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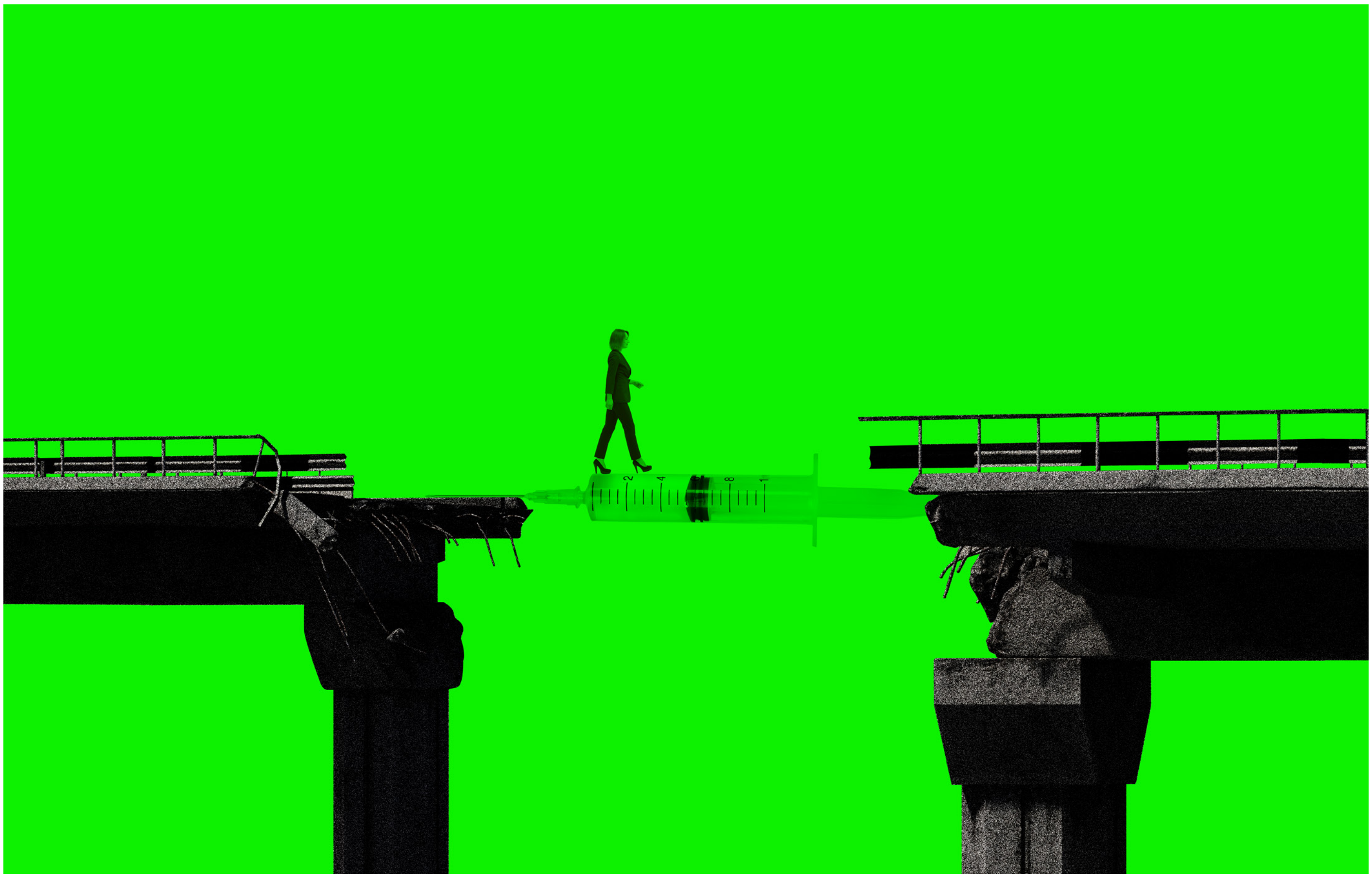


