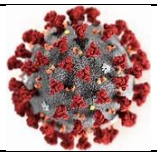
National COVID-19 Science Task Force (NCS-TF)



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Comment on planned updates :	

Title: Disruption of the Swiss labor market: 2020 Corona crisis and 2008 Financial crisis compared

Summary of request/problem

The Corona crisis has led to a substantial decline in economic activity and disruptions in the labor market. This policy brief introduces the concept of a labor market "epidemic" curve to measure the amount of "excess" job search in the labor market, where excess refers to job search that occurs above normal conditions. The "curve" cumulates all the excess job seeking that occurs after the start of an economic crisis.

Executive summary

The Corona crisis has led to a sharp increase in unemployment, and unemployment may soon reach the peak of the Financial crisis in 2008; the Corona crisis has led to an unprecedented increase in short-time work. The crisis immediately slowed down the rate at which people find jobs, which did not occur during the financial crisis, and increased the rate at which people lose jobs much more strongly than in the financial crisis.

The economic impact of the Corona crisis is very unequal across sectors and regions. Unemployment rates and claims for unemployment benefits have increased dramatically in parts of Switzerland that have important tourism sectors, while in Swiss manufacturing regions applications for short-time work (Kurzarbeit) dominated. Regions in central Switzerland are less likely to use either of the two instruments, unemployment benefits and short-time work.

The central government took several measures to support unemployed job seekers, e.g. lowered job search requirements to receive unemployment benefits, and prolonged benefit duration. The government also eased access to compensation for short-time work, so firms did not have to lay off workers. Both types of measures are crucial, and have reduced the impact of the crisis on firms, workers, and the unemployed considerably. As the crisis draws longer, other means of support, such as support for retraining, could foster reallocation between sectors, and may become more important in the future. Regional governments took further measures, e.g. a more substantive lockdowns of business (Ticino), stronger controls on construction sites (Romandie), or measures to encourage renters and landlords to split the costs of the lockdown.

Main text

This policy brief provides an overview of job search on the Swiss labor market (also see Leist and Weber, 2020). The Swiss government ordered firms in several industries to close from

March 16 onwards. About 40% of all firms had to close, and an additional 20% of firms state that there were strong indirect effects of the lockdown on their core business (Brülhart et al. 2020). Many of these firms resorted to public compensation for short-time work (Kurzarbeit), access to which had been significantly eased, but some firms laid off workers. In the present analysis we focus on job seekers, e.g. those who register at the public employment service. These people are all looking for a job, mostly because they have lost the current job, or have been notified that they will lose their job in which case they need to register to be eligible for benefits.

A. State of the Labor Market

The labor market changes rapidly, so real-time data on its state are very valuable. The Konjunkturforschungsstelle (KOF) at ETH Zurich has started to publish the total number job seekers who register on Job-Room (https://training.job-room.ch/home/job-seeker), the online job search platform for firms and workers in Switzerland maintained by the Swiss government's regional employment centers (KOF 2020).

Throughout January, February, and even the first half of March 2020, every day around 150'000 individuals had been looking for a job (Figure 1). From March 16, when the lockdown measures of the government came into force, the number of job seekers increased, while in usual times this number decreases because of the seasonality of the construction sector in spring (see appendix). The number of job seekers increased by about 30'000 throughout the beginning of June. After May 11, with the first sizeable easing of the lockdown measures, the increase in the number of job seekers leveled off.

