



Recession and Recovery in Labor Markets: Patterns, Policies, and Responses to the COVID- 19 shock

April 2021 WEO Chapter 3

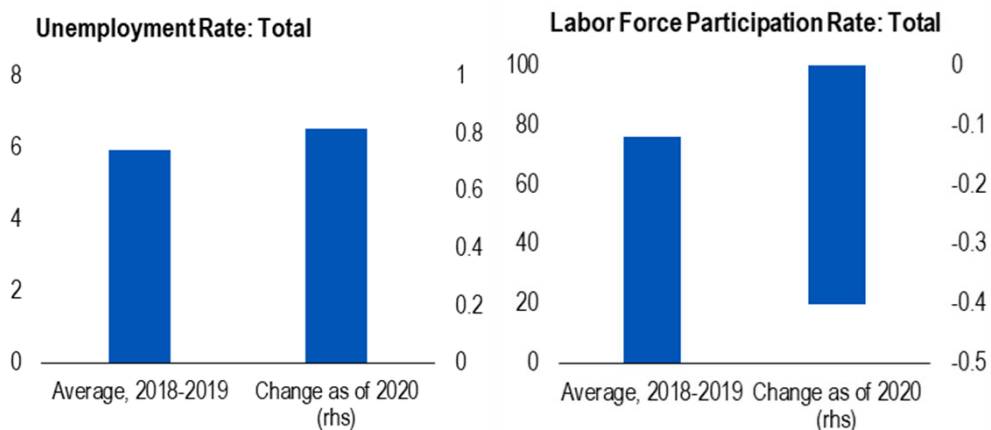
John Bluedorn, Francesca Caselli, Wenjie Chen, Niels-Jakob Hansen, Jorge Mondragon, Ippei Shibata, and Marina M. Tavares with support from Youyou Huang, Christopher Johns, and Cynthia Nyakeri

COVID-19 causing sharp labor market deteriorations

- Economic disruptions and worker dislocations globally around the world
- Average unemployment rates are up and labor force participation down compared with their pre-pandemic averages in both advanced and emerging market and developing economies

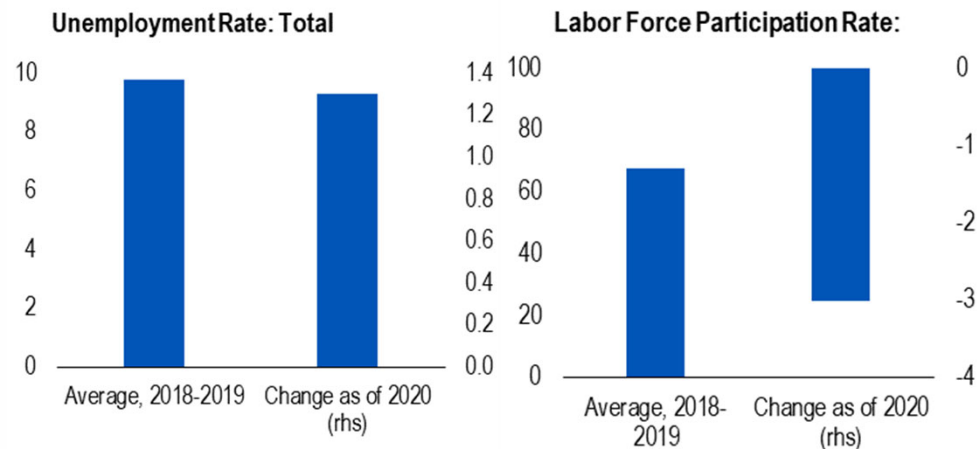
Labor Market Conditions in Advanced Economies

(Percentage points)



