

This is Not a V-Shaped Recovery

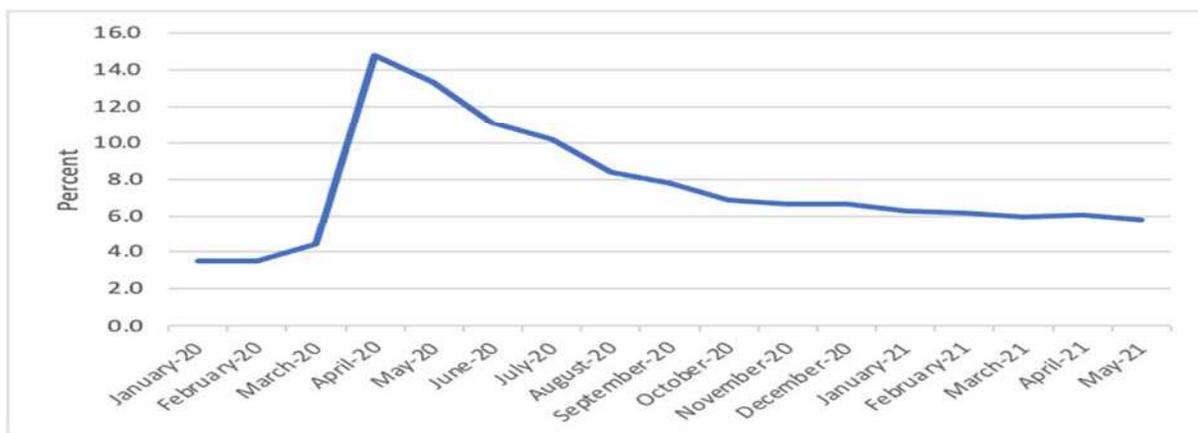
by

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Today's release of job numbers for May by the U.S. Bureau of Labor Statistics continued to be somewhat disappointing, but not as worrisome as the April release was. The most positive aspect was the decline in the national unemployment rate by 0.3 percentage points to 5.8%. This follows a 0.1 percentage point increase in April. The change in the unemployment rate is the result of the difference in growth rates of the labor force and employment. A healthy economy will see both grow, but employment will grow faster than the labor force. Last month, we still experienced a decline in the labor force ("discouraged workers" by 53,000), but it was sufficiently small not to dominate the employment growth of 0.3%. We expect the labor force to grow again once more generous unemployment benefits are removed, as will be the case for many states in the near future, and when schools will allow primary caregivers, typically women, to return to work.

By comparison, California's unemployment rate last month still stood at 8.3%. Here in the Inland Empire, the unemployment rate stood at 7.4% once we removed regular seasonal fluctuations. Nationally, we are still miles away from the February 2020 rate of 3.5% but have improved substantially from the abyss we were in last April at 14.7% (see Figure 1). There is substantial variation across major worker groups, ranging from Whites at 5.1% to Teenagers at 9.6%.

Figure 1: Unemployment Rate, U.S., SA, January 2020 - May 2021



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The establishment survey saw total nonfarm payroll employment increase by 559,000 for the month. This is a healthy increase from the small change in April of 278,000, which followed the number in March that had given us hope for a faster recovery (785,000) (see Figure 2). Since we are still over 7 million jobs short of where we were in February 2020, this means that it will be well into 2022 before we reach full employment.