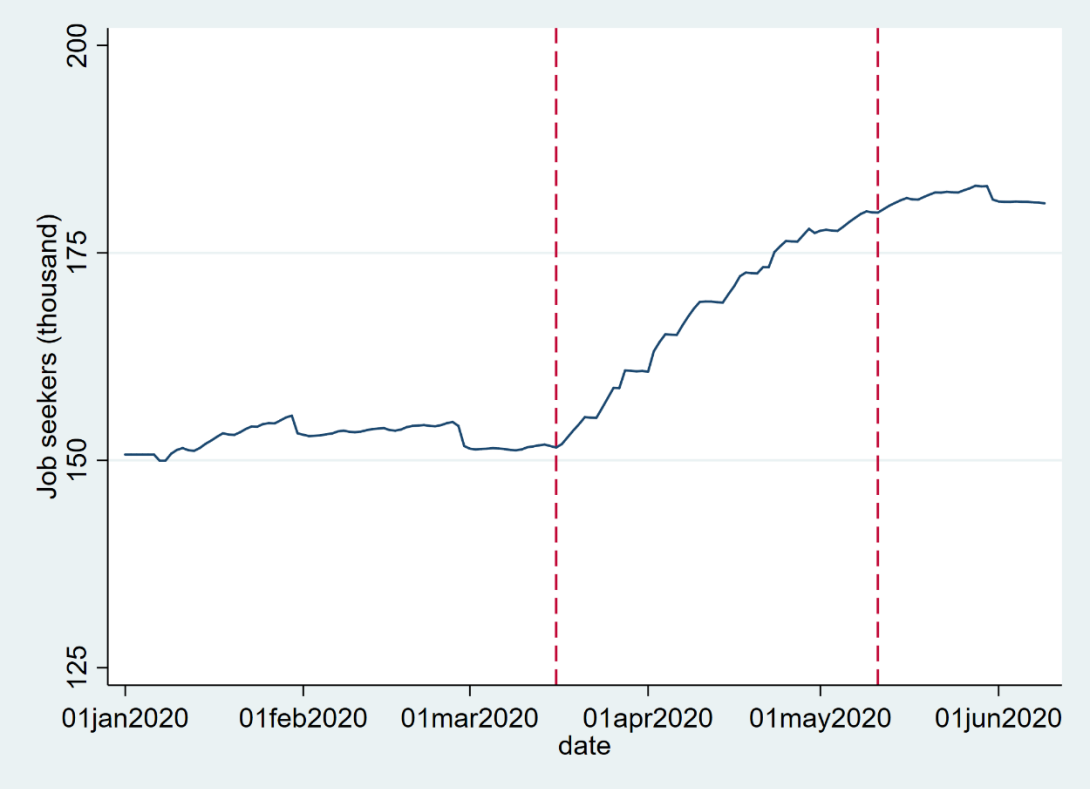

Figure 1: Total Number of job seekers registered on Job-Room (KOF dashboard). The first dashed line indicates the start of the lockdown (on March 16), the second line is the big opening step of the economy on May 11.

Increases in the number of job seekers come about through two channels: more people entering unemployment, and fewer leaving unemployment. The Swiss unemployment register provides information on job seekers and the unemployed. Job seekers are those who register at the public employment service (UI) because they intend to access its information on jobs. The unemployed are a sub-set of job seekers who do not have a job, and can immediately accept a new job. Many job-seekers register at the UI office, even before being laid off, but some do not because they expect no benefit from registering. The unemployed who have exhausted their benefits can remain registered at the placement office and continue to be counted as job seekers. (It would be interesting to look at other indicators of decreased utilization of labor, e.g. indicators that combine unemployment and short-time work).

Figure 2 shows the "excess" number of job-seekers registering for job search (inflows), and the "excess" number of job-seekers leaving job search (outflows). Excess refers to the difference in the number of job seekers during the crisis compared to the average number of job seekers in the same month during the three years before the crisis. The analysis is based on monthly data. We contrast the period of the Corona crisis, before/after end of February 2020, with the financial crisis, before/after August 2008.

