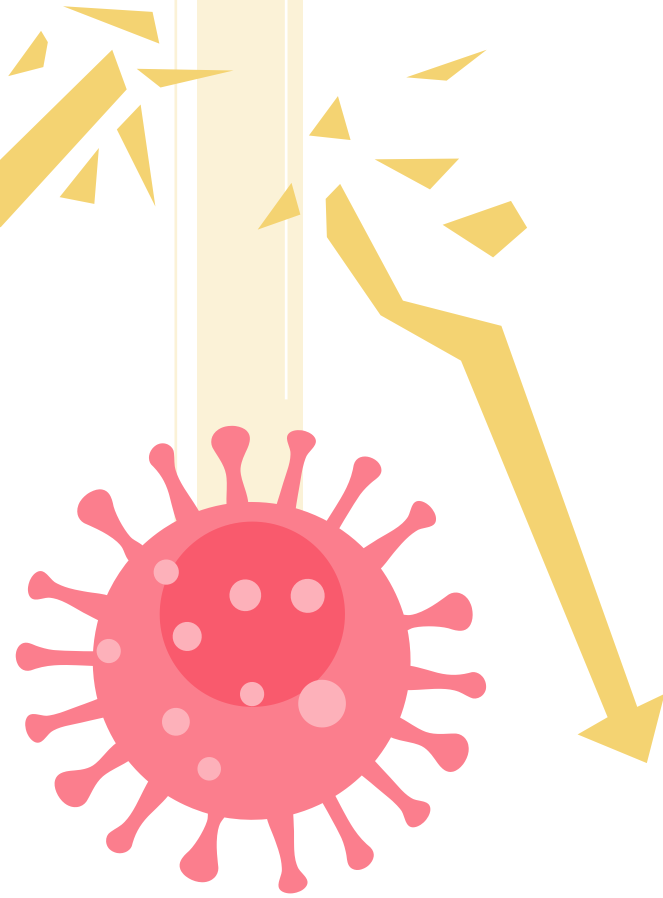
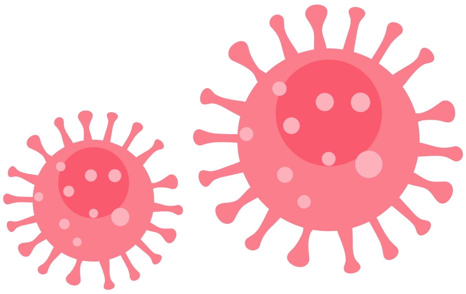
A tale of two crises: The COVID-19 pandemic vs the Great Recession and their impacts on labour markets

By Mirko Draca, Emma Duchini, Roland Rathelot and Giulia Vattuone



The COVID-19 pandemic has upended the path of the business cycle creating a major unexpected negative economic shock. The new COVID-19 recession is likely to be very different to those that have gone before. As we attempt to devise the best policy response to the economic consequences of the pandemic, it's useful to compare current dynamics to the early phases of the most recent severe downturn — the Great Recession.