FEATURE

The global labor shortage

How COVID-19 has changed the labor market

Michael Wolf

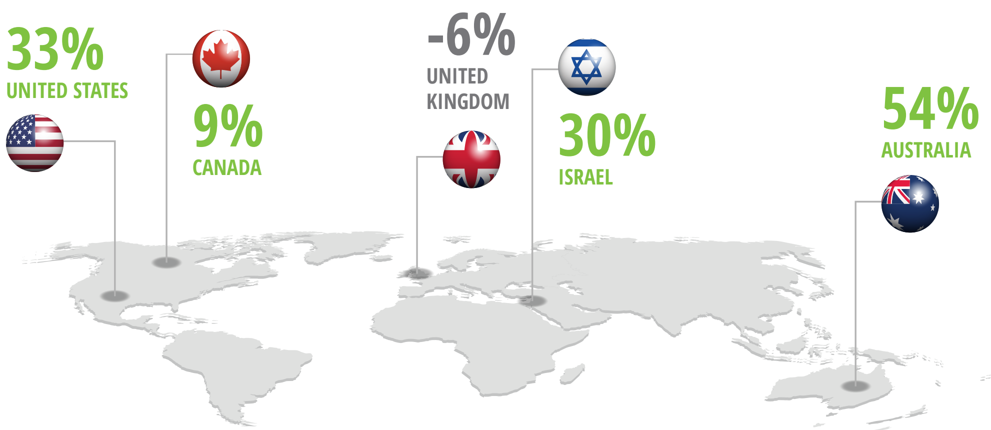
Global unemployment remains high in 2021. And so do job vacancies. While rapid vaccine dissemination is essential, increase in wages and job flexibility are crucial in closing the labor gap.

AS ECONOMIES REOPEN after lockdowns, reports of employers unable to find the workers they need have become ubiquitous across the United States,[1] the United Kingdom,[2] Canada,[3] Australia,[4] and parts of the European Union.[5] Periodic complaints of worker shortages are not new. What is different this time is that worker shortages seem to coincide with elevated unemployment rates. In the United States, while the number of job openings surged 33% from Q4 2019 (figure 1),[6] more than 9 million people remained unemployed.[7] In Canada, the job vacancy rate hit its highest level since 2015,[8] while employment remained well below its prepandemic peak. With numerous people out of work, employers should have a relatively easy time hiring qualified candidates. But the pandemic has fundamentally altered the industries and locations where would-be employees want to work. Simultaneously, pandemic-related risks and policy changes have added to the challenges.

FIGURE 1

Job vacancies

Percentage change since Q4 2019



Note: Most recent data: United States, May 2021; Canada, Q2 2021; United Kingdom, April 2021; Israel, June 2021; and Australia, Q2 2021.
Sources: US Bureau of Labor Statistics; Statistics Canada; UK Office for National Statistics; Israel Central Bureau of Statistics; and Australian Bureau of Statistics; all accessed via Haver Analytics.

Competition across industries

The pandemic was hugely disruptive to the labor market, particularly in the United States where the unemployment rate skyrocketed to 14.8% in April 2020 before coming down to a still-elevated 5.9% in June 2021.[9] A survey in March showed that a staggering 20% of workers switched jobs during the pandemic.[10] An uneven reopening of the economy and changes in consumer preferences have contributed to the difficulty employers are experiencing while trying to find qualified candidates.

During the pandemic, essential and remote work continued, while jobs that required in-person interaction largely disappeared. The unemployed clamored for jobs in the few industries that were actively hiring, switching occupations and industries to do so. In the United States, at least 1.7 million leisure and hospitality workers who lost their jobs since Q4 2019 either found work in a different sector or left the labor force entirely,[11] making it much more difficult for employers to find candidates with the requisite experience. Although we do not yet know what share have switched industries, a survey in January showed that two-thirds of the unemployed were "seriously considering changing their occupation or field of work" and a third had already started reskilling to do so.[12]

Now that the economy has more fully reopened, demand for in-person services, such as hospitality, is on the rise. However, thanks in part to substantial government stimulus, this rise in demand has not come at the expense of the goods producers[13] and technical service providers[14] who performed relatively well over the last year or more. For example, US job openings in manufacturing have more than doubled from prepandemic levels;[15] UK job vacancies in manufacturing are 30% above their prepandemic peak;[16] and Canadian professional, scientific, and technical services have surged 33.4%.[17] Strong demand for workers across numerous industries is putting those industries in competition with each other as potential job candidates rethink their careers amid innumerable job openings.