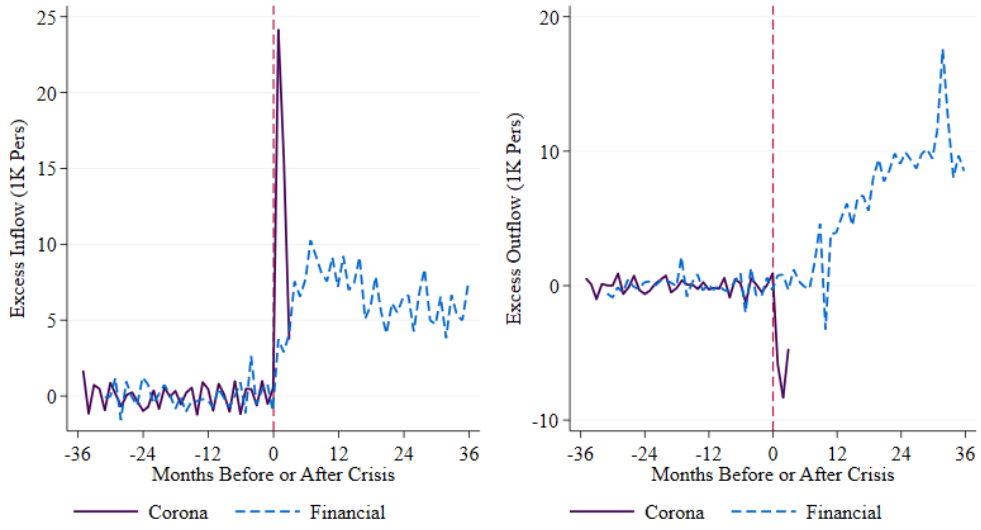

Fig 2: Excess Inflow and Outflow into Job Search (Corona crisis vs financial crisis).

The Corona recession triggered a sharp increase in inflows, with an excess inflow of almost 25'000 in March 2020 (Figure 2). The excess inflow was again substantial, about 16'000, in April 2020, but it decreased to 4'000 in May 2020. There was also a sharp decrease in outflows from job seeking, by about 6'000 in March, 8'000 in April, and around 5'000 in May 2020. This shows that fewer job-seekers are finding jobs, and firms are hiring much less. In the financial crisis, the increase was more gradual, peaking at 10'000 after 6 months, and the job seekers were always leaving unemployment at the same or higher rate than before the crisis.

What are the cumulative effects of these increases in inflows and decreases in outflows? Inspired by the "excess deaths" curve in epidemiology, we cumulated excess net inflow (= excess inflow – excess outflow). This labor market curve provides us with information on whether, on the net, more people are now looking for a job than would have absent the crisis. The curve increases in situations of positive excess net inflow, when more people register to look for jobs than job seekers start new jobs, and it decreases in situations of negative excess net inflows. The curve reaches zero when all job seekers who lost their job because of the crisis have been re-absorbed by the expanding economy.

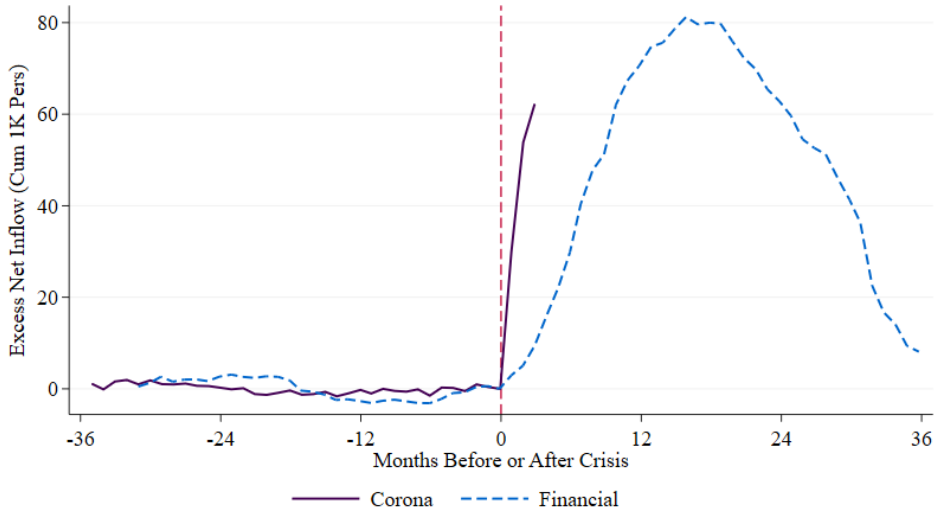

Figure 3: Job Search "Curve": Cumulated excess net inflows into job seeking (net inflow - net outflow)

During the Corona crisis, about 62'000 more individuals are looking for jobs, either because they started looking for a job (about 40'000) or they did not leave job seeking (about 22'000), in only three months (Figure 3). This is less than cited in the press, as we consider job seekers entering in excess of the usual rate entry into job seeking. During the Financial crisis, it took about 8 months to accumulate 55'000 additional job seekers, so the impact is much faster and more coordinated. In the financial crisis, the maximum number of excess job seekers peaked at 80'000, some 12 to 13 months into the crisis. After that, the Swiss economy's net job creation turned positive. After about three years, the same number of job seekers had been re-absorbed by the expanding Swiss economy, or become inactive, that initially lost their job due to the crisis.