Figure 2: Changes in Total Non-Farm Employment, U.S., SA, June 2020 - April 2021

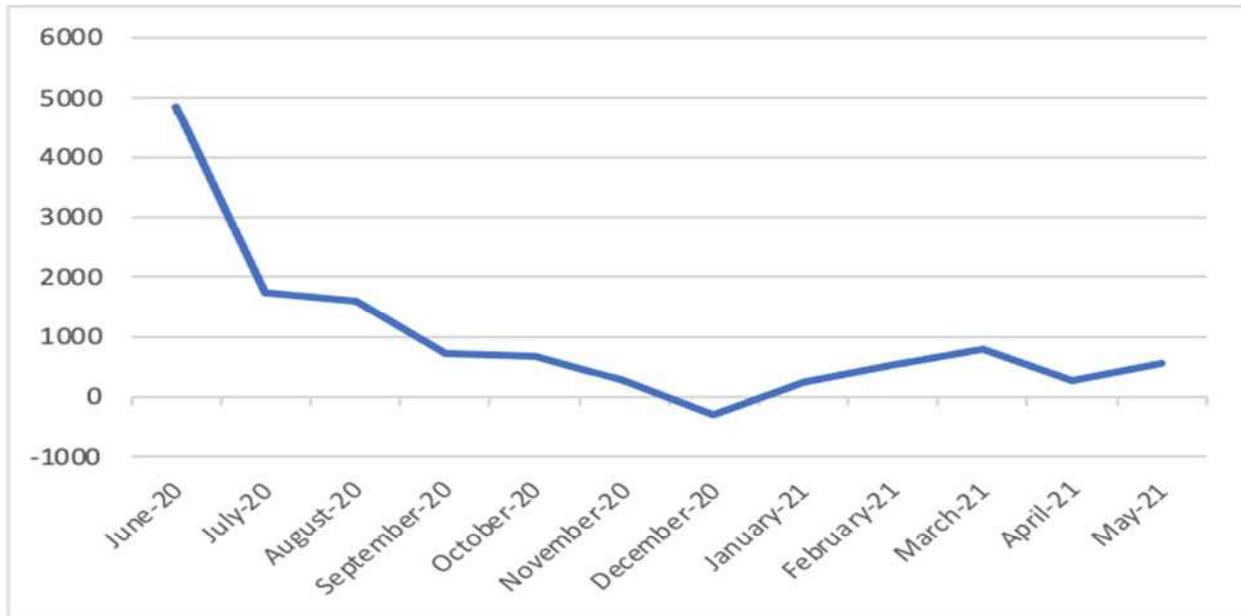
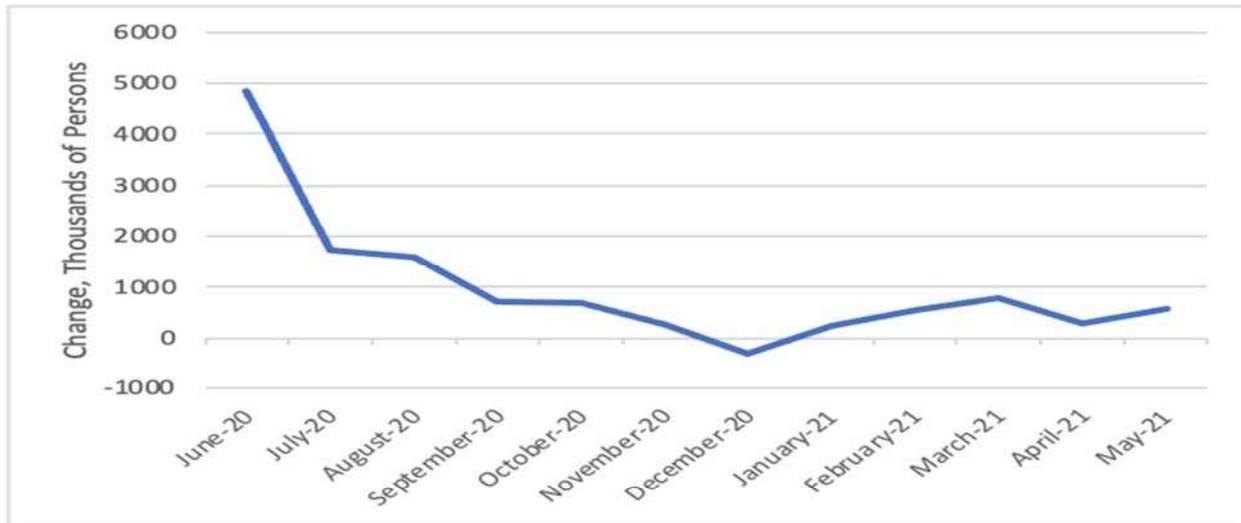


Figure 3 shows that there is no evidence of a V-shaped business cycle in employment, although we will return faster to pre-recession levels than we did following the Great Recession (it took us until 2014, or seven years then). The story is different for output (real GDP) where we expect to return to pre-recession levels by the end of the current quarter.

Figure 3: Total Non-Farm Employment, U.S., SA, February 2020 - April 2021



What were the driving industries? There were five industries primarily impacted by the downturn, accounting for $\frac{2}{3}$ of all losses experienced. The good news is that all of these, except for one, continue to recover. Not surprisingly, Leisure and Hospitality saw the biggest increase, adding 292,000 jobs. This is the industry most impacted from the Coronavirus downturn with employment still down 2.5 million people, or 15%, from its February 2020 level. Health and Education (87,000), Other Services (10,000), and Professional and Business Services (35,000) all gained. The exception here is Retail Trade, which lost 5,800 positions last month. Fully opening the California economy on June 15 should help here, although the surveys on which the numbers are based, are taking place in the week surrounding the 12th day of the month. The Logistics sector, which has been a winner throughout the downturn, gained another 42,800 positions. The other industries having lost workers in May were Construction (-20,000), and FIRE (-1,000). Note that if all the unemployed Leisure and Hospitality workers who lost their jobs since Feb 2020 would get a job tomorrow, the unemployment rate would fall from 5.8% to 4.1%, or we would basically be back at full employment.