Ongoing contagion risk makes certain jobs less attractive

The heightened risk of contracting COVID-19 has made certain jobs riskier than others—and employers of such jobs will find it more challenging to attract workers at prepandemic pay rates. For instance, the pay rates of food service workers might go up, considering cooks experienced a 60% increase in excess mortality in 2020 relative to nonpandemic times.[18] Additionally, coming into contact with a COVID-19–positive person may require self-isolation, which was the law in the United Kingdom until mid-August 2021.[19] Missing work due to COVID-19, required by law or not, likely means lost wages. That risk raises the reservation wage, the minimum amount of compensation a worker requires to accept a job. Holding wages constant, this means workers will be more attracted to lower-risk jobs, particularly those that can be done remotely.

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For others, the risk of disease is keeping them from reentering the workforce. A survey of Americans showed that slightly more than 3 million people were unemployed due to fear of catching COVID-19 in June.[20] Those who live with high-risk populations or with those who are unable to get vaccinated, such as children, have been acutely affected.[21] Also, lack of available childcare has had a disproportionate effect on working mothers around the world, many of whom dropped out of the labor force during the pandemic.[22] But as the number of vaccinated people rise, children under the age of 12 get cleared for vaccination,[23] and more schools open for in-person instruction,[24] more women will hopefully be able to reenter the workforce. Of course, slow dissemination of vaccines and vaccine hesitancy may remain challenging in some parts of the world.

For industries that were able to increase production when the first lockdowns ended in 2020, the preservation of the employer-employee relationship likely helped.

Some policies slow the reallocation of workers

During the pandemic, the US government provided unemployed Americans with generous unemployment benefits. Holding all else constant, stronger unemployment benefits could result in fewer unemployed persons accepting jobs, thus adding to the worker shortage. However, the Federal Reserve Bank of San Francisco argues that these enhanced benefits had only a modest effect, estimating that the share of unemployed individuals who would accept a job offer fell from 25% under the regular unemployment benefit scheme to 21.4% with the enhanced benefits. Similarly, other research suggests that the enhanced benefits had no discernable effect on employment status,[25] but their impact cannot be ruled out entirely.

Most developed countries outside the United States offered furlough or short-time work schemes instead of unemployment benefits. These policies are designed to preserve the employer-employee relationship. Workers are kept on payrolls, and the government subsidizes the lost wages.[26] For industries that were able to increase production when the first lockdowns ended in 2020, the preservation of the employer-employee relationship likely helped. After all, many of their idle workers were still on the payroll. However, given the changes in the economy, workers may need to be reallocated to different sectors, which will prove difficult if they are still attached to their initial employer. In the United Kingdom, about 1.5 million workers were still on furlough in early June.[27] This furlough scheme is set to expire at the end of September, which could hasten the reallocation process.[28]