The decreased rate of leaving unemployment means that people now look for jobs longer, which implies the risk that they might be discouraged from looking for jobs. Indeed, job seekers have been using 10% less time to search and apply for jobs in late April 2020 than before the crisis. The fear of infection, and increased child care duties for women, but not for men, also explain this reduction (Lalive et al. 2020).

Firms acquire new workers by opening a vacancy and looking for job seekers. Figure 4 shows the total number of published vacancies in Switzerland in the period before, during, and after the lockdown. Before March 16, a total of around 210'000 positions were open at any given moment. This number remained stable from mid-February to mid-March. From March

16 onwards, the number of vacancies gradually declines, and reached a level of about 170'000 from mid-April to the end of May. The decline in the number of vacancies is due to a dramatic reduction in the number of new job advertisements posted between March 18 and April 14. The number of positions that are filled decreased as well in that period but at a slower rate. From mid-April to mid-May both the inflow and the outflow of vacancies remained fairly stable (see Appendix).

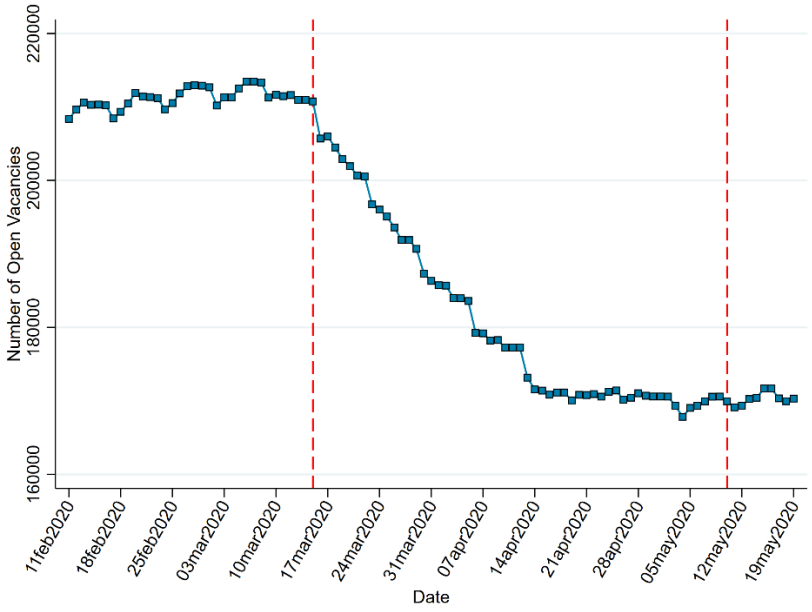

Figure 4: Number of vacancies. Numbers are smoothed using a weekly moving average. Source: Data on online job postings were provided by x28 AG, and are from various sources (company webpages, headhunters and temp agencies websites, etc.)

B. Policy

Many Swiss firms reacted to the Corona crisis applying for short-term work for some of their employees. These employees remain employed at the firm, but temporarily work a reduced number of hours. The public unemployment insurance pays 80% of the salaries for the reduced hours. Applications for short-term work cover more than a third of the Swiss workforce, a share that has never been as high before. Firms apply for short-time work in case they consider the shock to their business to be temporary. In contrast, firms who believe that their activity has been permanently endangered are likely to reduce the size of their workforce permanently. Comparing applications for short-time work to changes in the unemployment rate is a way of gauging the nature of the shock.

