

The Conference Board Economy Watch

COVID-19 and the US Labor Market: Emerging Impacts and Implications

May 13, 2020



This month we'll be examining how COVID-19 is impacting the US economy:

- What economic scenarios are most likely to play out in the US in 2020?
- How high could unemployment rise and when might it peak?
- How will COVID-19 impact labor markets in different parts of the country?
- How are industries affected?
- Will the pandemic change the way we work in the future?



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Today's Presenters



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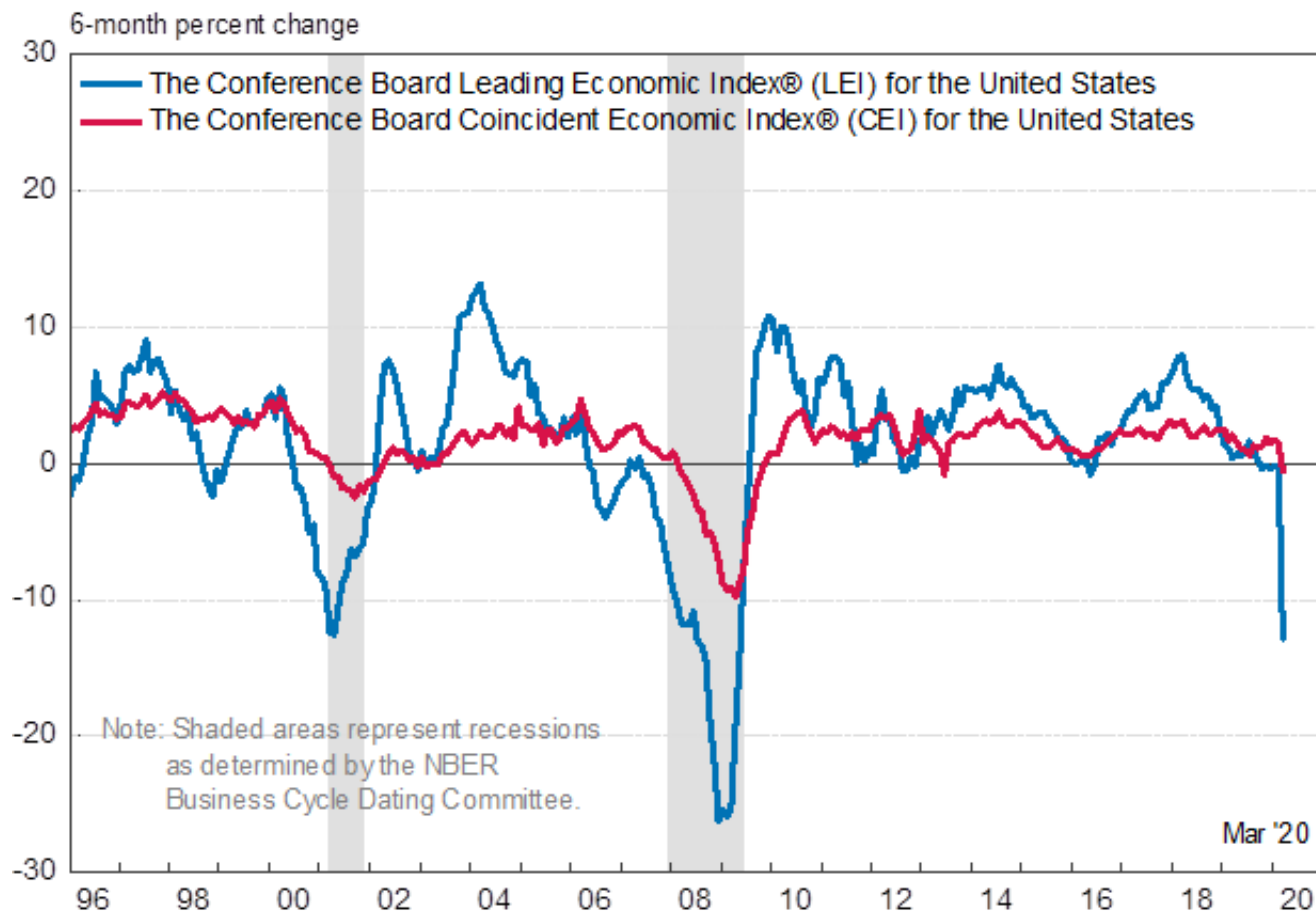


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Economist
The Conference Board



US Outlook

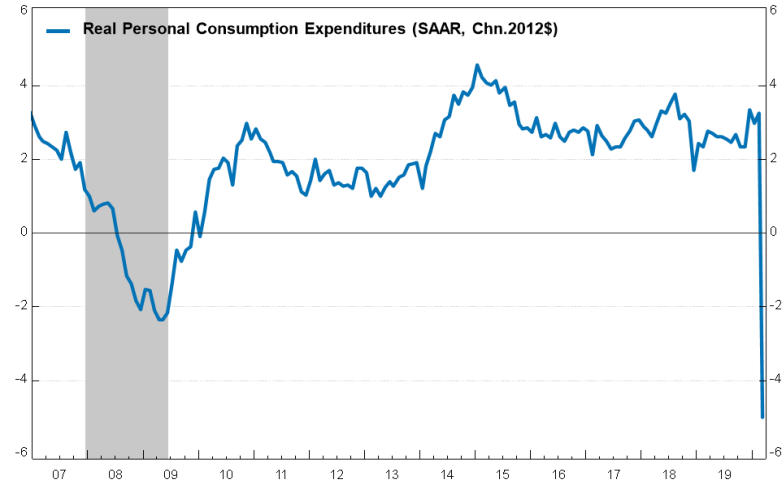
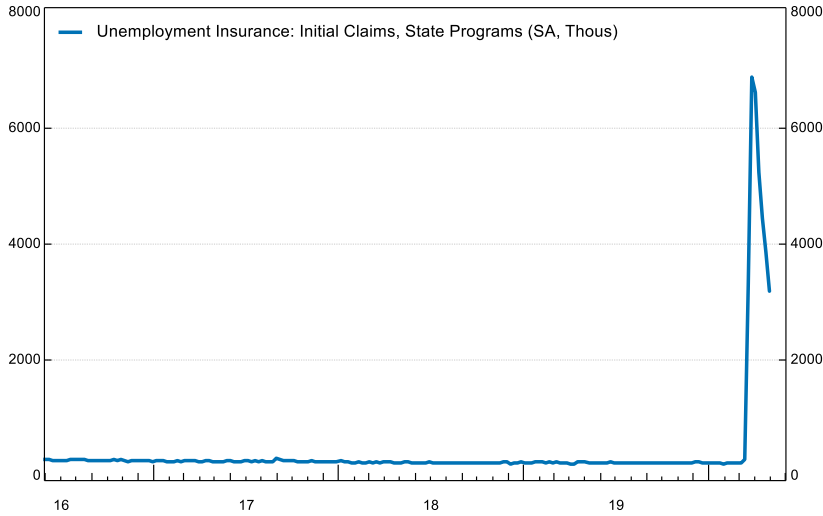
Largest decline in the US LEI occurred in one month vs. almost a year long decline before the 2008-09 recession



