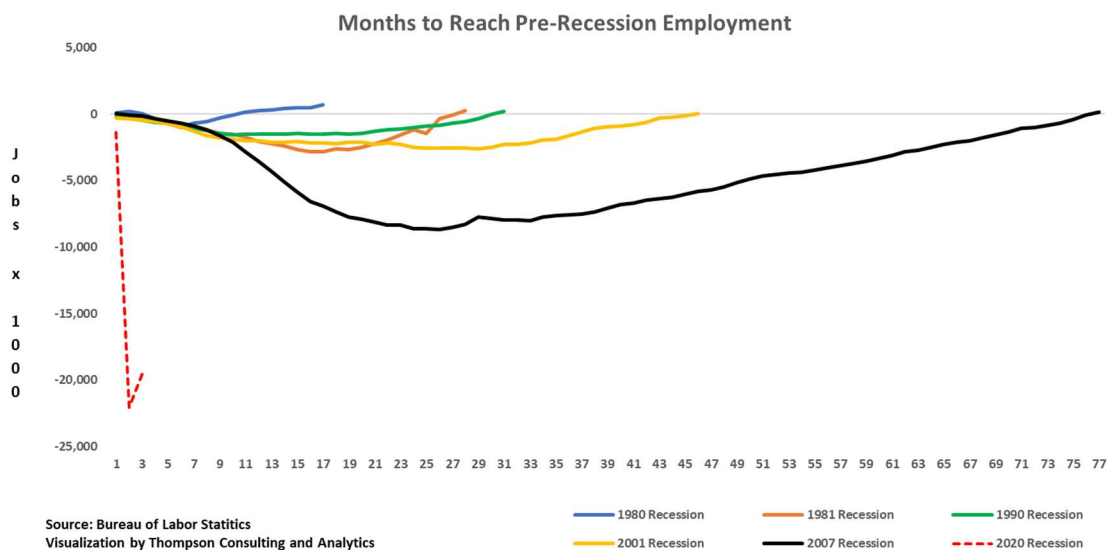


Implications of a Prolonged Employment Recovery

Our country stands at the early stages of the recession that started in February 2020. The effects of COVID on the economy are unprecedented and have cast uncertainty on what the eventual recovery will look like (V, U, L, W, or check mark-shaped). JP Morgan¹ assigned a 55% probability of a U-shaped economic recovery. But what about the labor market recovery?

Our assertion is that even if the economy fully reopens immediately and other economic variables rebound quickly, the labor market will be extremely slow to recover. Moreover, structural unemployment introduces a downside risk to the employment recovery.



The table above illustrates the employment recoveries of every recession since 1980. Notice how recessions have become increasingly severe and recoveries are increasingly prolonged. The 2001 recession had a “jobless recovery”. While many other economic indicators rebounded, employment growth lagged. The 2007 recovery followed a similar trend with a longer recovery. Given the magnitude and unprecedented nature of the current recession, we expect a similarly prolonged recovery trend. Additional factors and considerations are:

- **Retail, Leisure, and Hospitality:** With the impact to retail, leisure and hospitality sectors (closures and reduced capacity going forward), despite the spike in some returning positions, many other positions in these employment sectors will not return. This will drag out the employment recovery.

¹ J.P. Morgan. (2020). The Shape of the Recovery. Retrieved from: <https://privatebank.jpmorgan.com/gl/en/insights/investing/tmt/the-shape-of-the-recovery>

- **Structural Unemployment:** Before the recession, there was a labor shortage that hampered employment growth. This labor shortage was largely caused by a mismatch between the requirement of employers and the skills of jobseekers. This same structural unemployment dynamic will exist, with more profound effects, during the impending recovery.
- **Business Confidence:** As businesses attempt to navigate reopening amid constantly changing conditions, it is not unreasonable to assume that many businesses will be slow to hire, or expand, even if corporate profits are increasing. We assert that hiring will remain muted until businesses are fully confident that the economy is on solid economic ground.
- **Recommendation:** Geographies that are overweight in retail and leisure and hospitality employment should get in front of lingering unemployment by offering worker retraining initiatives for unemployed persons in those job sectors. Without addressing structural unemployment, these geographies will be hampered by a slower employment recovery.

The federal government and Federal Reserve acted swiftly and aggressively to combat this economic downturn. While we submit that we are in for a prolonged, “check mark-shaped recovery”, we feel that additional stimulus is needed. Introducing programs that are geared towards retraining individuals in at-risk employment categories will help to shorten the employment recovery and facilitate long-term employment growth.

About Thompson Consulting and Analytics, LLC

Thompson Consulting and Analytics, LLC (TCA) is an economic consulting firm that operates with client success in mind. We are experienced at performing economic impact analysis, econometric forecasts, and economic research studies. In addition, we offer predictive analytics, site feasibility studies, white papers/industry analysis, and other economic consulting services. Our extensive background in regional economics and commercial real estate research has provided private and public sector clients with valuable results and actionable insights.