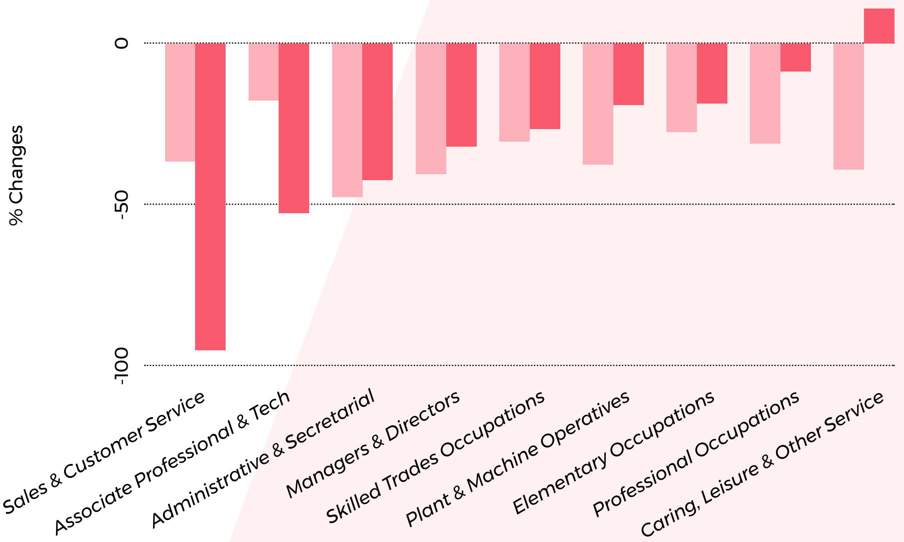


After the financial crisis that started in 2007 in the US, the UK experienced a decrease in its Gross Domestic Product (GDP) throughout 2008. Following a decline in labour demand and mass layoffs, the employment rate decreased sharply by 3 percentage points (from 73% to 70%) and remained at that level until 2012, long after GDP started to grow again. The unemployment rate jumped from 5% to 8% and only started to fall in 2013. The impact of the Great Recession was uneven across occupations and industries, affecting workers in manufacturing and 'routine' manual jobs more than others. This continued the trends of the previous major recessions in the early 1980s and 1990s.

The COVID-related economic crisis has a very different source. Starting as a response to a health pandemic, its impact on the labour market has unfolded both as a supply- and a demand-side shock. Workers are hesitant to go to work (or go out at all), affecting production in workplaces that rely on workers being present. At the same time, household consumption has gone down, and some sectors (live entertainment, hospitality, schools) have been mandated to stop their activities completely at various points.

The sources of the two crises are different, and by their nature economic downturns have uneven impacts on activity, affecting some parts of the economy disproportionately more than others. This pattern of impacts is likely to have major implications for the long-term structure of the economy.

Figure 1: Changes in the labour market by occupation Great Recession vs COVID Pandemic



Vacancy stock change 2009 (q2) compared to 2008 (q2) after the Great Recession (ONS data)

Vacancy stock change 2020 (q2) compared to 2019 (q2) after the COVID-19 pandemic (BGT data)

Source: BGT 2019-2020, ONS Vacancy Survey and LPS 2008-2009. Note: Each light (dark) red bar represents the percentage change of the stock of vacancies in the second quarter of 2009 (2020) relative to the second quarter of 2008 (2019) in a given Standard Occupation Classification (SOC) 2010 occupation. The occupational breakdown of vacancies for the period 2008-9 is computed using the LFS shares of newly employed workers in each occupation. A newly employed worker is defined as having less than three months job tenure

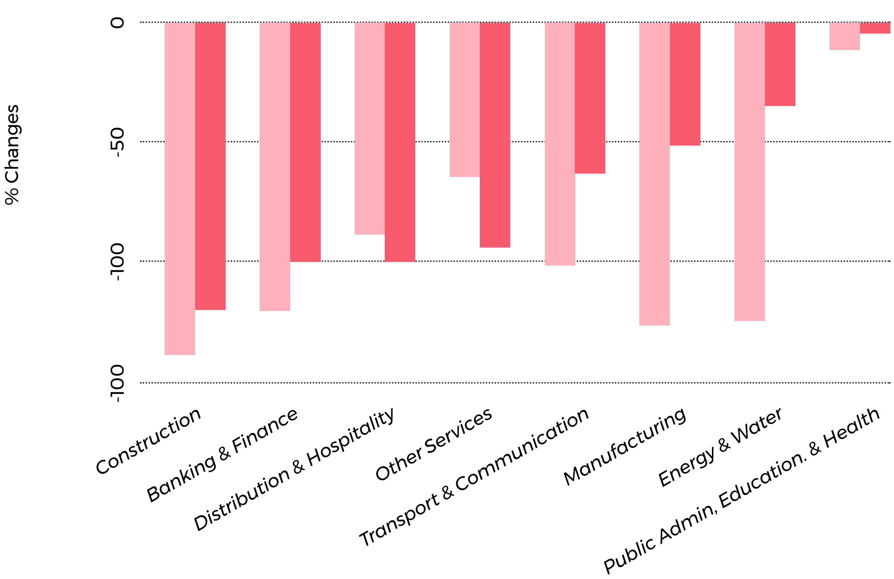
Comparing impacts on sectors and occupations.