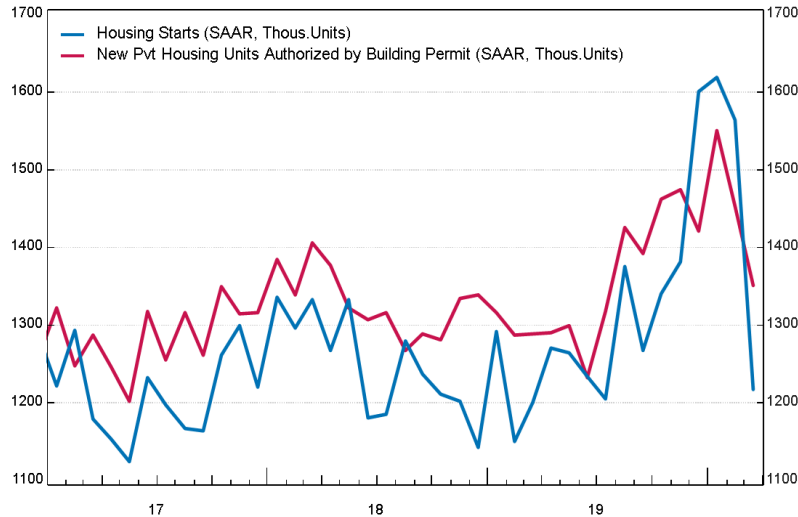
Source: The Conference Board



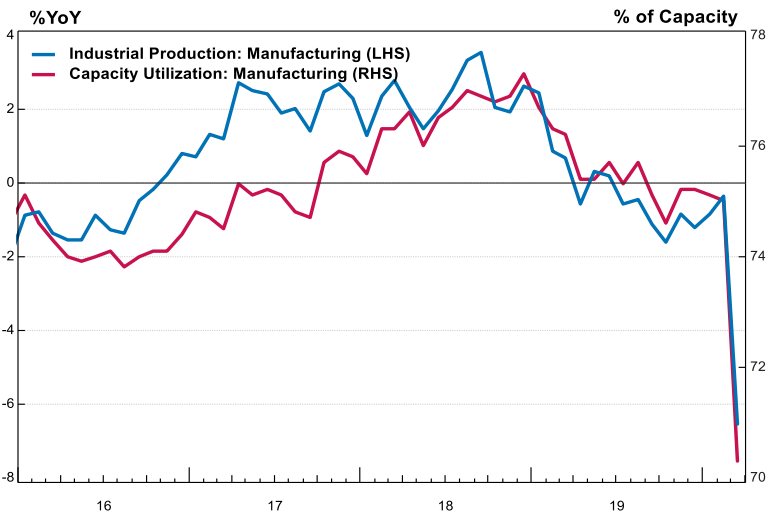
Dramatic drops in monthly indicators for March and April



Source: Bureau of Economic Analysis



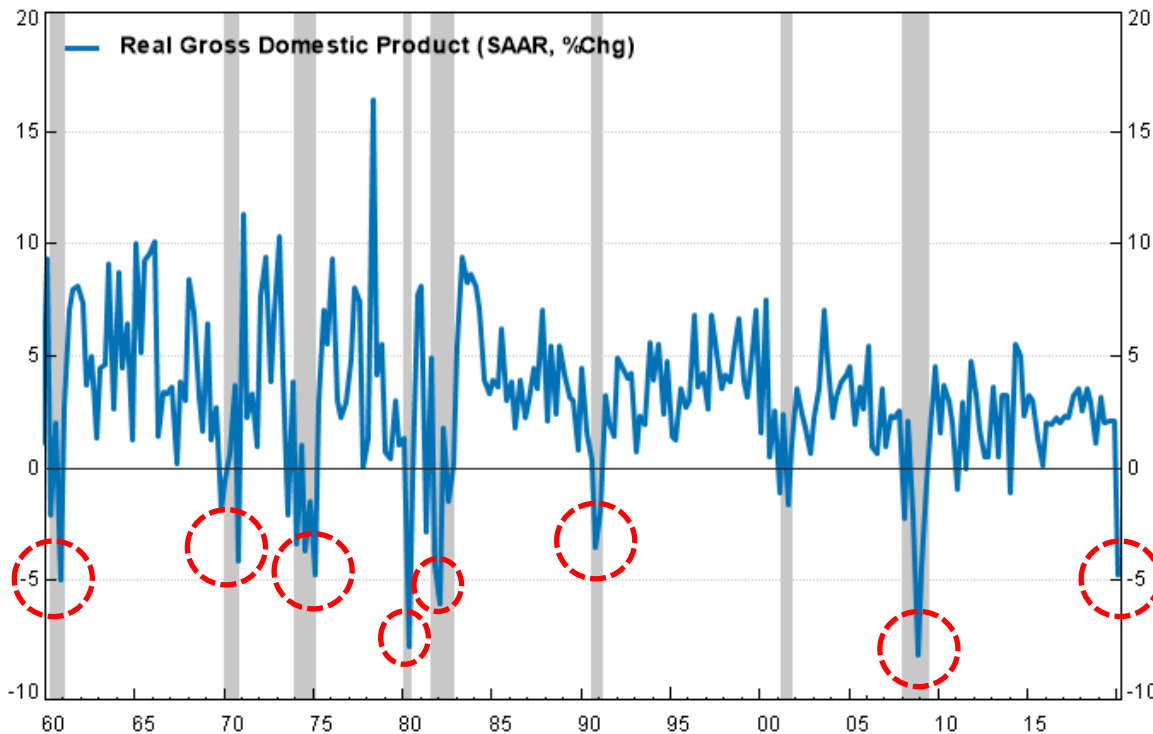
Source: Census Bureau



Source: Federal Reserve Board



Q1-GDP decline is not unprecedented, but how much deeper can we go?