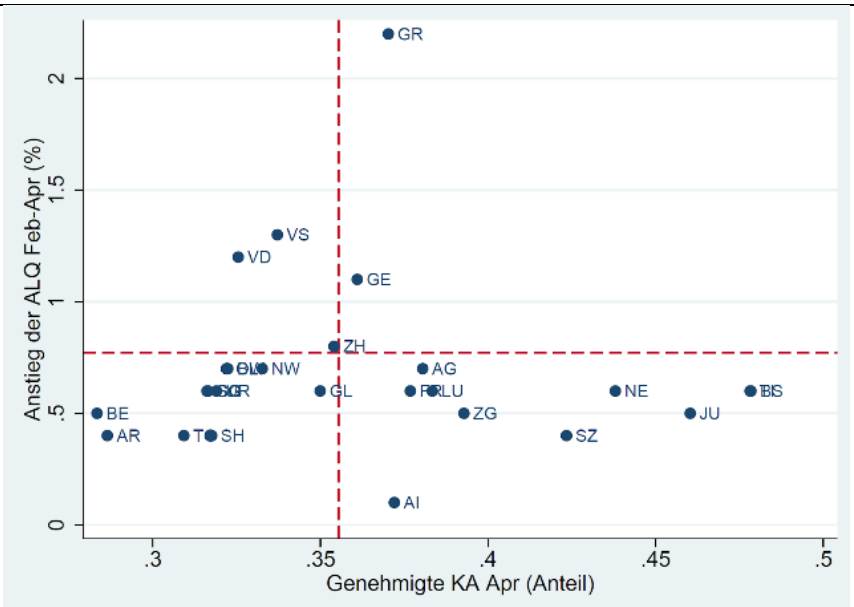

Figure 5: Regional Impacts: Change in the unemployment rate between February and April 2020 (in percentage points; y-axis) vs Share workers covered by short-time work benefit applications (x-axis) in April 2020. Vertical lines indicate employment weighted averages of change in unemployment and short-time work.

The Corona crisis affects regions in Switzerland differently (Figure 5). Tourism regions contribute strongly to an increase in unemployment (GR, VS, VD and GE), reflecting the strong and lasting effect of the crisis but perhaps also seasonality. Regions with strong concentration in manufacturing are more likely to apply for short-time work (BS, NE, JU, AI, AG, LU). Cantons in the center of Switzerland neither apply much for short-time work, nor do they have strong increases in unemployment. Regions appear to be affected differently, due to regional concentration of economic activities.

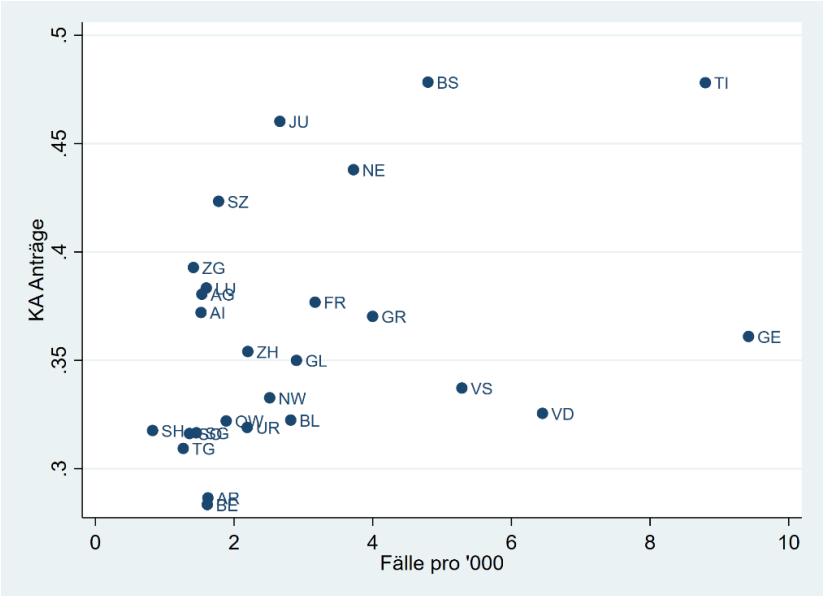

Figure 6: Health of the economy vs Incidence of Covid-19 (“KA Anträge”: Applications for short-time work; “Fälle pro ‘000”: Cumulated incidence Covid-19 by the end of April).

The regional incidence of Covid-19 correlates with the share of all jobs covered by short-time work applications (Figure 6, rho=0.16, p-value <.05). Regions such as Geneva and Ticino have a large share of applications, while regions such as Schaffhausen or Thurgau have low incidence of Covid-19 and low share of applications. Regions also differ by industry, but correcting for this re-inforces the correlation. The correlation also remains within regions. The association between Covid-19 infections and labor market distress at the cantonal level has several possible causes. Border cantons such as Ticino, Geneva and Basel were disproportionally affected both by the virus and by the subsequent closure of national borders. The higher risk of infections in some cantons may also have led residents to reduce their economic activity more strongly.

