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Temporary Layoffs and Unemployment in the Pandemic

Erin Wolcott, Mitchell G. Ochse, Marianna Kudlyak, and Noah A. Kouchekinia

Temporary layoffs accounted for essentially the entire increase in unemployment to its historically high rate in April 2020. Although the rate has come down since its peak, unemployment remains well above pre-pandemic levels. There is little evidence that temporary layoffs are becoming permanent at a higher rate than in the past. However, the continuation of the health and economic crisis poses a risk that a growing share of unemployment will consist of people in persistent categories of joblessness, thereby slowing the overall recovery.

The COVID-19 pandemic has led to job losses of catastrophic proportions in the United States. A key factor that will determine the shape and speed of the recovery is whether the pandemic permanently destroys relationships between firms and workers, as typically happens in recessions. Creating new firm-worker relationships takes time, which is one reason the level of unemployment typically takes a long time to recover (Hall and Kudlyak 2020). Thus, the pandemic's impact on firm-worker relations could have a substantive influence on the labor market's recovery.

In this *Letter*, we compare unemployment during the pandemic to unemployment in other recent recessions, focusing on temporary versus permanent layoffs. Temporary layoffs preserve firm-worker matches and avoid the costly and time-consuming process of establishing new employment relationships. Data show that temporary layoffs accounted for essentially the entire surge in the unemployment rate to its historically high rate of 14.7% in April 2020, with unemployment from temporary layoffs contributing 11.5% to the total. As of October, unemployment from temporary layoffs had fallen to 2%, and unemployment from other reasons was 4.9%, for a total unemployment rate of 6.9%.

We find that temporary layoffs do not appear to be turning into permanent layoffs at an unusually high rate thus far during the pandemic. However, unemployment for reasons other than temporary layoffs has increased. Some of these people find stable jobs quickly, but others tend to cycle through periods of being unemployed, being out of the labor force, and holding short-term jobs. One of the main risks that could keep future unemployment persistently elevated is if unemployed workers other than those on temporary layoffs are unable to find jobs.

Rapid rise and fall of unemployment from temporary layoffs

The official unemployment rate is based on responses to the Bureau of Labor Statistics' Current Population Survey (CPS), a large monthly survey of households conducted by the Census Bureau. The benchmark definition classifies an individual as unemployed if they did not work during the week containing the 12th of

the month, were available for work, and either actively searched for work or expected to be recalled to their previous job. Unemployed people are also asked whether their unemployment is a result of permanent layoff, temporary layoff, completing a temporary job, recently entering the labor force, reentering the labor force, or quitting a job. Therefore, any monthly change in the total number of unemployed can be categorized into those reasons.

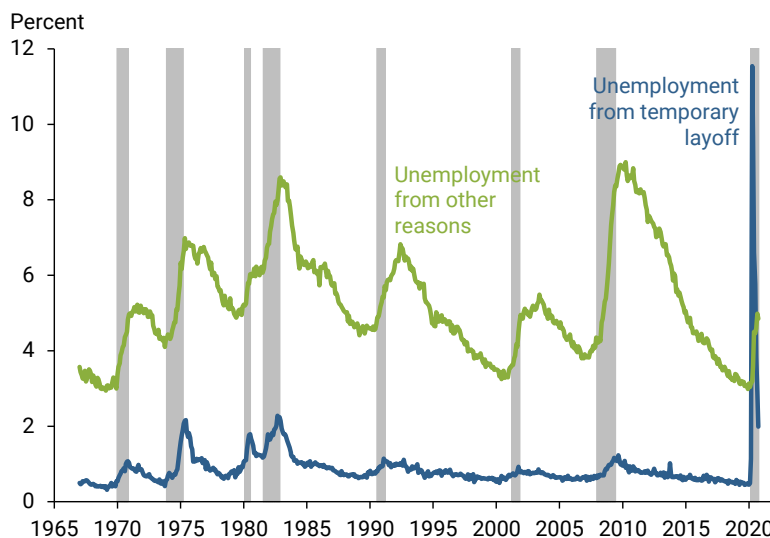
In a temporary layoff, the individual expects to be recalled to their previous job. The distinction between temporary and permanent layoffs is important because temporary layoffs preserve firm-worker relationships and avoid the need to establish new employment relationships. For this reason, a higher share of temporary layoffs in aggregate unemployment generally signals a more rapid recovery from high unemployment episodes.