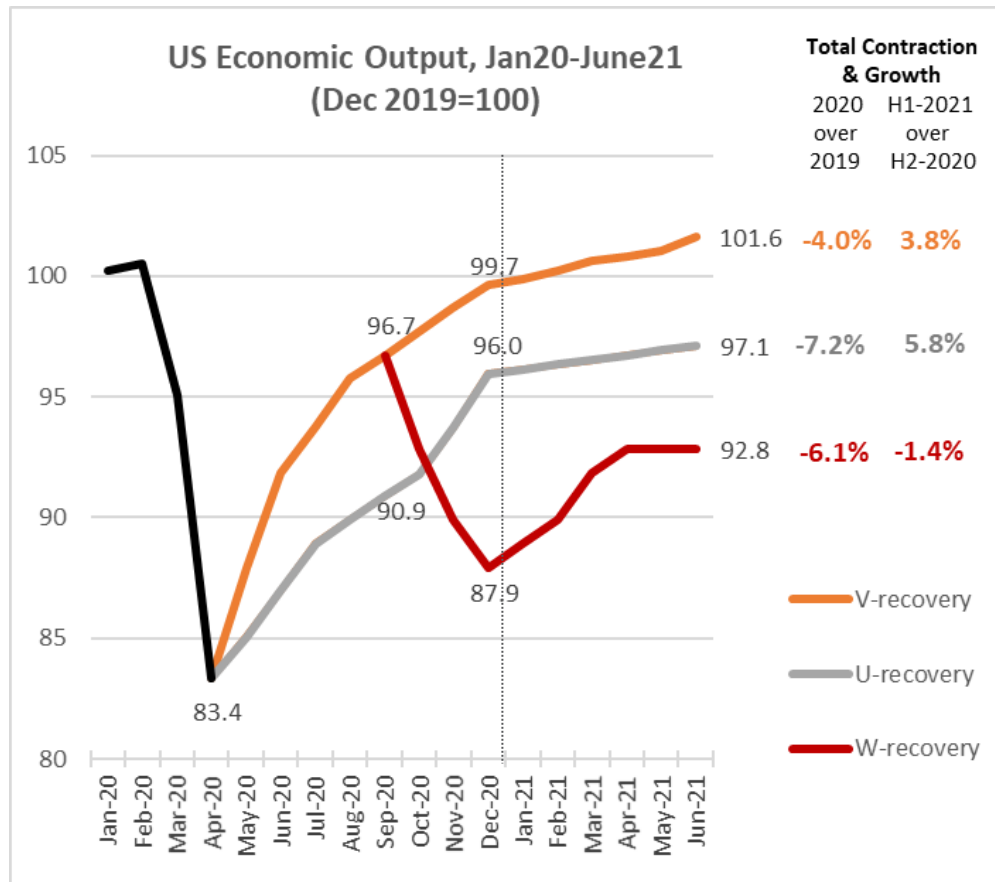
Source: Bureau of Economic Analysis

HISTORICAL TROUGHS

- 2Q20: ???
- 1Q20: -4.8%
- 4Q08: -8.4%
- 4Q90: -3.6%
- 1Q82: -6.1%
- 2Q80: -8.0%
- 1Q75: -4.8%
- 4Q70: -4.2%
- 4Q60: -5.0%



Various recovery scenarios show large impacts on economy



1. V-shape (deep contraction, fast recovery)

- ✓ The peak in new COVID-19 cases will be around early May
- ✓ Deep economic contraction in Q2, but also a stronger recovery in Q3
- ✓ But high uncertainty about outcome if economy gets opened up too fast

2. W-shape (2nd contraction in Q4 due to new peak)

- ✓ Failure to keep new COVID-19 cases under control in Fall, requiring renewed stringent measures during the Fall
- ✓ After a Q3 recovery, the economy would contract again in Q4

3. U-shape (extended contraction, slow recovery)

- ✓ Managed control of outbreak helps to flatten the curve of new outbreaks
- ✓ Stretches economic weakness to Q3, growth only resuming by September
- ✓ Unemployment could rise to 17% by May and gradually level off to 10% by end of 2020

Source: The Conference Board, May 2020



US economic contraction deepens, and recovery will be slow – brunt of decline and recovery is on consumption

	2018		2019				2020						2018	2019	2020
	1st half	2nd half	1st half	III Q*	IV Q*	2nd half	I Q*	II Q	1st half	III Q	IV Q	2nd half			
Real GDP	3.0	2.0	2.6	2.1	2.1	2.1	-4.8	-44.5	-24.6	24.4	18.9	21.7	2.9	2.3	-7.2
Real disposable income	4.8	3.0	3.0	2.1	1.6	1.9	0.5	-18.0	-8.7	5.0	12.0	8.5	4.0	2.9	-1.6
Real consumer spending	2.8	2.5	2.8	3.1	1.8	2.5	-7.6	-54.2	-30.9	36.3	15.5	25.9	3.0	2.6	-10.0
Residential investment	-4.5	-4.3	-2.0	4.6	6.5	5.6	21.0	-25.0	-2.0	-7.0	11.0	2.0	-1.5	-1.5	0.7
Nonresidential investment	8.3	3.5	1.7	-2.3	-2.5	-2.4	-8.6	-20.8	-14.7	-2.4	8.6	3.1	6.4	2.1	-6.9
Inventory change	6.3	90.1	92.7	69.4	13.1	41.3	-16.3	-150.0	-83.2	-61.0	165.0	52.0	48.2	67.0	-15.6
Total gov't spending	2.2	0.8	3.9	1.7	2.5	2.1	0.7	4.0	2.4	4.0	4.0	4.0	1.7	2.3	2.7
Exports	3.3	-2.4	-0.7	0.9	2.1	1.5	-8.7	-35.1	-21.9	11.1	9.0	10.1	3.0	0.0	-8.0
Unemployment rate	4.0	3.8	3.8	3.6	3.5	3.6	3.8	16.0	9.9	13.6	10.8	12.2	3.9	3.7	11.1
CPI inflation	2.7	1.7	2.0	1.8	2.4	2.1	1.2	-2.0	-0.4	0.0	1.0	0.5	2.4	1.8	0.8



US Labor Markets and Consumption

The impact of COVID-19 on consumption and the labor market

- **Deepest recession** since the Great Depression is expected
- The core of the outlook is the impact on consumption categories **affected by social distancing**
- Economic activity partly depends on what **governments** decide to shut down. But it also depends on **consumers' fear** to go out and spend
- Which consumption categories would be most impacted? Depends on the **risk of being infected**. But also by how **discretionary** they are
- Many industries will **not fully recover** until full vaccination or treatment
- Second round effects will further impact industries, especially the **cyclical ones** like manufacturing and construction
- **Millions of jobs lost** and they extend across industries
- The **unemployment rate** in the US could further rise into May and remain in double digits for the rest of 2020



Entertainment will suffer most over the next months since it is highly impacted by social distancing

COVID-19's economic impact

Which goods and services will be hit hardest

HOW INFECTIOUS	Least	Somewhat	Most	
<p>Discretionary, or could be replaced from home</p> <p>Most</p> <p>Somewhat</p> <p>Least</p>	TV shopping	Full service restaurants Remodeling	<p>Concerts</p> <p>Sports events</p> <p>Movie theatres</p> <p>Amusement parks</p>	<p>Entertainment will suffer most</p>
	<p>Clothes shopping</p> <p>Gardening services</p>	<p>Nail salons</p> <p>Fast food restaurants</p> <p>Staying at hotels (ones in driving distance)</p>	<p>Moving to a nursing home</p> <p>Gyms</p>	
	<p>Car repairs</p> <p>Appliance repair</p>	<p>Moving to a new home</p> <p>Physician's services</p> <p>Dental services</p>	<p>Hospital operations</p> <p>Child care</p>	