To investigate how much employment in different sectors and occupations has been impacted by the two crises, we must use different data sources. For the Great Recession, we combine the ONS Vacancy Survey with the Labour Force Survey (LFS) to track the quarterly evolution of labour demand in each sector and occupation.[1]

For the current crisis, we use data on the number of job vacancies posted across many different online job boards gathered by the company Burning Glass Technologies (BGT). The main advantage of using BGT for the current period is that it offers a granular time coverage of labour demand dynamics and provides both an industry and occupational breakdown of vacancies. We look at the evolution of the number of vacancies between the second quarter of 2008 and the second quarter of 2009, and we compare it to the evolution of the number of job ads between the second quarter of 2019 and the second quarter of 2020.

Figure 1 shows that relative to the Great Recession, the shock due to COVID-19 has had a different pattern of impacts across occupations. Administrative and secretarial jobs, managers and directors, skilled trades, plant and machine operators, and elementary occupations suffered similarly from both shocks. However, sales and customer services, and associate professionals and technicians — in short, jobs requiring mostly face-to-face interactions — were much more affected by the pandemic than by the Great Recession. Conversely, professional and caring and leisure jobs (probably driven by healthcare occupations) were much less affected by the COVID crisis than the 2008 recession.

Figure 2: Changes in the labour market by industry
Great Recession vs COVID Pandemic



Vacancy stock change 2009 (q2) compared to 2008 (q2) after the Great Recession (ONS data)
Vacancy stock change 2020 (q2) compared to 2019 (q2) after the COVID-19 pandemic (BGT data)

Source: BGT 2019-2020, ONS Vacancy Survey and LPS 2008-2009. Note: Each light (dark) red bar represents change of the stock of vacancies in the second quarter of 2008 (2019) in a given sector (Standard Industrial Classification 2007).

> "The record of economic policy in dealing with previous mass displacements of manufacturing workers in earlier recessions has been a very mixed one. Hence, a focus on reallocation needs to be a priority for analysis as we enter 2021."

Figure 2 shows the results of a similar exercise at the sector level. There are stark differences across the two crises. The main one is that while the manufacturing and transport and communication sectors were the main victims of the Great Recession, they have been relatively spared by the pandemic.[2] The same goes, to some extent, for the public administration, education and health sectors. Conversely, distribution and hospitality as well as other service activities (e.g. hairdressing and physical well-being activities) have been hit harder by the COVID crisis than the Great Recession. Banking and finance and construction have been impacted by both crises.

Towards a recovery?

The labour market took four years to recover to pre-crisis levels after the Great Recession. The external public-health origins of the COVID crisis gave hope to policymakers and pundits that its impact on economic activity would be short-lived. However, the persistence of the pandemic has led the government to keep in place regulatory restrictions that aim to avoid unnecessary physical interactions. Consequently, some of the most impacted sectors have not been able to operate normally and fully restore their activity. Moreover, the domestic and international demand for services and goods produced in the UK have not much increased, slowing down the recovery. The combination of these two forces now has the potential to turn the temporary halt in activity mandated by lockdown policies into a more durable economic crisis.

Figure 3 shows how the number of vacancies has evolved across occupations since February 2020. Note here that we are comparing year-on-year levels in vacancies, for example the level of vacancies in an occupation during February 2020 versus levels in the same occupation in February 2019.

The picture is a gloomy one overall. There has been no spectacular comeback in vacancies for any occupation. Patterns are similar across occupations: vacancy rates started falling in mid-March and reached their nadir in May.

Since then the number of new job ads has been increasing, but at a very slow rate. The evolution has been mostly parallel: the occupations that had been most impacted at the start of the crisis are still the ones that employers are the least eager to hire in late July. Still, some occupations are recovering better than others. Vacancies for plant and machine operative occupations have gone from -60% in late April to -40% in late July (compared to the predicted number of vacancies based on the 2019 data). Associate professionals and technicians have gone from -60% to -50%. Conversely, caring, leisure and other services, which did not fall as dramatically in April (-20%), do not seem to have recovered by the end of July.

