the workforce entirely, largely due to pressures around child care, managing remote education, and other

sorts of family pressures like that. In the past few months of jobs data, what are we seeing as far as how women are being represented in these early stages of an economic recovery?

AARONSON: So, I think there has been improvement in hiring among women. As you mentioned, women were among the hardest hit by the pandemic and I think this is for two reasons, really. One is because they are overrepresented in industries like retail and leisure and hospitality, which were particularly hard hit during the pandemic. And also, they do largely bear responsibility for childcare and also for eldercare and so that negatively impacted their labor force participation. What we've seen is that there actually has been quite a rebound in some of these hard-hit industries like leisure and hospitality, although the employment levels there are still well below pre-pandemic levels.

And over this time women's unemployment rates which were above those of men and that's actually unusual from a historical perspective; they've actually fallen and now are sort of similar to the unemployment rates that men are facing. At the same time, however, women's labor force participation rates are still low and they're even lower for women with children, and that does suggest that part of the weakness of women's labor supply right now is due to factors like having to manage childcare and homeschooling. And that is something that hopefully will improve as more schools open, and in the fall when the expectation is most schools will be back open, but even then, it is possible that women will suffer the lingering effect of what's happened over the past year. And that's because some women may decide – and this actually isn't a bad thing – just that, say, they've been home with a young child and they might decide that they'd rather stay home with the child for longer, rather than go back into the labor force. It's also possible that women who would like to return to work will have difficulty doing so because the time that they've spent out of the labor force is going to hamper their ability to find a new job.

So I think that I do expect that as the economy continues to recover, women will continue to go back into the labor force, their unemployment rate will come down and their participation rate will come up, but I think that there will be lingering negative effects of the pandemic on women's labor supply over the next couple of years.

PITA: All right, well, you started us off by reminding us that this was just one month's worth of jobs data. Tell us a little more about your bigger picture understanding of the jobs and economic recovery and any recommendations you might have for policymakers in terms of bolstering this long term.

AARONSON: So the economy is rebounding rapidly now, and that is being supported by the large amounts of fiscal stimulus that have been pumped into the economy over the past six months, and so I expect us to see further robust growth going forward, and with that I do expect the labor market to continue to improve. I think it's likely to be a slower recovery than you might expect, just given the return of GDP to its prior level and even going forward the further growth.

Because I do think, as I talked about at the beginning of our conversation, that it just is going to take time for workers in firms to match to find each other again and there could be some mismatch between the types of jobs that firms are offering and the workers who are still looking for work right now. It's really the workers with the lowest levels of education and lowest wages who are still lagging the furthest behind their pre-pandemic unemployment rates and participation rates and I'm afraid that that situation is likely to persist going forward.

I think as the economy does recover, when I think about what the government can do – I mean already, as I said, there's been a huge amount of fiscal stimulus, which I think will help the recovery to

rebound quickly – but I think we need to continue to support people who have been disproportionately affected by the pandemic and we should try to target the federal aid as well as we can to those who have been unemployed, who are facing eviction, who have childcare and eldercare needs. So, I think by doing that, federal policymakers can sort of be smart about supporting the recovery using our resources well and continuing to support our families and the economy as a whole, going forward.

PITA: All right. Stephanie, thank you very much for talking to us today and explaining this.

AARONSON: My pleasure, thanks for having me.