What are the implications of this analysis? The Corona shock is a coordinated closure of the economy on March 16, while other recessions are more gradual, as economic growth becomes negative. Job loss has since reduced, but exits from unemployment are still lower than in the time before the crisis. Unemployment may reach levels last seen in the financial crisis or even higher. In contrast, since the start of the recession is so coordinated with the measures that fight the virus, several sectors will have the workforce available to restart once the lockdown measures are lifted, especially if the number of new infections has been reduced to a minimum. But, productivity may remain below pre-crisis levels for some time due to the continued social distancing requirements.

What should be done? In the short-run, existing measure that support jobs that had already existed before the crisis, and protect those who lose jobs are adequate. Possibly prolonging short-time work for those sectors that are bound to experience long-lasting but not permanent declines in demand might be efficient (tourism, or export-oriented sectors). In the medium-run, the economy is likely to evolve since many firms have experimented with new forms of work, e.g. home office or digitalization. Change is likely to occur at a rapid pace, through the digitalization of work processes, or increased reliance on home-office to keep businesses working during future lockdowns. The government may have a role in this, by providing training, and coordinating these efforts, but private sector initiatives can flourish as well (Enders at al. 2020).

Unresolved issues

References

Brülhart, Marius, Klaeui, Jeremias, Lalive, Rafael, Lehmann, Tobias and Michael Siegenthaler (2020) Covid Survey. Die Schweizer Selbständigerwerbenden im Covid19-Lockdown, Mimeo, E4S, Lausanne.

Enders, Albrecht, Haggström, Lars, and Rafael Lalive (2020), How Reskilling Can Soften the Economic Blow of Covid-19, Harvard Business Review online blog, https://hbr.org/2020/06/how-reskilling-can-soften-the-economic-blow-of-covid-19 (accessed June 10, 2020).

KOF, 2020, Data on job seekers from KOF online dashboard (https://kofdata.netlify.app)., accessed June 8, 2020. (The number of job seekers is roughly between the number of unemployed individuals, and the number of job seekers both published by SECO.)

Leist, Stefan Weber, Bernhard (2020). Exkurs: Auswirkungen der Covid-19-Krise auf den Arbeitsmarkt, Konjunkturtendenzen SECO.

Lalive, Rafael, Lehmann, Tobias and Michael Siegenthaler (2020) Covid Survey. Die Schweizer Stellensuchenden im Covid19-Lockdown, Mimeo, E4S, Lausanne.

x28 AG (2020), Data on online job postings. x28 provides information on vacancies from virtually all sources that are accessible online, for Switzerland. We are grateful to x28 AG for providing the data to the Swiss Task-Force on Covid-19.