Source: The Conference Board



Second round effects will impact many more industries

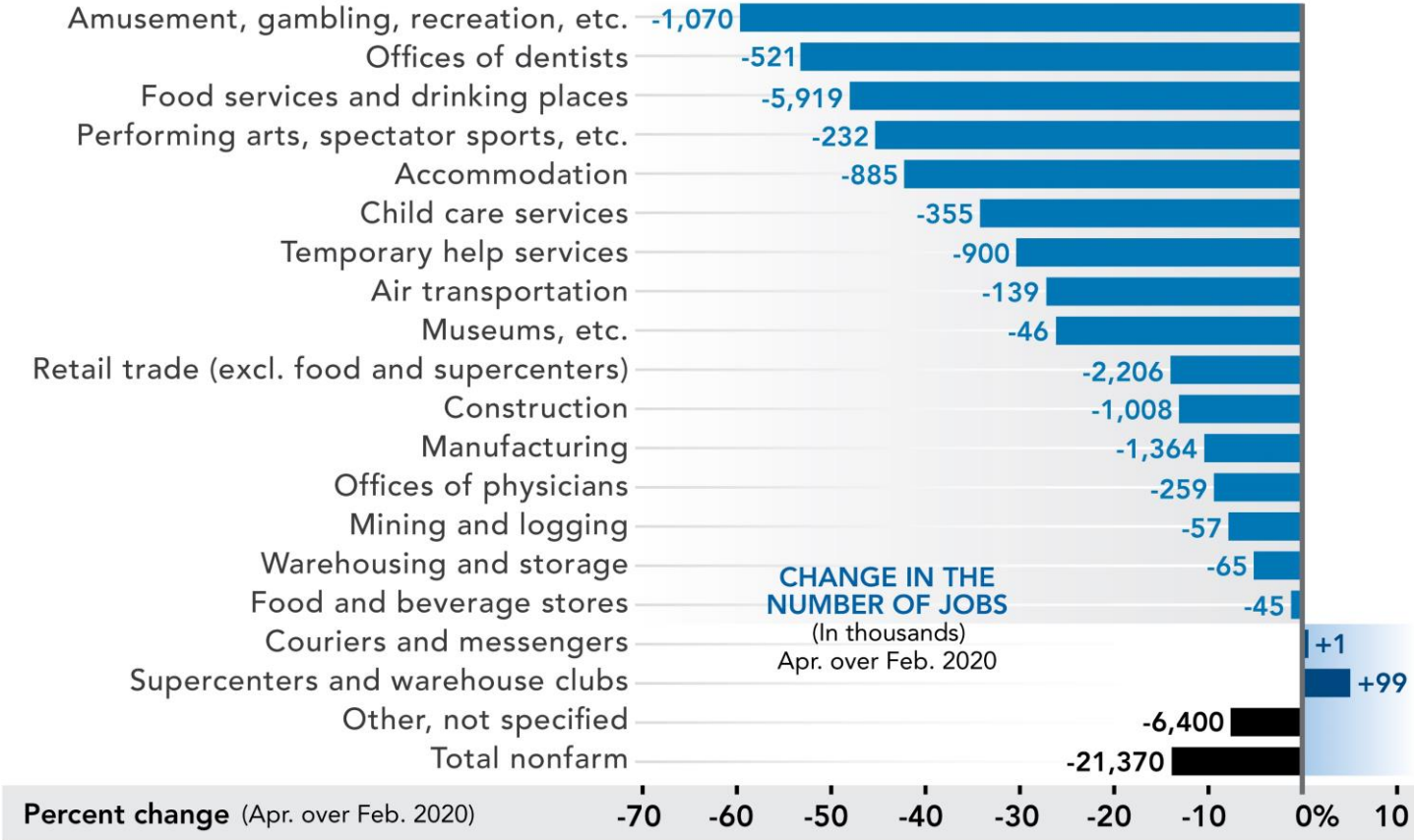
Industry category	Industries less impacted by recessions	Industries more impacted by recessions
Goods producing industries	Mining	Construction
	Utilities	Most of manufacturing
	Food and health related manufacturing	
Retail	Food and beverage	Automobile
	warehouse clubs and supercenters	Furniture
	Women's clothing	
Transportation	transit and ground passenger	warehousing and storage
		truck transportation
		air transportation
Finance	commercial banking	securities brokerage
	insurance carriers	consumer lending
		mortgage and nonmortgage loan brokers
Business services	scientific research and development	advertising and related services
	legal services	human resource consulting services
	office administrative services	computer systems design and related services
	facilities support services	employment placement and executive search
		temporary help services
Other services	health care	landscaping services
	educational services	travel agencies
	personal care services	passenger car rental and leasing
	recreational and vacation camps	gambling industries
	government	architectural services

Source: The Conference Board



Massive job losses extend across industries

SOCIAL DISTANCING DEVASTATES JOBS IN CERTAIN SECTORS, BUT NO INDUSTRY ESCAPES UNSCATHED



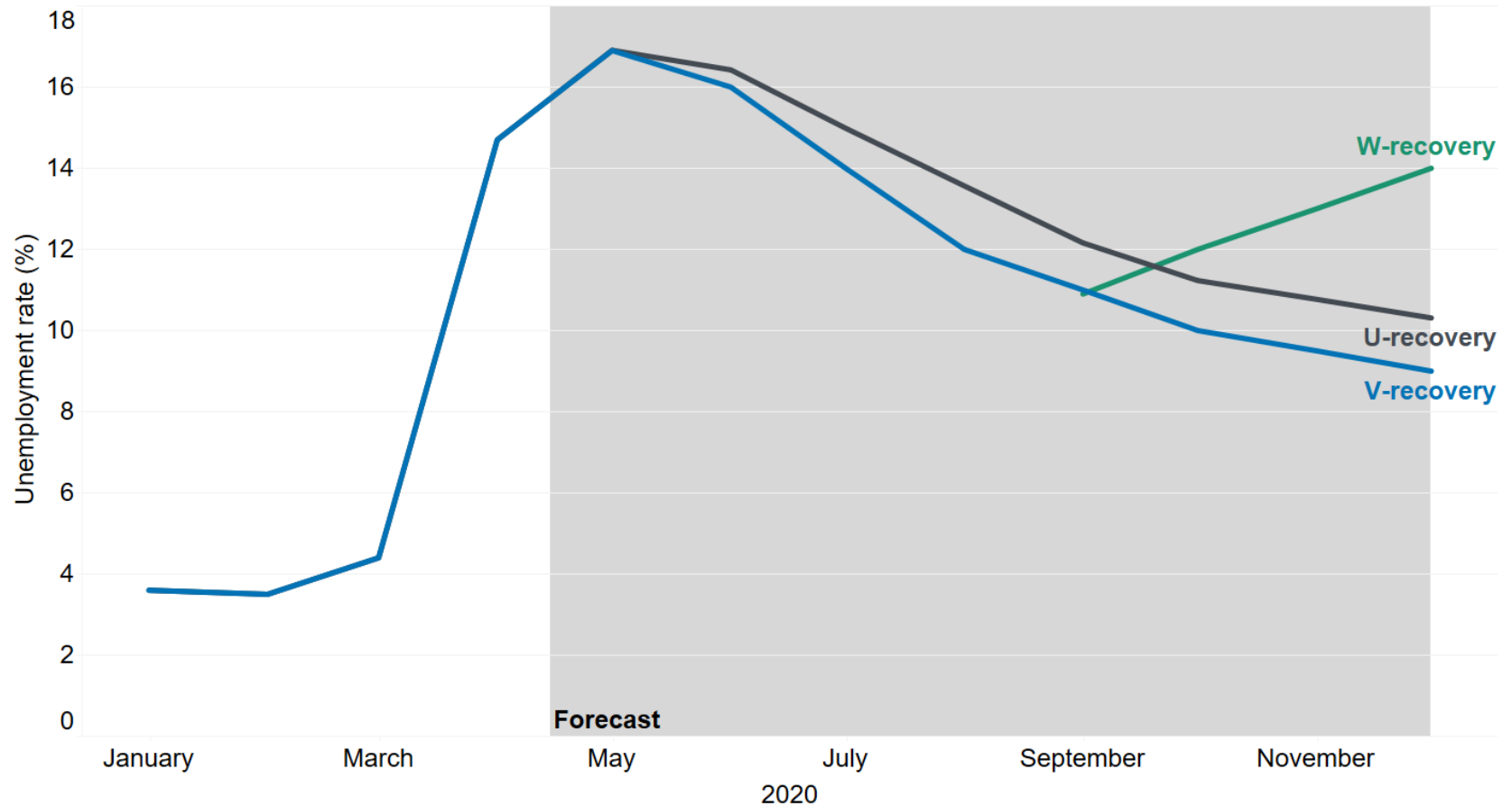
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Source: The Conference Board using data from the US Bureau of Labor Statistics