We use the CPS data to examine how the share of temporary layoffs in unemployment has evolved in recent months. To be classified as unemployed on a temporary layoff in the CPS, a worker must either have received a date to return to work by their employer or expect to be recalled to their job within six months. This category is separate from furloughs, which covers individuals who are employed but are absent without pay. Furloughs spiked in March and April 2020 (Petrosky-Nadeau and Valletta 2020), but they are not counted in the official unemployment rate and so do not affect our calculations.

Figure 1 shows the unemployment rate due to temporary layoffs versus the other five reasons combined. At its peak in April 2020, the unemployment rate reached 14.7%, with 11.5% of that total due to temporary layoffs (blue line). This contribution of temporary layoffs to total unemployment is an order of magnitude higher than in any previous recession since at least 1967.

Indeed, as shown in Figure 2, the jump in temporary layoffs in April accounted for essentially all of the increase in the unemployment rate over that period. Figure 2 breaks down the month-to-month changes in overall unemployment during the 2020 pandemic (light blue line) into the contributions from temporary layoffs and other reasons, as shown by the different colored portions of the bars. Specifically, between March and April, the overall unemployment rate increased 9.9 percentage points. The unemployment rates from temporary layoffs and permanent layoffs increased 10.1 and 0.3 percentage points, respectively, while the unemployment rate due to other reasons declined 0.5 percentage points.

Figure 1
Unemployment from temporary layoffs and other reasons



Note: Monthly unemployment as share of the labor force, which is the sum of unemployed and employed populations, seasonally adjusted data through October 2020. Gray bars indicate NBER recession dates.

These results showing the dominance of temporary layoffs during the early phase of the pandemic are consistent with other analysis using data from businesses. For example, Barrero, Bloom, and Davis (2020) use the Survey of Business Uncertainty to document that the pandemic shock caused gross staffing to drop 14.9% between March and mid-May and that three-quarters of that drop was attributed to temporary layoffs and furloughs. Kudlyak and Wolcott (2020) find similar results using data on mass layoffs from the federal Worker Adjustment and Retraining Notification Act notices.

Since April, unemployment from temporary layoffs has declined fairly quickly. However, as Figure 2 shows, unemployment due to other reasons has increased, especially due to permanent job loss, slowing the decline in the overall unemployment rate and raising a question about what this pattern means for the future.

Have temporary layoffs turned permanent?

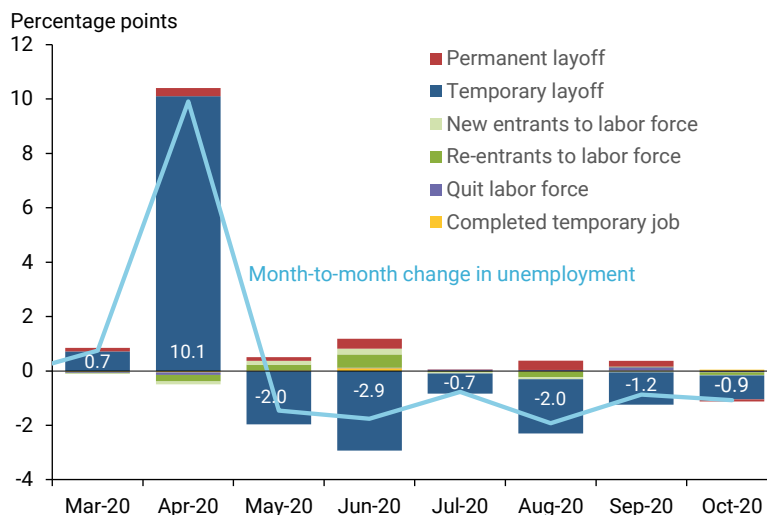
The CPS records whether workers who were laid off report a change in the reason for unemployment from one month to the next. This allows us to calculate the average probability of a temporary layoff turning permanent. In nonrecessionary times, this probability is under 5%, but it jumped to about 15% during the 2007–09 recession.

Since April, the probability that temporary layoffs become permanent has increased somewhat but remains low by historical standards. While this is encouraging, there are reasons to be cautious if the current downturn becomes a more prolonged recession. This is because the probability of temporary layoffs turning permanent increases with the severity and duration of economic downturns.

What categories drive rising unemployment not attributable to temporary layoffs?

We next examine how reasons other than temporary layoffs have contributed to the post-April increase in unemployment. Similar to the earlier analysis, we use the CPS month-to-month matched records to examine what the individuals who report being unemployed in one month state as their labor market status in the previous month. The possible categories are employed, unemployed due to temporary layoff, unemployed for reasons other than temporary layoff, out of the labor force, and missing from the CPS. We include the last category because the BLS reports an unusually large fraction of individuals were missing from the April survey (BLS 2020). Figure 3 displays these five categories as percent shares of the labor force, which add up to the unemployment rate attributable to all reasons other than temporary layoff.