Appendices

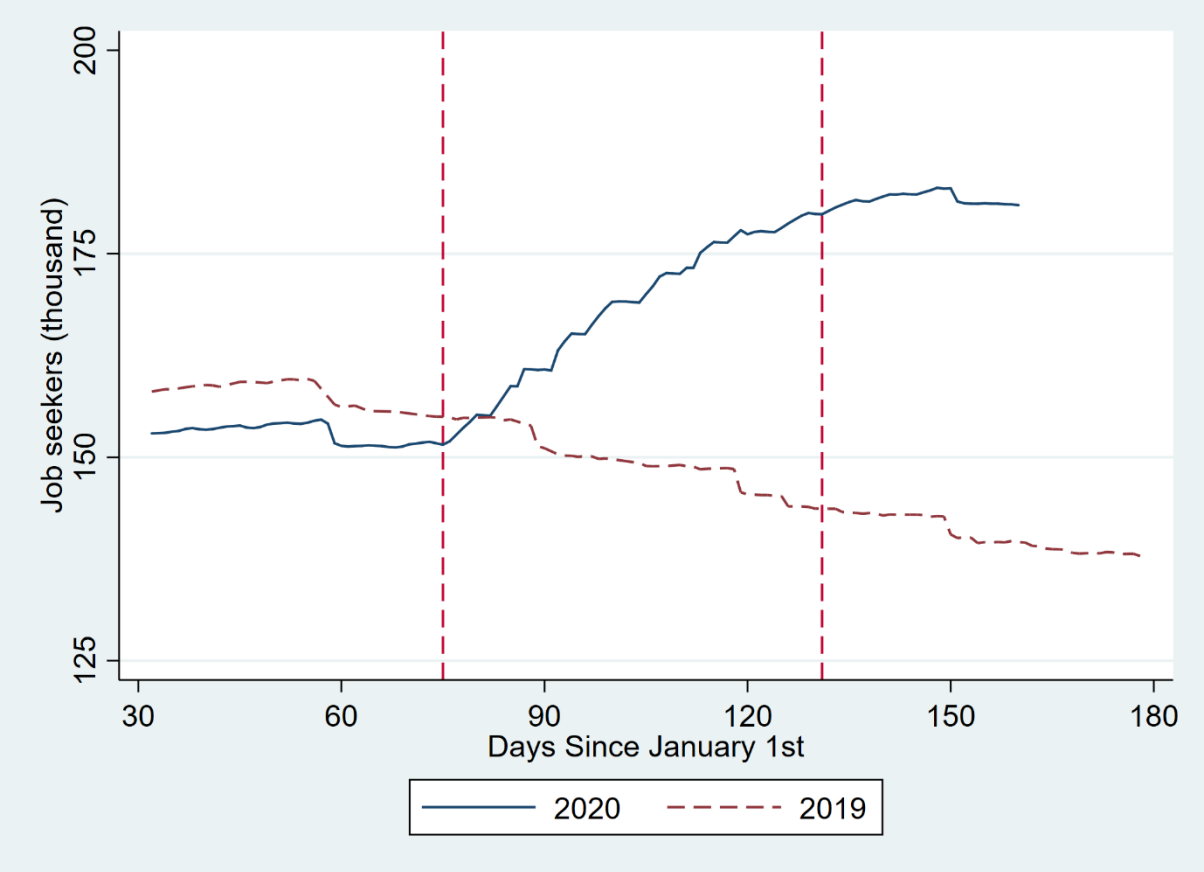

Figure A1: Total Number of Job Seekers registered on Job-Room (KOF, 2020 and 2019). The first vertical dashed line indicates the start of the lockdown (on March 16), the second line is the big opening step of the economy on May 11.

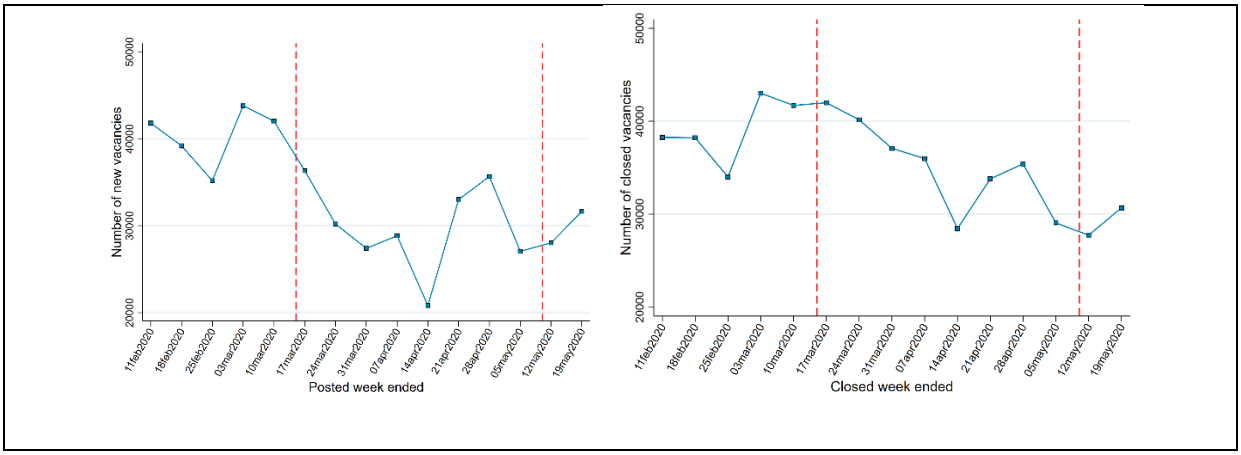

Figure A2: New vacancies (left), and filled vacancies (right) in Switzerland. The first dashed line indicates the start of the lockdown (on March 16), the second line is the big opening step of the economy on May 11.

Source: x28 AG, online vacancy postings.