Labor Market Conditions in Emerging Market and Developing Economies

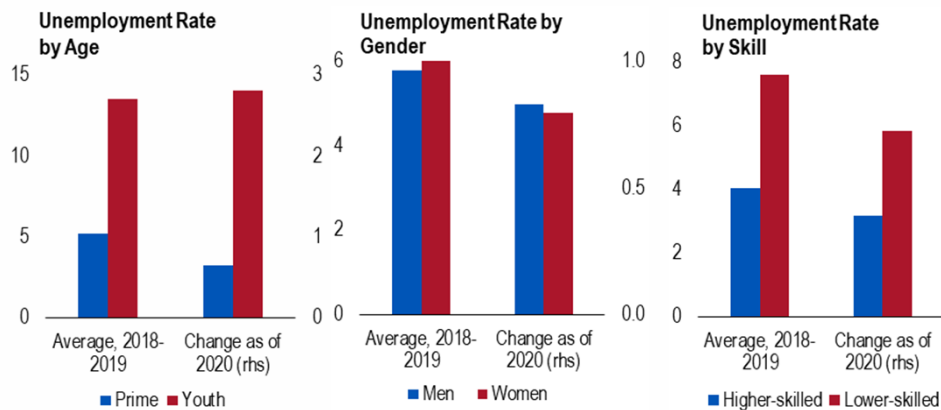
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Unequal impacts across groups of workers

- Low-skilled and youth particularly hard hit across the world
- Signs that women in emerging markets and developing economies affected more

Labor Market Conditions in Advanced Economies
(Percentage points)

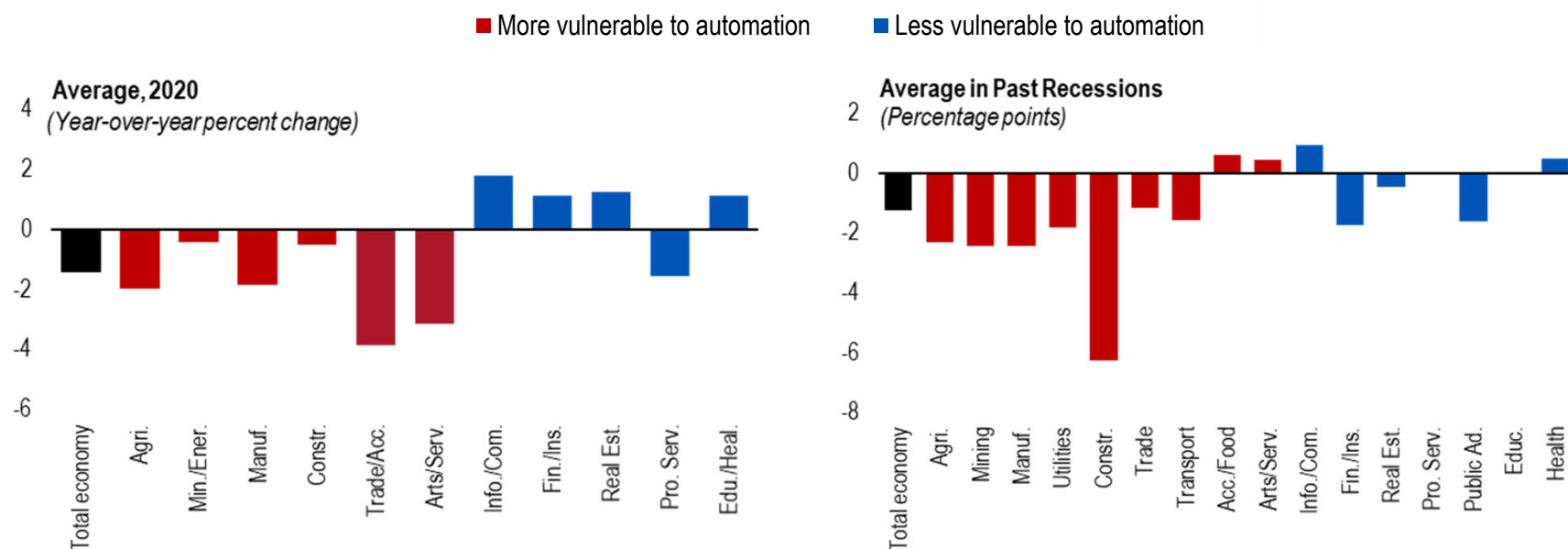


Labor Market Conditions in Emerging Market and Developing Economies
(Percentage points)