Figure 2
Monthly unemployment changes by reason, 2020



Note: Monthly data through October 2020, not seasonally adjusted. Numbers are contributions from temporary layoffs to overall unemployment changes.

We find that a large fraction of April's unemployment for reasons other than temporary layoffs was attributable to permanent layoffs from employment (red area). In May and June, the fraction from employment fell. This is a good sign that permanent job loss is not elevated. But the fractions coming from both out of the labor force (green area) and temporary layoff (light purple area) grew. Also, although the fraction entering unemployment from temporary layoffs has been higher since April, the results reported in Figure 2 suggest this is not yet a significant concern because temporary layoffs are not turning into permanent job loss at an elevated rate. The large fraction of unemployed people coming from outside of the labor force is noteworthy

for the future path of unemployment because these individuals tend to cycle through multiple spells of being unemployed, being out of the labor force, and working short-term jobs before finding a stable job (Hall and Kudlyak, 2019). Consequently, they might contribute to persistence in the aggregate unemployment rate. The fraction of those who were missing in the previous month (gold area) grew as well due to an increasing number of nonresponses to the survey, which also happened in the 2007–09 recession.

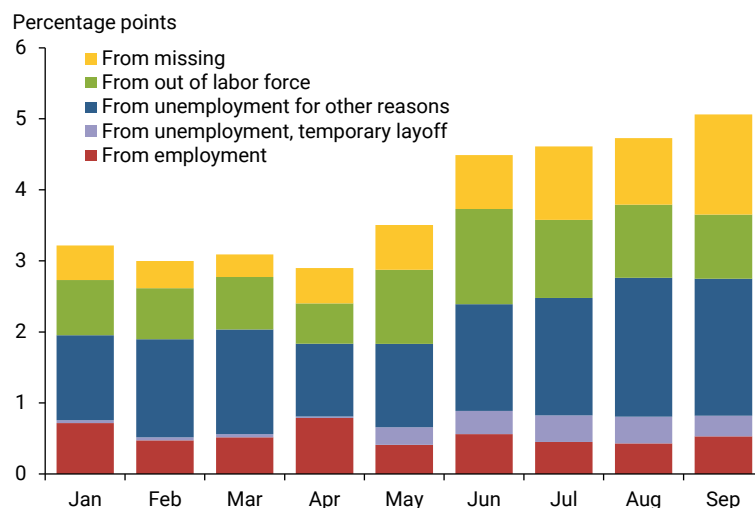
During the 2007–09 recession and its aftermath, the level and persistence of the aggregate unemployment rate was largely attributable to individuals who were unemployed for at least six months. The contribution of this category currently is below its 2007-09 recession level, but it is likely to grow if the crisis persists. The share from long-term unemployment is an important factor to monitor because it may signal increasing persistence of high unemployment in the future. Moreover, the elevated fraction of those coming from outside of the labor force is typically at a high risk of becoming unemployed for longer periods (Hall and Kudlyak 2019).

Conclusions

Tremendous uncertainty surrounds unemployment projections over the next few years (Petrosky-Nadeau and Valletta 2020). The spike in U.S. unemployment in March and April was dominated by an unprecedented increase in temporary layoffs. Typically, unemployment from temporary layoffs declines quickly once economic conditions improve because the relationships between firms and workers remain intact, allowing individuals to return to work quickly when labor demand improves.

So far, although the unemployment rate has come down since the April peak, it is still well above pre-pandemic levels. One encouraging development is that temporary layoffs currently are not becoming permanent at a higher rate than in the past. But the risk remains: if the current health and economic crisis

Figure 3
Where unemployed originate other than temporary layoff



Note: Composition of unemployment rate for reasons other than temporary layoff according to labor status in the previous month.
Source: Authors' calculations using the CPS micro-data through September 2020.

becomes prolonged, a growing share of unemployment will consist of people in persistent categories of joblessness, thereby slowing the recovery.

Erin Wolcott is assistant professor at the Middlebury College.

Mitchell G. Ochse is a research associate in the Economic Research Department of the Federal Reserve Bank of San Francisco.

Marianna Kudlyak is a research advisor in the Economic Research Department of the Federal Reserve Bank of San Francisco.

Noah A. Kouchekinia is a research associate in the Economic Research Department of the Federal Reserve Bank of San Francisco.

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