The unemployment rate may rise further into May

US unemployment rate scenarios

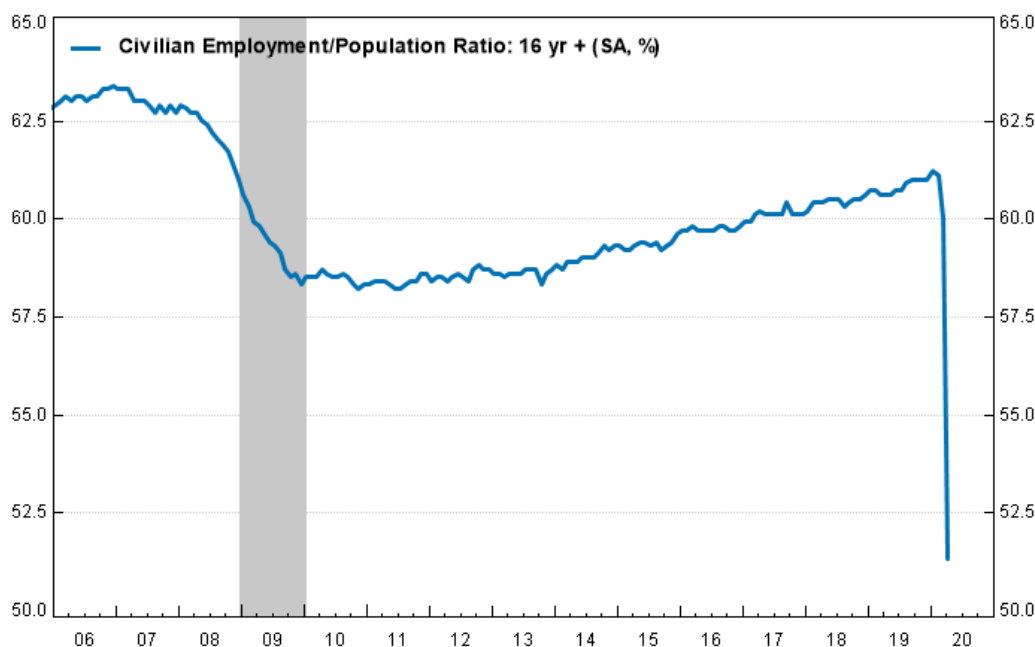


Source: The Conference Board



The broader measure of unemployment (U6) and the employment/population ratio are the key measures to watch

Unemployment rates	February	March	April	Difference February-April
U3 - unemployment rate	3.5	4.4	14.7	+11.2
U5 - unemployed + marginally attached	4.4	5.2	16	+11.6
U6 - unemployed + marginally attached + part-time for economic reasons	7	8.7	22.8	+15.8

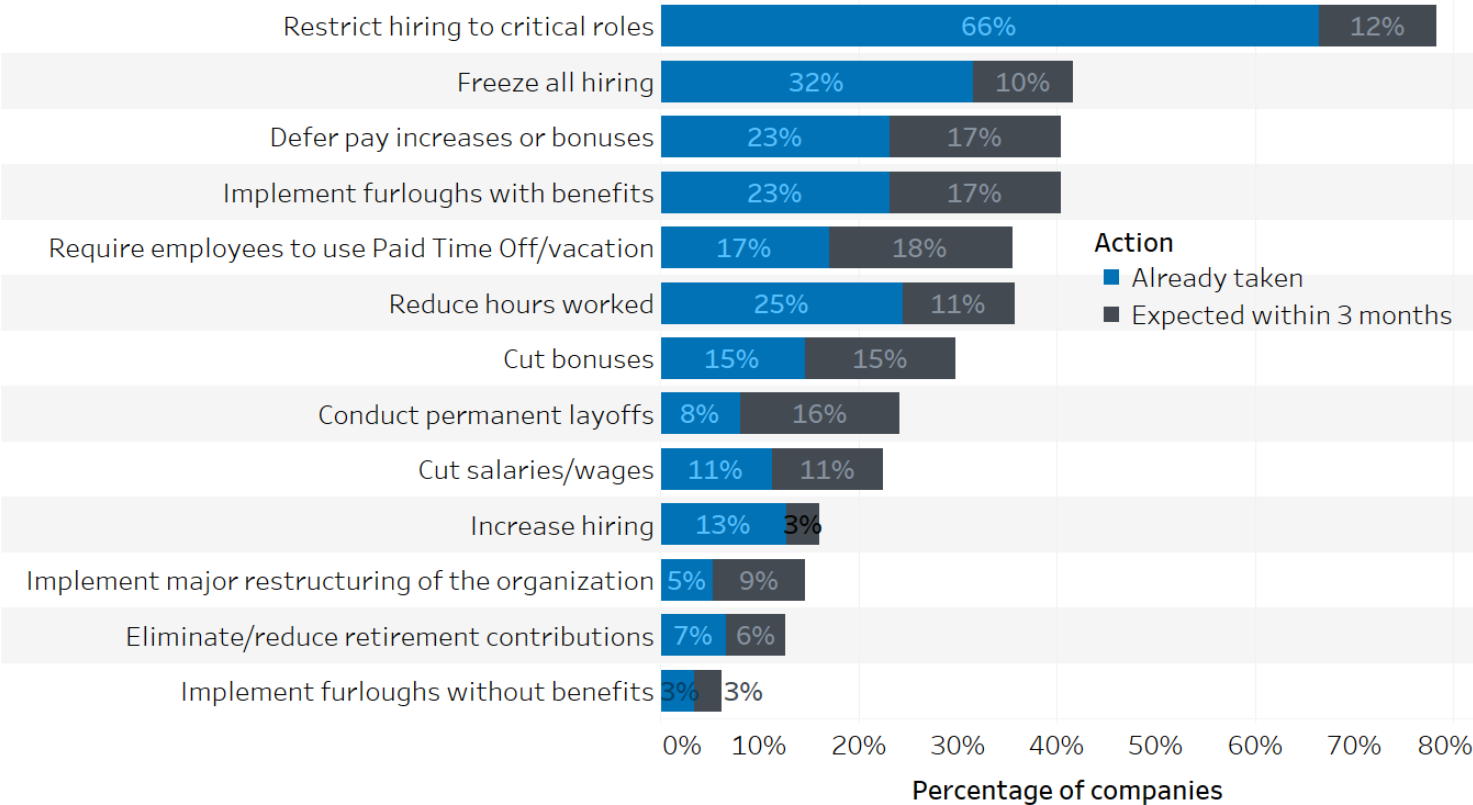


Source: Bureau of Labor Statistics



More layoffs and pay cuts expected over the next 3 months

How is your company currently responding to COVID-19, and how are you planning to respond in the next 3 months?

