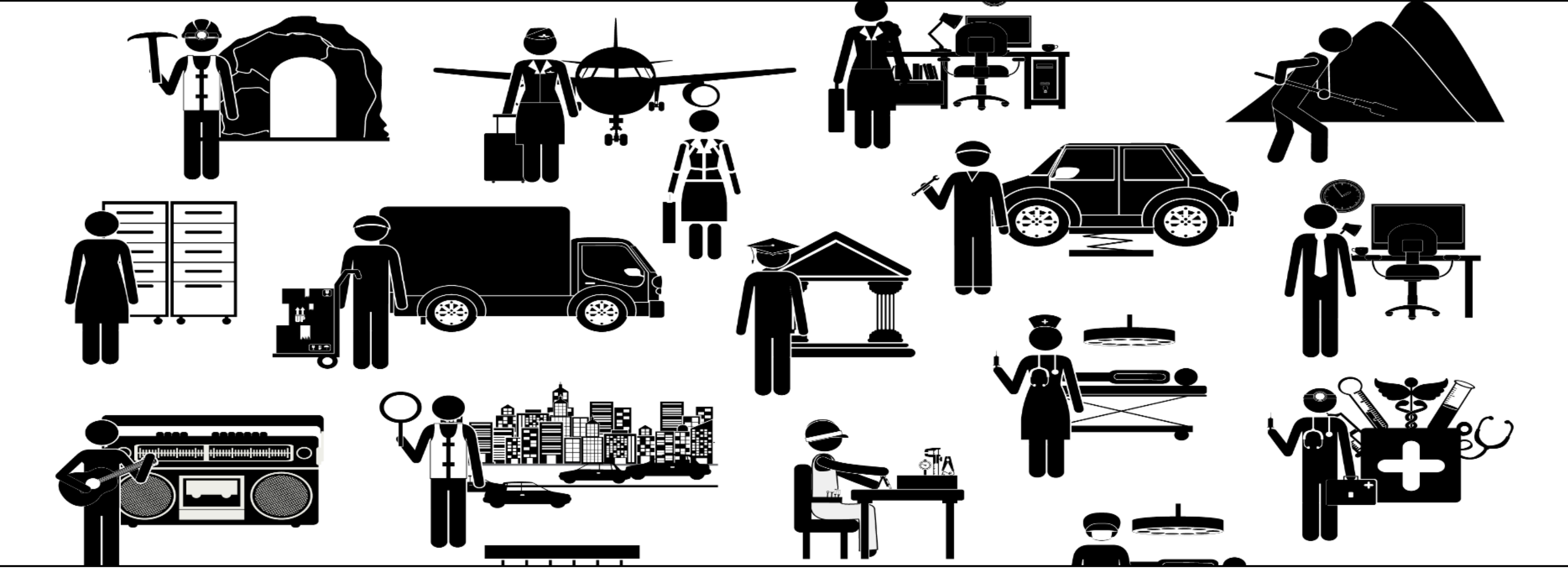

Nine Million New Jobs in a Pandemic: COVID Hasn't Killed the Resilient U.S. Jobs Machine

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The American economy is incredibly dynamic – even in a soul-crushing pandemic. Lost in the disheartening news about the depressing number of firms going bust and workers losing their jobs is the other side of the ledger: new and existing firms are adding millions of new jobs. I estimate about three for every ten jobs lost through furloughs or lay-offs – or almost nine million new jobs in all – were created during the dark first six weeks of the pandemic.

This process of simultaneous job creation and destruction is a vital, if underappreciated, feature of our economy, and will be an important force in our recovery from the pandemic recession. Still, the overall labor market picture is grim and unlikely to be fully reversed soon.

Over 21 million Americans lost their jobs in March and April, the first two months this nascent recession, equal to 14.5% of all jobs, according to the Bureau of Labor Statistics (BLS); less than half of these jobs have been recovered in the three months since at the economy began to reopen (May through July). The astonishing 20.8 million jobs lost in April alone was ten times the previous record monthly job loss. **In only six weeks we lost virtually all the jobs created in the last decade (22.8 million)** – almost times as many jobs as were lost in the entire Global Financial Crisis (GFC), which itself was the high-water mark for economic downturns since the Great Depression 90 years ago.