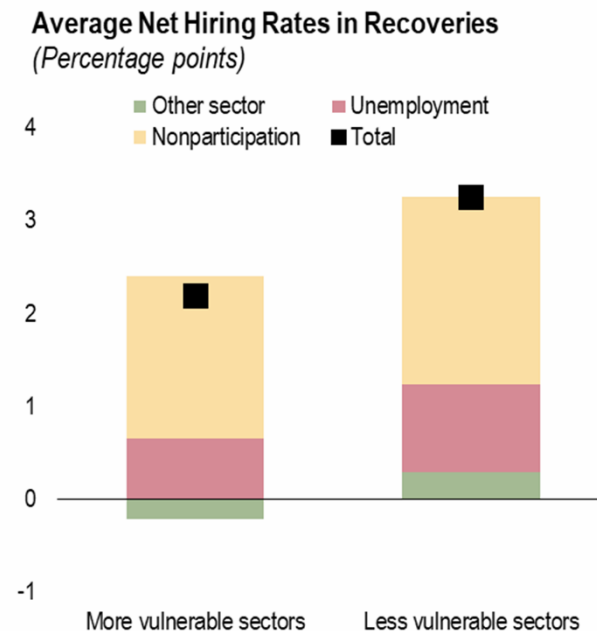
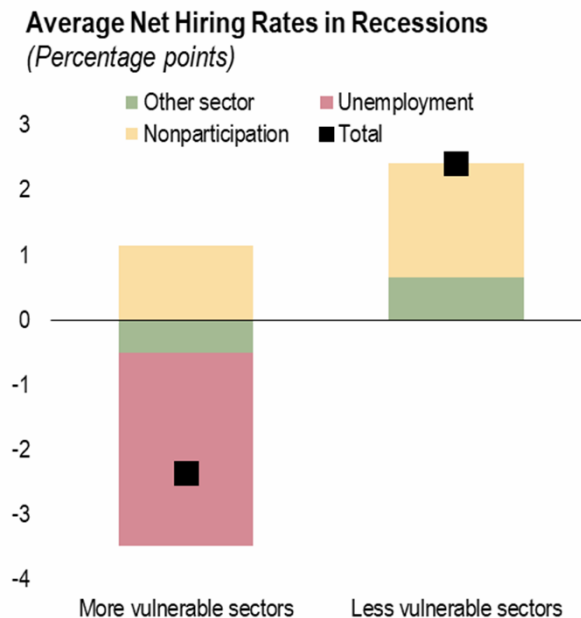
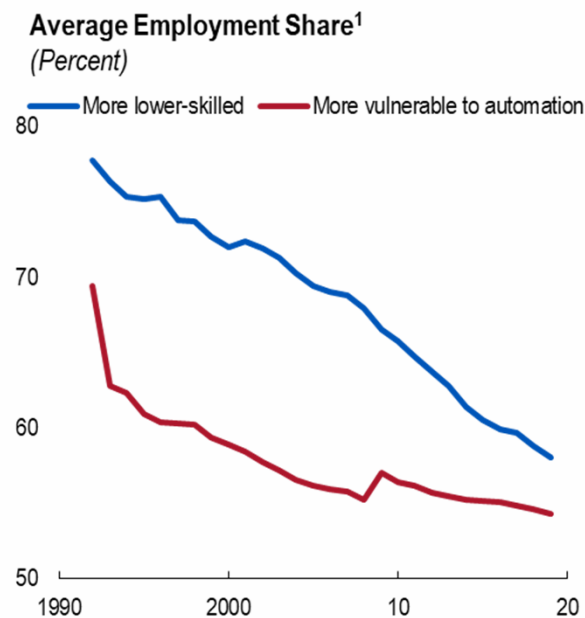
Sectors hit unevenly by COVID-19 and differently than past recessions