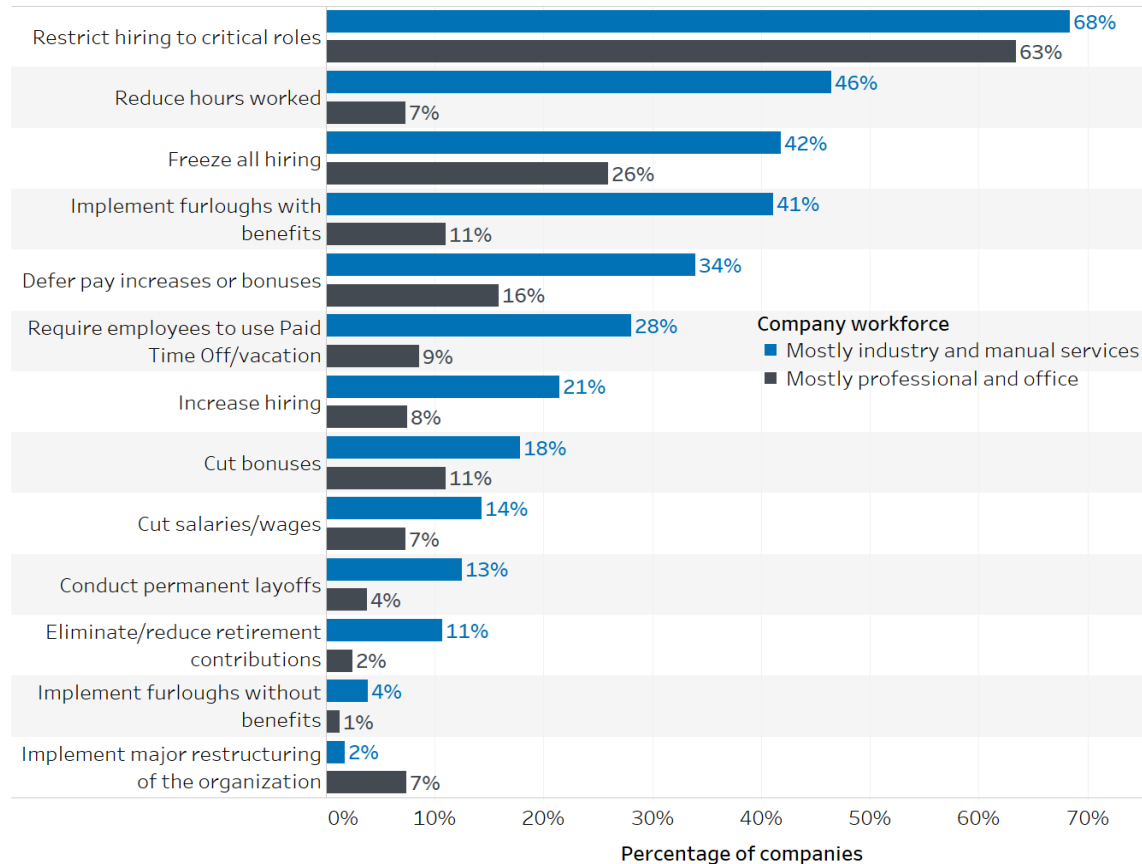


Note: The survey was US focused and fielded in the second half of April 2020 with 152 participating senior HR leaders from mostly large companies. The full report will be published late May 2020.
 Source: The Conference Board



Blue-collar-dominated companies take firmer actions compared to white-collar-dominated companies

How is your company currently responding to COVID-19? Actions already taken



Note: The survey was US focused and fielded in the second half of April 2020 with 152 participating senior HR leaders from mostly large companies. The full report will be published late May 2020.

Source: The Conference Board



The rise of telework and the decline of city centers

- Most office workers are now **teleworking** and this share will remain **very elevated** as long as the contagion risk remains high
- In areas where a large share of workers use **public transportation**, elevated rates of teleworking are likely to remain for longer
- Even after full vaccination teleworking shares are likely to remain well **above pre-COVID-19**, in some types of jobs more than others
- The rise of teleworking will reduce the number of people who spend their weekdays in **city centers**, with major implications
- Who consumes in city centers?
 - ✓ Residents
 - ✓ People **working** in city centers
 - ✓ People who come for **high quality entertainment**
 - ✓ **Tourists**
 - ✓ People who come for **business trips and conferences**
 - ✓ People who come for **retail and other services**



The impact of COVID-19 on spending in city centers

Reason to come to city centers?	During COVID-19	After COVID-19
Work	Large increase in remote working. Fewer come to work in city centers	Share of remote working will remain well above pre-COVID-19 rates
High quality entertainment	Very low demand due to contagion risk	Should go back to normal
Tourism	Huge drop in the number of tourists	Should go back to normal
Business trips and conferences	Huge drop in the number of business trips and conferences	Virtual meetings will permanently replace some business trips and conferences
Retail and other services	Will drop for two reasons: First, fewer will be in city centers due to the reasons above. Second, some will avoid going to city centers because of the need to use public transportation.	Will remain below pre-COVID-19 as working remotely will remain elevated and people will find retail and other options closer to home.