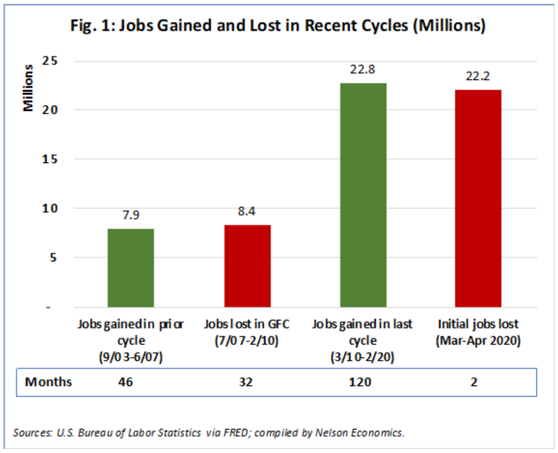


Fig. 1: Jobs Gained and Lost in Recent Cycles (Millions)

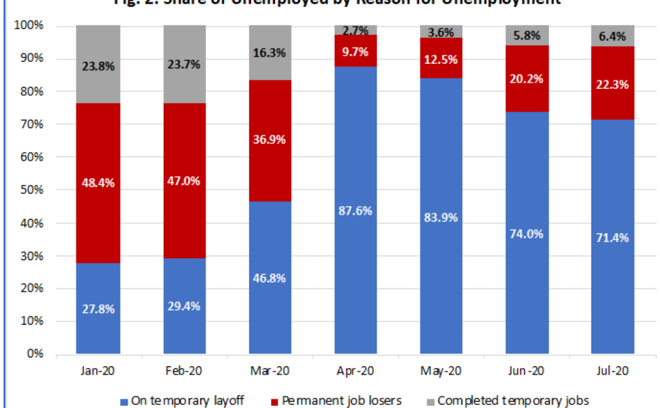
Sources: U.S. Bureau of Labor Statistics via FRED; compiled by Nelson Economics.

The unemployment rate jumped from just 3.5% in February – its lowest rate in a half century – to 14.7% in April, its highest rate since the Depression, before easing back down to 10.2% in July, though still above the high-water mark during the GFC. But even these metrics do not fully capture the extent of labor market distress as the "headline" unemployment figure counts only individuals actively seeking new work. With much of the country locked down and many jobless people otherwise either fearful of venturing out of their homes or skeptical of the prospect of finding new work in this environment, job-searching activity is limited, thereby depressing the measured unemployment rate.

A more comprehensive measure of unemployment that also includes "underemployment" – people working part time involuntarily or people who have dropped out of the labor force – rocketed from 7.0% to 22.8% in April and still at 16.5% in July, near the 17.2% peak in the GFC. Add to that the many gig and part-time employees working fewer hours for less income and we have over a quarter of Americans working less than they want or not at all – on par with the lowest depths of the Great Depression.

And yet, **despite all this depressing news, there is cause for some optimism**. For one thing, the vast majority of workers who lost their jobs were only temporarily "furloughed" or "completed temporary jobs" rather than permanently "laid-off" (Fig. 2), which theoretically should simplify and expedite rehiring as government-mandated shutdowns are relaxed. To wit, a survey conducted by the National Federation for Independent Business early in the pandemic found that half of its members expected to rehire all of their former workers and another quarter will rehire most. And a Washington Post – Ipsos poll found that more than three-fourths of newly unemployed workers believed they're highly or somewhat likely to get their old job back.

Fig. 2: Share of Unemployed by Reason for Unemployment



Sources: U.S. Bureau of Labor Statistics via FRED; compiled by Nelson Economics.

But were these expectations realistic? Not fully. Many firms have been unable to quickly or fully rehire many of their former employees – whether furloughed or laid off – even once allowed to reopen. The practical challenges of restarting and conducting their businesses, restocking their inventory, and getting their employees safely to the worksite are daunting for many firms. For others, consumer demand will remain depressed until customers feel safe, which may be prolonged for services such as restaurants and concerts where social distancing and other safety requirements will range from difficult to near impossible. Already the share of pandemic-related layoffs that swung from "temporary" to "permanent" has doubled from April (9.7%) to July (22.3%).

The speed of employment recovery will also hinge on the degree of financial distress among businesses and households: How many businesses will not survive the lockdown? How many households will go bankrupt? The longer the lockdowns continue, or firms are forced to operate at reduced levels, the greater the number of businesses that will never reopen, particularly under-capitalized small businesses, who are already starting to fail or announce permanent closures.

Likewise, the longer workers remain unemployed or on reduced income, the greater the financial distress among consumers, compounding the downturn. The early evidence is that the job losses are highly concentrated among lower-wage workers, magnifying the financial strain among households least able to afford gaps in income.

No doubt the CARES Act was helping many businesses and households stay afloat in the short term, though most of the programs have since expired. And with the coronavirus continuing to spread in the absence of a robust national program for testing and contact tracing, it seems inevitable that periodic shutdowns and the economic downturn will continue for quite some time – and beyond the capacity of the federal government to keep propping up the economy. All of which raises the prospect of widening financial insolvency among businesses and households, thereby muting and delaying the rehiring of furloughed workers.