Sectoral Employment Growth and the Business Cycle



- Services more vulnerable to automation hurt more, reinforcing trend towards less vulnerable and higher skill services

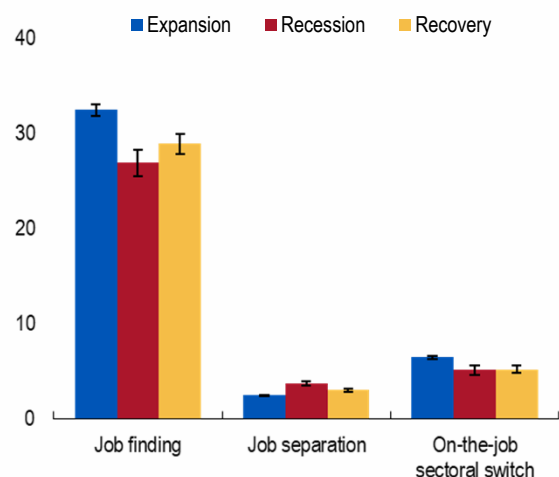
Sectors More Vulnerable to Automation are Harder Hit, Similar to Past Recessions



- Employment has been shifting away from sectors that are more vulnerable to automation, and the share of employed workers with lower skills has fallen
- The shift results from net hiring of workers from unemployment and nonparticipation
- During recessions when sectors that are more vulnerable to automation exhibit large outflows into unemployment

Youth and the Lower-Skilled were also Most Affected in Past Recessions

Average Probabilities across Business Cycles
(Percent)



Average Probabilities across Demographic Groups¹
(Percentage point deviation from the base group)



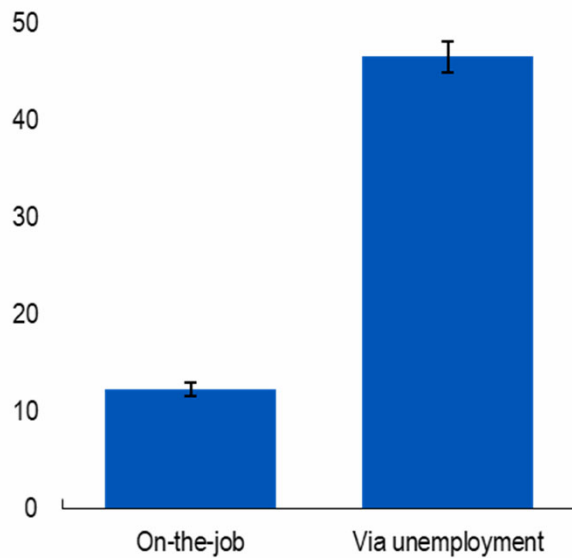
Average Probabilities across Demographic Groups in Recessions¹
(Percentage point deviation from the base group in recessions)



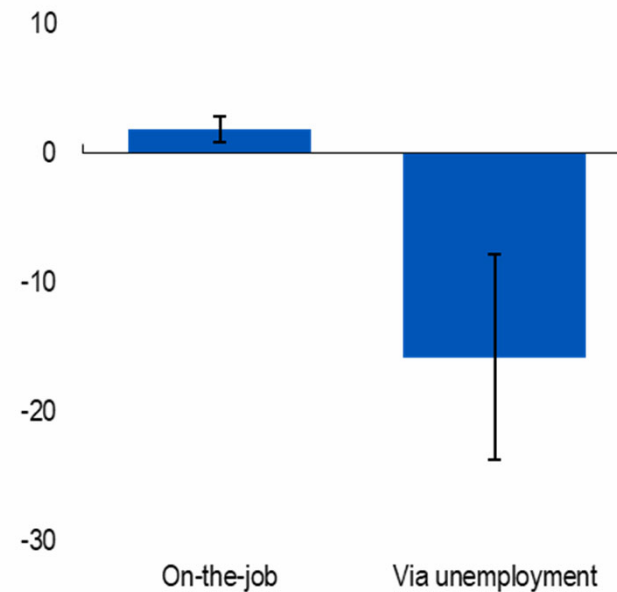
- The probability of finding a job is lower in recessions and recoveries than in expansions, while the reverse is true for job separations
- Youth tend to be disadvantaged in finding a job and more likely to lose one than prime-age workers in a downturn
- Women have seen smaller drops in job finding and rises in separations than men during a recession
- Lower-skilled have a higher likelihood of finding a job than the higher-skilled, but also of losing it in a recession.