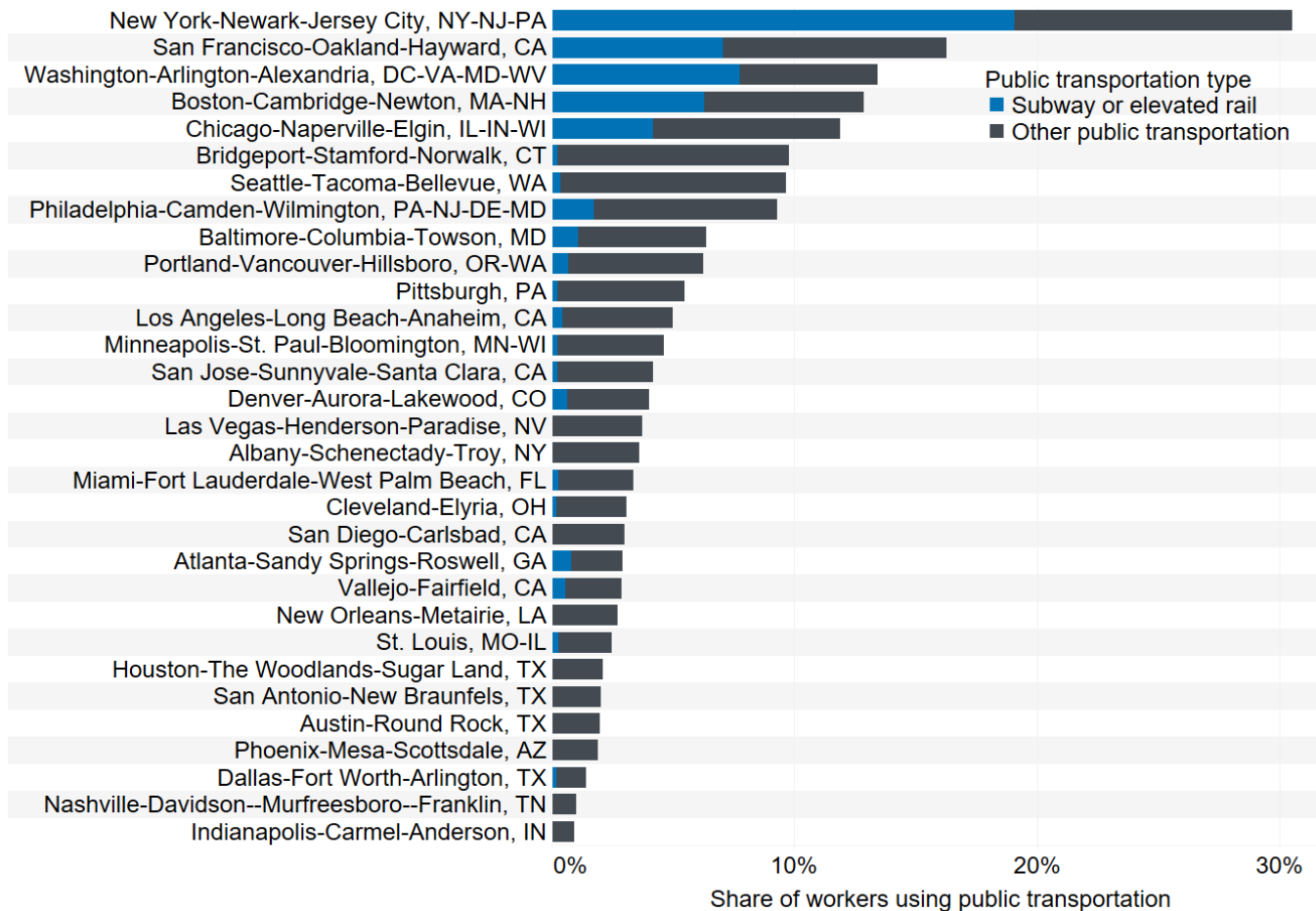
Long-term business geography implications

- Drop in **spending** in city centers and some of it will remain **permanent**
- Drop in demand for **office and commercial real estate** in city centers
- As commuting time is **less important for remote workers** – a shift in the demand for housing to outside city centers
- Downward pressure on **real estate prices** in city centers
- Increase in spending **outside city centers** on retail, restaurants, other services and real estate



It might take longer to return to work in metro areas with high shares of workers using public transportation

The share of workers commuting to work using public transportation, 2018

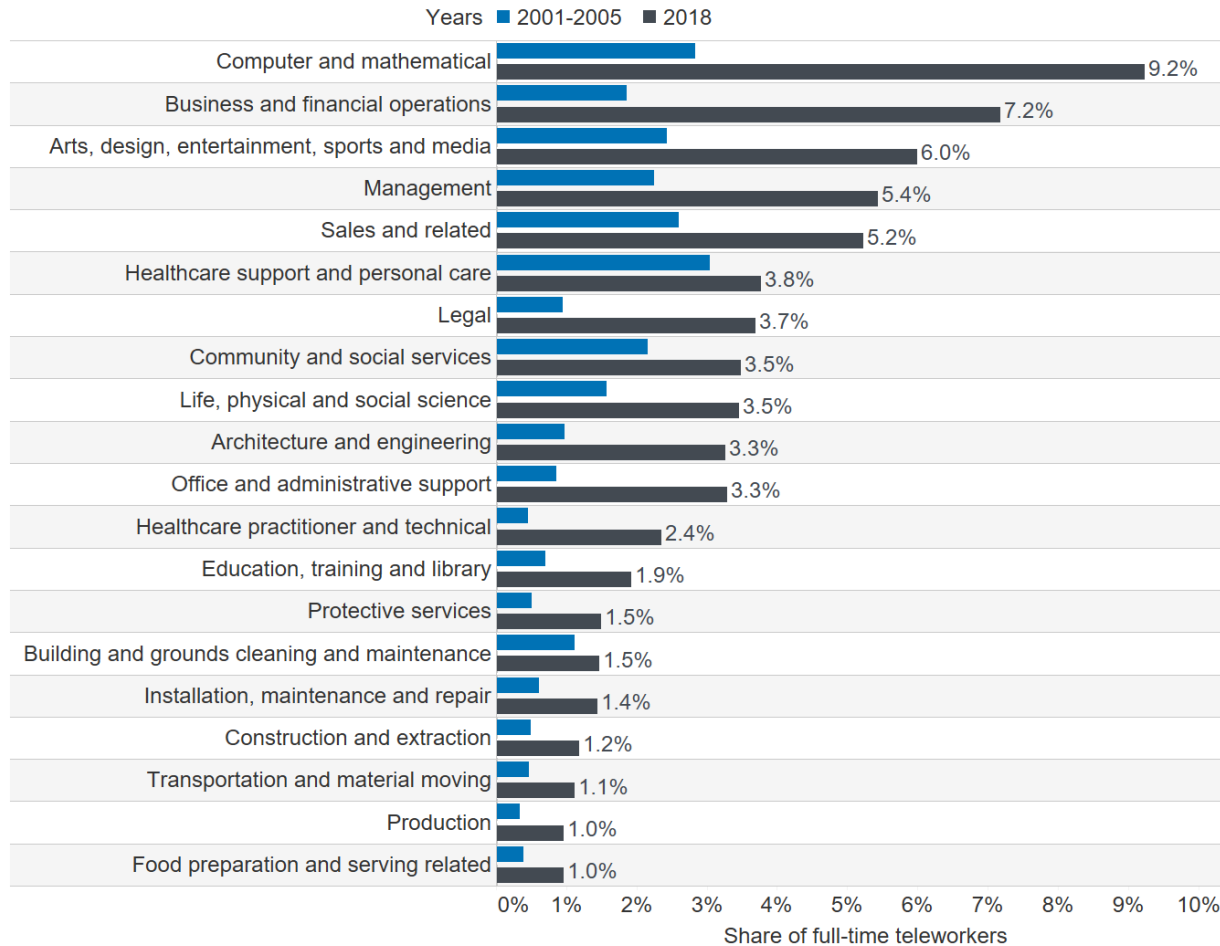


Source: The Conference Board using microdata from IPUMS-ACS, University of Minnesota



There has been a strong surge in the share of full-time teleworkers, especially in computer occupations

Percentage of full-time employees primarily working from home



Source: The Conference Board using microdata from IPUMS-ACS, University of Minnesota

Read our blog: [The Rise of Telework and the Decline of City Centers](#)



