DISCUSSION:
TEMPORARY UNEMPLOYMENT AND LABOR MARKET DYNAMICS DURING THE COVID-19 RECESSION
BY: GKLN

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FOUR KEY FEATURES OF COVID LABOR MARKET

1. Stable relative job-finding rates by category of unemployed.

2. High share of unemployed on temporary layoff with high recall rate.

3. Separation rates from employment into unemployment remain high.

4. Therefore lots of churn.
IMPORTANCE OF COMPOSITION OF UNEMPLOYED

Left panel: $U \rightarrow E$ hazards by unemployment type lower in COVID recession.
Right panel: dominant share of temporary layoffs among unemployed.
Increase in overall $U \rightarrow E$ hazard entirely due to composition.

Source: Chodorow-Reich and Coglianese (2020).
GKLN exercise

Heterogeneity among unemployed:

- Temporary layoff and waiting $U^{t,w}$, roughly 75% of temporary layofs.
- Temporary layoff and searching by duration $U^{t,a}(d)$.
- Other unemployed by duration $U^{t,p}(d)$.

Exogenous forcing variables:

- Monthly vacancy rate.
- Separations from employment into unemployment, not in labor force.
- Transitions between unemployment and not in labor force.
- Recall rate for those on temporary layoff and waiting ($U^{t,w}$).

Endogenous outcomes:

- Job finding rates of unemployed searchers by duration and not in labor force.
Validation

Figure 10: Assessing the In-Sample and Out-of-Sample Fit of the Baseline Model

Notes: This figure reports the model-generated predicted job finding rates for unemployed workers, where the predictions are based on model estimates calibrated to match the 2001-2019 time period. The overall job finding rate of the unemployed is calculated by taking a weighted average of the job finding rates of the temporary and permanent unemployed.

The good out-of-sample fit through July 2020 means that the model predicts job finding rates very close to what we observe, and by comparing predictions to a model without temporary unemployment we can conclude that including temporary unemployment is key to the good out-of-sample predictive power of the model. In particular, if we instead re-estimate the Kroft et al. (2016) model without distinguishing between temporary versus permanent unemployment, then we end up with similar parameters to what we would get using pre-2008 data (see column (2) of Table 2), but we would predict much lower job finding rates for the unemployed in 2020.

Figure 11 shows that the model fits just as well in-sample, but breaks down in 2020. Strikingly, job finding rates for the unemployed increase in 2020 relative to the end of 2019, but the estimated model that does not distinguish between temporary and permanent unemployment would predict exactly the opposite – a steady drop in job finding rates following the surge in unemployment, as shown in Figure 12.

It also is perhaps apparent that the overall in-sample fit is better allowing for temporary unemployment, but this is unsurprising since there are more parameters and more forcing variables used. What is striking to us is that the trend in job finding rates is “wrong-signed” in 2020 in the Kroft et al. (2016) model without...
VALIDATION

Figure 11: Further Assessing the In-sample and Out-of-Sample Fit of the Baseline Model

Notes: These figures report the model-generated predicted job finding rates for the permanent and temporary unemployed, where the predictions are based on model estimates calibrated to match the 2001-2019 time period. The predicted job-finding rate for the temporary unemployed is a weighted average of the job finding rate of the actively searching, which is predicted by the model, and observed job finding rate of the waiting temporary unemployed. The observed job finding rate of the permanent unemployed is seasonally adjusted and smoothed by taking a 3-month moving average.
Potential for historically rapid labor market recovery.

- Much faster than assumed by government/professional forecasters.
- Driven by rapid re-employment of those on temporary layoff and declining separations into unemployment.
- Point in their favor: forecasters have revised down unemployment rate. E.g. Fed SEP median for 2020Q4 from 9.3% to 7.6%.

Relatively little long-term unemployment.

- Consistent with Chodorow-Reich and Coglianese (2020).
- Key is high churn.
THREE KEY QUESTIONS

1. Will re-employment rates of temporary unemployed remain high?

2. Will inflows into unemployment fall?

3. How quickly will labor demand recover?
1. **Will recall rates remain high?**

- **Median Unemployment Duration of $U^t$:**
  - Waiting
  - Searching

- **$U^t,\text{waiting} \rightarrow E$ Hazard by Duration**

- **GKLN baseline:** Recall rate *rises* by 10.5 p.p. over 24 months.

- **Duration dynamics suggest it could *fall* over the next few months.**

- **Right panel:**
  \[ \mathbb{I}\{E_{i,t+1}|U^{t,w}_{i,t} = 1\} = \delta_t + \sum_j \beta_j \mathbb{I}\{\text{Duration} = j\} + \varepsilon_{i,j,t}. \]
2. Will inflows into unemployment fall?

**E → U Cyclicality**

- May-20
- Jun-20
- Jul-20
- Aug-20

**E → U Hazard by Past Unemployment**

- Months unemployed in CPS history: 0, 1, 2, 3, 4, 5, 6
- E→U hazard (p.p.): 0, 1, 2, 3, 4, 5

- Temporary
- Permanent

- Recent separation rate unusually high given decline in unemployment.
- Historically employed workers with recent spells of non-employment more likely to separate (Jarosch, 2015; Coglianese, 2018; Hall and Kudlyak, 2019). GKLN assume no history dependence among employed.
3. **How quickly will demand recover?**

- Not a question this paper well-posed to answer.

- But main driver of driving forces: recall rates, vacancies, separations all depend on demand returning.

- Optimistic scenario: vaccine.

- Pessimistic scenario: new wave of infections during flu season.
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CONCLUSION

- Very nice summary of COVID labor market and forecasting exercise.

- Highlights importance of accounting for temporary layoffs. I agree!
  (Also: Chodorow-Reich and Coglianese, 2020; Gregory, Menzio, Wicze, 2020; Hall and Kudlyak, 2020.)

- GKLN optimistic about recovery from here forward. I offer some reasons for concern:
  - Duration dependence lowers exit rate from temporary layoff.
  - History dependence raises separation hazard into unemployment.
  - Renewed decline in labor demand.