Switches in Occupations are More Frequent After Unemployment Spells and Inflict Earnings Penalties

Occupational Switch Probability
(Percent, conditioned on the same labor market)



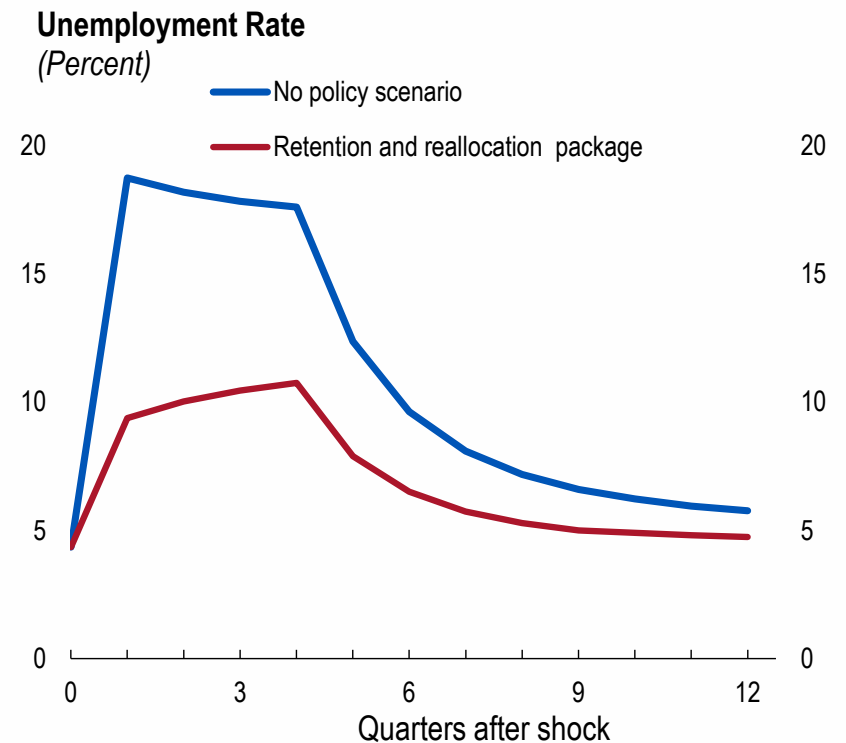
Earnings Change due to Occupational Switch
(Percent, deviation of switchers from stayers)



- “On the job” occupational switch incidence is smaller than after a one-year unemployment spell
- The earning penalty associated with an unemployment spell is large
- Lower-skilled are likely being hit with a triple whammy

Retention policies preserve matches in the near term, while reallocation policies address permanent effects

- Hybrid shock
 - largely transitory, but
 - with some permanent component.
- Asymmetric impact on occupations.
- Policy package with
 - **retention** policies under lock down,
 - **reallocation** policies when lock down lifts.



Policy implications

- Countries with fiscal space should maintain support for job retention while the transitory shock from pandemic is ongoing, helping to avoid socially costly unemployment spells and to dampen the effects on more disadvantaged worker groups
- As a recovery gets under way, a more vigorous deployment of worker reallocation support can hasten labor market adjustment
- The pivot from retention to reallocation policies could be linked to the duration and intensity of the pandemic
 - Uncertainties about the pandemic and its path mean that the phaseout of such measures is more complicated in practice
- Policies could also be designed to target more affected worker groups:
 - For example, increasing wage or hiring subsidies for youth or lower-skilled workers



World Economic Outlook April 2021

THANK YOU!