Large variation in labor market conditions across countries, states and cities

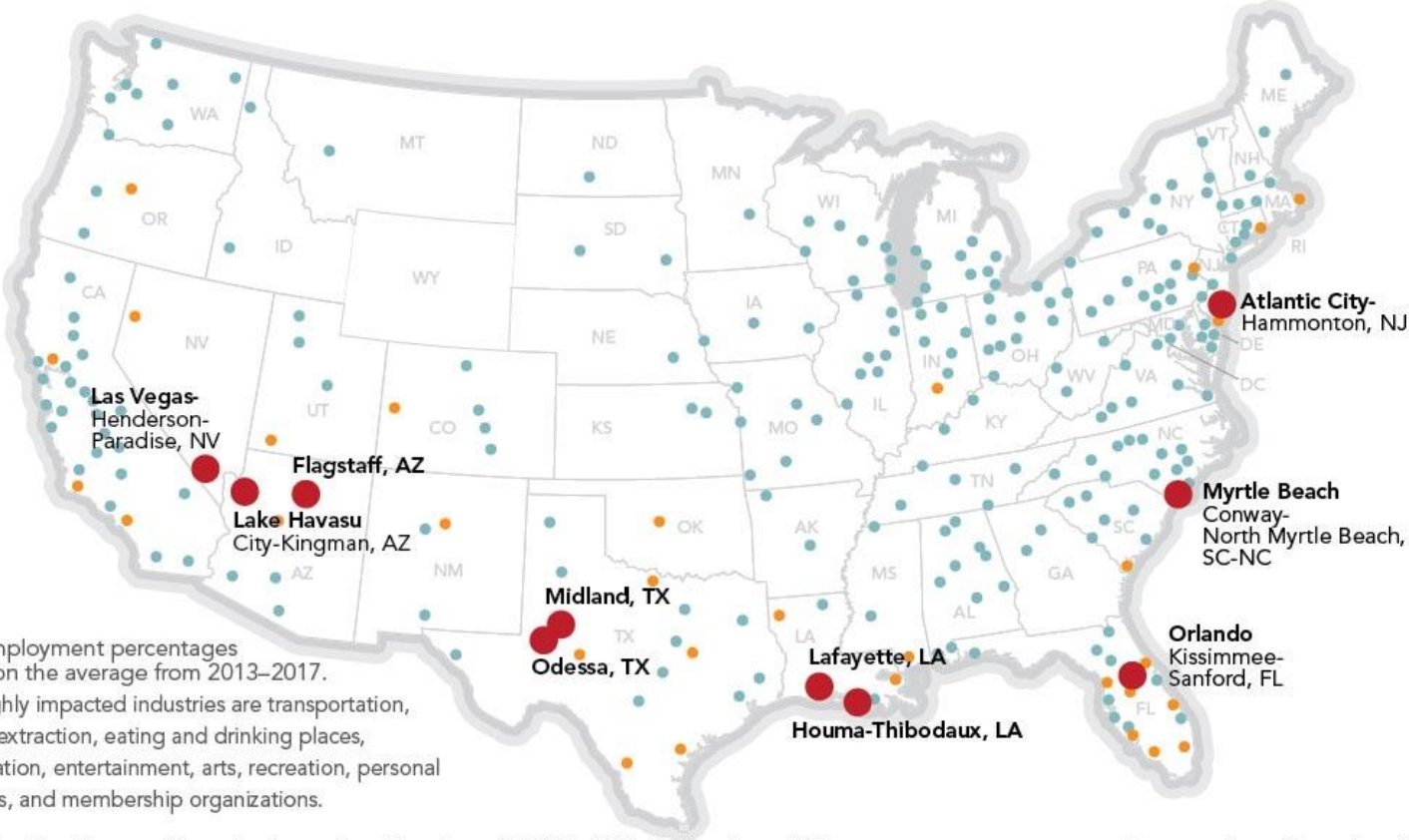
- Countries, cities and states will be **impacted differently** depending on:
 - ✓ How much they **rely on the most impacted** industries who suffer from social distancing.
 - Las Vegas, Thailand, Monaco
 - ✓ How much they **rely on oil** production.
 - Texas, Russia, Saudi Arabia
 - ✓ The **current spread** of COVID-19
 - NYC, Italy, Spain
 - ✓ How **difficult will it be to contain** the spread. Depends on population density, reliance on public transportation, maybe weather.
 - NYC, London, Paris
 - ✓ The share of **older population**
 - Florida, Italy



Metro areas at high risk of losing jobs

Metro areas by percent of jobs in highly impacted industries

- Most impacted metro areas** ● 22–34% of total employment is in highly impacted industries
- Very impacted metro areas** ● 16–22% of total employment is in highly impacted industries
- Impacted metro areas** ● 9–16% of total employment is in highly impacted industries



Note 1: Employment percentages are based on the average from 2013–2017.

Note 2: Highly impacted industries are transportation, oil and gas extraction, eating and drinking places, accommodation, entertainment, arts, recreation, personal care services, and membership organizations.

Source: The Conference Board using microdata from IPUMS-ACS, University of Minnesota

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- *Economic View publications* in an accessible chart format on each of these three key regions.
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Next Economy Watch Webcast: COVID-19 in Asia - the impact on India and China

June 10, 2020 @ 11am EST

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Hosted By:



Erik Lundh (Moderator)
Senior Economist
The Conference Board

In the coming months Economy Watch will focus on the impact that COVID-19 is having on various countries and regions around the world - including India & China, Brazil & Mexico, France & Germany, Turkey & South Africa, Gulf region, and Canada & UK



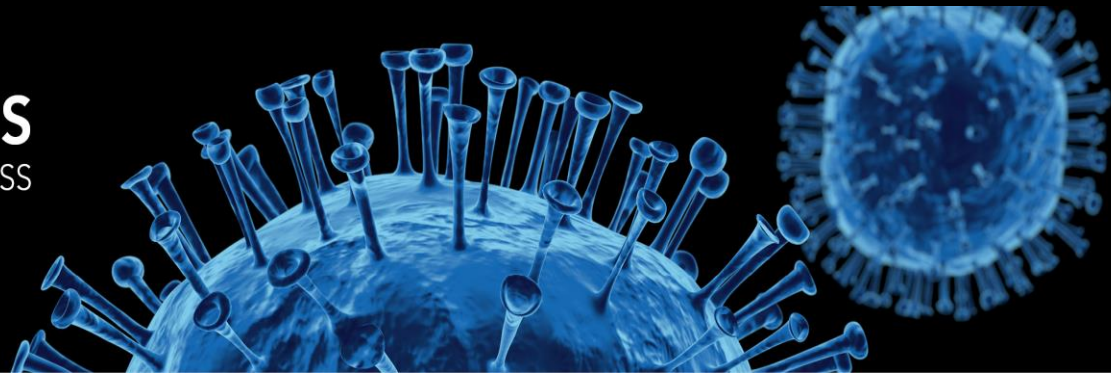


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- [COVID-19: Bringing Radical Changes in Workforce Mental Health Needs](#) (May 13 @ 2pm ET)
- [The Impact of COVID-19 on US Workers and Households](#) (May 19 @ 3pm ET)
- [Human Capital Professionals' Responses to COVID-19 Part II](#) (May 20 @ 11am ET)

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Want to hear more about this topic and how the spread of COVID-19 will impact business and the global economy?

The Conference Board has gathered insights and learnings from our thought leaders and member network which we hope will be helpful as you formulate, implement and manage your own crisis response.

Explore all of these resources on our website at <https://www.conference-board.org/COVID-19>.





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Thanks for being with us; be sure to tell your colleagues about next month's webcast

Do you have suggestions for future topics? Please feel free to contact Erik Lundh at: Erik.Lundh@conference-board.org

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