Some Firms and Industries Thrive During Adversity

While there is considerable doubt about how much and how quickly ailing firms will be able to rehire their former employees, other firms are actually thriving, even surging. Most obviously, e-commerce is booming at the expense of physical retailers, while groceries are flourishing as restaurants languish. To cite some noteworthy announcements: Walmart plans to hire 50,000 more workers, on top of the 150,000 they just hired to deal with increased demand, while Amazon is adding another 75,000 new workers to the 100,000 previously announced. That's 375,000 new jobs from just two firms.

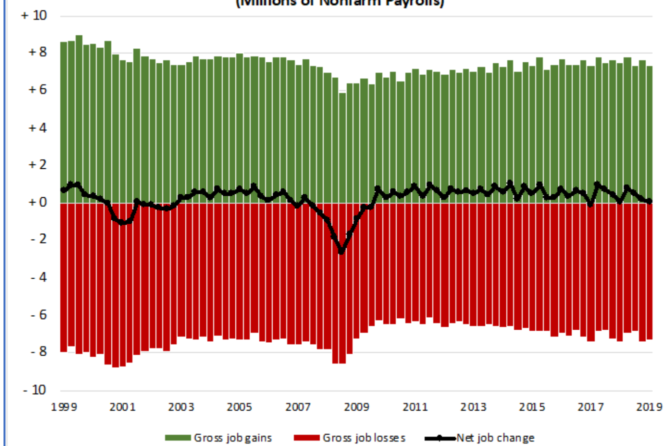
Add to that 100,000+ new hires at grocers like Safeway. Kroger, and Albertsons; drug chains like CVS (50,000 new jobs), Walgreens, and RiteAid; and home improvement stores like Lowe's (30,000) and Home Depot. The food delivery startups (DoorDash, Uber Eats) are also adding workers, as are pizza chains and dollar stores. Even the fledgling legal cannabis industry is seeing a hiring boom. All this despite the net loss of almost two million retail jobs overall over the past two months, equal to 14% of all retail jobs.

But job creation is hardly limited to just the retail sector. Jobs are growing across many sectors for firms that make products or provide services that help us either deal with the health crisis or otherwise adjust to the "new normal." Of the former, it's all hands-on deck, and many new hands, for pharmaceutical companies seeking COVID-19 vaccines or treatments and manufacturers of masks and hand sanitizers. Cleaning services are seeing a surge in demand, as are delivery services. Thus, **the economy continues to create many new jobs, as well as new firms, even as many more are destroyed or at least waylaid**.

A Very Dynamic Economy

This process of **simultaneous job creation and destruction** is not unique to this pandemic. Only the scale is unprecedented. When we hear that 200,000 jobs are added in a monthly jobs report – the average over the past decade of economic expansion – we implicitly focus on only these net new jobs created. But the reality is much more dynamic, with a vastly greater number of jobs begun and ended each month, as shown in the following graph, which goes back to 1999 when the government started tracking the flow of gross job gains and losses.

Fig. 3: Quarterly Private Sector Gross Job Gains vs. Losses
(Millions of Nonfarm Payrolls)



Source: U.S. Bureau of Labor Statistics; compiled by Nelson Economics.

The U.S. economy created an average of 7.3 million private-sector jobs each quarter during the ten-year expansion than ended with the pandemic, while destroying 6.7 million jobs, for a net gain of about 535,000 private-sector jobs each quarter.

This net is reversed in a recession, with the number of jobs destroyed exceeding the number of jobs created. In 2009, the worst year of the GFC, the economy shed 30.9 million private-sector jobs while adding 25.4 million, for a net loss of 5.5 million jobs. By contrast, in 2014, which was the strongest year of job growth during the last business cycle, the economy added 29.3 million private-sector jobs while losing 26.3 million, for a net gain of 2.9 million jobs.

In fact, **our economy reliably destroys many jobs even in strong growth years and creates many jobs even in the depth of recession**s. The net – plus or minus – is relatively small in comparison to both the gains and losses but makes all the difference to our economic prosperity.

New Jobs in a Pandemic . . .

Which brings us to the current recession. The media reports of hiring at retail and delivery firms illustrates that **the economy is still adding many jobs, even as we're hemorrhaging jobs overall.** So when we read that the country lost over 22 million jobs during March and April, we now understand that's *net* jobs lost. But how may *gross* jobs were lost and, more importantly, how many were created?

Estimates of gross jobs gained and lost for the current period will not be released for months, but we can estimate gross job losses using the number of "initial claims" for unemployment as an imperfect proxy.[1] Gross job losses historically track pretty closely to unemployment claims and thus can be used as a rough gauge of gross job losses.