Moving house disrupts local labor markets

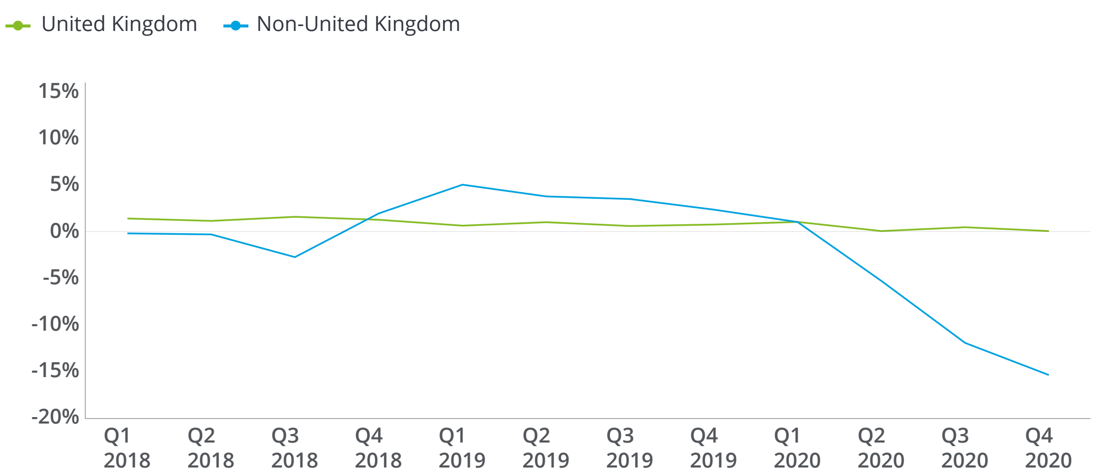
The geography of jobs is also restraining the hiring process. Despite—and, to some extent, because of—the pandemic, many people decided to move. Most of those moves occurred over relatively short distances. For example, in the United Kingdom, the median distance moved by homebuyers increased to 10 miles, up just 1 mile from 2019.[29] In the United States, net migration into metropolitan areas was higher in 2020 than it had been in 2019, with all the increase going to the suburbs rather than the principal city.[30] Previously, moves to the suburbs were less disruptive to the economy, as workers would still go to the same central business district. However, given that many workers are staying home, demand has shifted from business districts to the suburbs, complicating the ability to find workers where they are now needed.

International immigration is also adding to the labor shortage woes. The largest challenge is in the United Kingdom where Brexit caused EU workers to lose the ability to work in the country. During the pandemic, about 1.3 million non-UK workers left, which is roughly 4% of the workforce (figure 2).[31] To make matters worse, many of those workers were concentrated in a handful of industries, such as accommodation and food service, which have only recently begun to reopen.[32] Other countries are also facing challenges when it comes to international migration, albeit on a smaller scale. In Canada, net international migration fell by nearly 400,000 in the year to Q1 2021, which amounts to a loss of nearly 2% of the workforce.[33] In Australia, the population fell for the first time in a century last year as border closures starved the country of much needed migrants.[34]

FIGURE 2

UK employment by nationality

Percentage change since Q4 2019



Source: UK Office for National Statistics, accessed via Haver Analytics.

More vaccines, more wages, and more flexibility

The most straightforward way to increase the available supply of labor is through increasing vaccination rates. Countries that have been slow to vaccinate their populations could speed up dissemination. Where hesitancy is a problem, policies to ensure a sufficiently large share of the population is vaccinated would reduce contagion and therefore the risks associated with returning to work. For industries where employees can work remotely, more flexible work arrangements could help draw applicants. Surveys show that a substantial share of workers and applicants desire such arrangements and are willing to find work where this is an option.[35]

Alternatively, employers can invest in labor-saving technology to boost the productivity of the workers they already have. Business investment in equipment and software has already been notably strong in countries where employers are struggling to find workers.[36] Those investments may already be paying off. Labor productivity in US manufacturing posted its strongest year-ago rate in more than a decade.[37] In the United Kingdom, productivity growth in manufacturing, as well as wholesale, retail, and auto repair, shot up.[38] Although productivity growth waned in Canada, it has been incredibly strong in retail trade.[39]

Higher wages will almost certainly attract more applicants. Of course, raising wages will cut into profits or need to be passed on to customers, which may be a challenge. However, wage growth in certain sectors, such as manufacturing, appears low relative to the tightness seen in the labor market. For example, UK vacancies in manufacturing are higher than they were before the pandemic, but wage growth averaged just 1.8% over the last two years, which is considerably lower than the growth seen prior to the pandemic.[40] Canada's mining and manufacturing wage growth was notably weak, despite strong growth in vacancies.[41] Given the heightened risk of in-person manufacturing, more wage gains may be needed to meet demand.

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There is no single source or solution for the challenges facing employers in the labor market today. Some of those challenges are beginning to abate now that more people have been vaccinated and risks are falling. However, changes in consumer and worker preferences are likely to continue. Some employers will have to continue to raise wages, while others may need to provide greater flexibility to attract the workers they need.

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