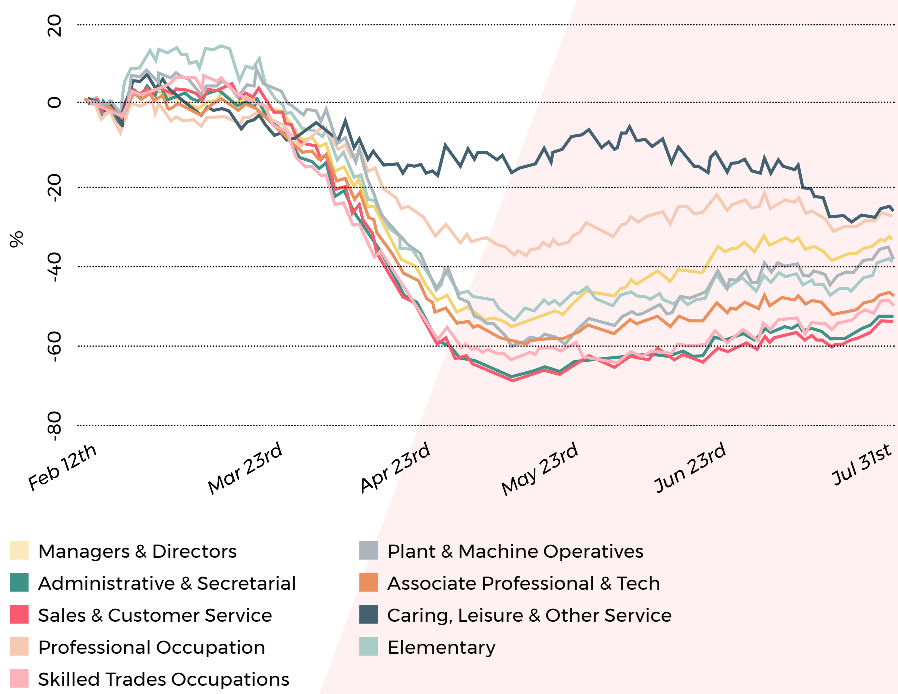
In the long run... we're reallocated.
The Great Recession (and previous crises) has taught that economies recover, in the sense that production, employment and unemployment rates come back to pre-crisis levels. However, this recovery can take years and is not necessarily neutral with respect to sectors and occupations. Overall, routine occupations and some manufacturing subsectors have never caught up after the Great Recession, but these jobs have been replaced by others.

The post-COVID policy dilemma is how to smooth the shock while not slowing down too much the potential reallocations that might need to happen. The Job Retention Scheme (JRS — aka 'furlough') which began on 20 April and has recently been extended to 2021, is designed to aid the continuity of economic activity after lockdown in March. However, continuity is not always possible and sometimes reallocation is necessary on the road to economic recovery. Simply put, workers who have lost their old jobs will need to find new ones. The challenge is that structural changes in the economy post-COVID will mean that there will need to be many cross-sectoral movements of workers.

For example, it is likely that there will be a long-term displacement of face-to-face retail jobs in favour of online commerce. The persistence of high levels of remote working will also have an impact on city-based commercial services such as dry cleaners and sandwich shops. Given the novelty of these phenomena compared to the Great Recession, the great unknown is how much of this job displacement there will be and how difficult it will be for workers to reallocate.

For policy makers, the challenge is to find the thin line between supporting struggling activities to prevent the loss of jobs and human capital, and accommodating the necessary mutations of the economy to encourage the reallocation of workers to sectors and occupations that will need them. The record of economic policy in dealing with previous mass displacements of manufacturing workers in earlier recessions has been a very mixed one. Hence, a focus on reallocation needs to be a priority for analysis as we enter 2021.

Figure 3: 2020 vs 2019 % change in trend by job occupation



Source: BGT 2019-2020. Note: The figure shows the percentage changes between the 2020 and 2019 trends in job postings across occupations. Each yearly trend for a given occupation is calculated using 42-day moving averages of job vacancies, normalised to the 12/02 of the corresponding year.

We thank the ESRC for funding our project 'Rescuing a "Sick" Labour Market: Using Online Vacancy Data to Track COVID-19's Economic Impact'. See the CAGE website for future briefings and working papers on the post-COVID labour market.

About the authors

Mirko Draca is Professor of Economics at the University of Warwick and CAGE Director.
Emma Duchini is Research Fellow at the University of Warwick and a CAGE Associate.
Roland Rathelot is Associate Professor of Economics at the University of Warwick and a CAGE Theme Leader.
Giulia Vattuone is a PhD Student at the University of Warwick.

Footnotes

1. As the ONS Vacancy Survey provides only the industrial breakdown of vacancies, we computed the occupational breakdown by multiplying total vacancies for the LFS shares of newly employed workers in each occupation.

2. Note that these are aggregate categories of industries. Therefore, these figures could mask heterogeneous effects across subsectors (e.g. passenger vs freight transport subsectors which are both included under transport and communication).