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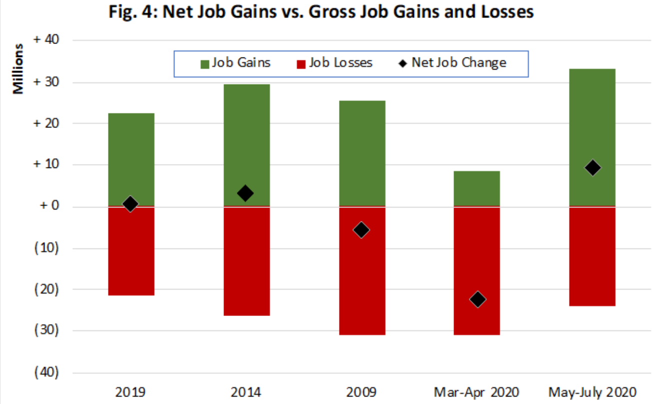
[1] Using initial unemployment claims data as a proxy for gross job losses isn't perfect. Some people who lost work couldn't file for unemployment for one reason or another (and thus are not counted in the initial claims data). On the other hand, some people who did file for unemployment were subsequently hired for other jobs (overcounting jobless claims). Also, the time periods for the unemployment claims and the employment surveys do not coincide exactly; the period for jobs data ends

Some 30.8 million people filed new claims for unemployment benefits in March and April. With 22.2 million net jobs lost over those two months, that implies the economy added about 8.7 million new jobs over the same period. In other words, the economy gained almost three new jobs for every ten it lost (8.7M versus 30.8M). This finding almost precisely matches the findings from a Federal Reserve Bank of Atlanta study by Dave Altig, John Robertson, and other Atlanta Fed economists and researchers, which concluded that "COVID-19 caused 3 New Hires for Every 10 Layoffs." And it's broadly consistent with another Fed report that found that 4% of U.S. adults surveyed they started a new job in March compared to 13% that lost their job during the month (again, a 3 to 10 ratio).

Fig. 4: Net Job Gains vs. Gross Job Gains and Losses



Sources: U.S. Bureau of Labor Statistics and U.S. Employment and Training Administration; compiled by Nelson Economics.

If at least directionally accurate, the 8.7 million jobs created in the early days of the pandemic was as extraordinary as the pace of job losses making the headlines. In the two decades for which we have data, the rate of gross jobs created is remarkably steady, typically hovering between 7.1 million and 7.8 million new jobs per quarter and has hit 9.0 million in a quarter only once. The 8.7 million jobs added in just two months, if confirmed, demonstrates the huge changes in how our economy is functioning.

. . . And New Businesses, Too

A related but distinct feature of our dynamic economy is that even in a recession, firms are opening new branches and entrepreneurs are forming new companies. If history is any gauge, one in five new jobs would be at new establishments, whether a new branch of an existing firm or an entirely new entity.[2] The share of jobs created in expanding versus new establishments has remarkably consistent over time. As with the ratio of jobs created to lost destroyed, we won't know the actual recent share of jobs attributable to new establishments for quite some time, but my guess is that it's somewhat below its historical ~20% average: The Census Bureau reports that although the number of new business applications rose 2% in the second quarter of 2020 relative to a year earlier, "Business Applications with Planned Wages" – that is, the applications most likely to result in new jobs – are down more than 13%.

earlier in the month, though Fed staff analysis of ADP data, as well as the initial claims data itself, suggest lay-offs slowed sharply in the second half of the April, narrowing the discrepancies between the two sources.

[2] According to the BLS, "An establishment is defined as an economic unit that produces goods or services, usually at a single physical location, and engages in one or predominantly one activity. A firm is a legal business, either corporate or otherwise, and may consist of several establishments."

Conclusions and Implications

With all the ugly economic headlines in the first two months of the pandemic, it is perhaps comforting to learn that upwards of nine million jobs were created over this period, even as three times as many positions were lost. Likely more than a million of these new jobs were created in either new firms or the new branches of existing firms. Capitalist economies are endlessly adaptable, as firms and workers continuously seek new to identify and capture changing market opportunities, even during harsh economic conditions.

This dynamism gives hope that our economy will continue to evolve and create new opportunities for enterprising workers and investors as we collectively confront the many challenges of containing and ultimately conquering COVID-19.

There is no escaping the fact that the U.S. labor market was in a free fall from mid-March through mid-April, though some of the carnage has since been reversed. A net 9.3 million jobs were created or revived in May through July – even as an additional 23.8 million workers filed for unemployment, implying that almost 33 million Americans returned to work, either at their old jobs or in new positions.

S**till, the cold, hard reality is that some 13 million fewer Americans hold jobs now than just prior to the pandemic. Many more gig and part-time workers are working fewer hours for less income.**

And given the continued rise in coronavirus cases across the country, and ominous warnings from epidemiologists and public health professionals of a potential major infections wave in the fall, it seems inevitable that some of the recent progress we've made in restarting the economy and rehiring workers will be reversed – particularly with the expiration of the various federal business and household income support programs.

Restoring our pre-pandemic prosperity – imperfect as it was – will be a long, tough haul.

Heading photo by grmarc on Vector Stock.