COVID-19 puzzle? In most advanced economies, labor markets are tighter than they were before the pandemic ...

**Vacancies have risen sharply above pre-pandemic levels, most strikingly in English-speaking economies**

**Vacancy Levels**
(Index 2019Q3=100)

**Vacancy Levels Across Sectors**
(Index 2019Q3 = 100)

**Vacancy-to-unemployment ratios**
(Percentage points difference between 2019Q3 and 2021Q3)

...even though employment and hours worked have not yet returned to pre-COVID levels

*Employment rates remain below pre-pandemic levels (even more so pre-pandemic trends) in many economies, and so are average hours worked*

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**Employment rates**

(Deviation from 2019Q3, percentage points)

**Average hours worked**

(Index 2019Q3=100)

Key questions

• Why are jobs plentiful while workers are still comparatively scarce?

• What is the impact of increased labor market tightness on wages?

• Which policies could help ensure that tightness remains a blessing, not a curse?
Key findings

- Tight labor markets partly reflect reduced labor force participation among disadvantaged groups—low-skilled and older workers account for 2/3 and 1/3 of median employment gap vis-à-vis pre-COVID.

- Pandemic itself explains in good part why these workers have remained out of the labor market—e.g. health concerns among older workers.

- Changes in worker preferences have also contributed—e.g. low-skilled workers away from certain types of jobs.

- Sectoral and occupational mismatch played smaller role—it rose less, and less durably, than it did after GFC. Accounts for 10 percent of remaining employment gap in median country.

- Tightness has pushed up wage growth, especially for low-pay jobs—by at least 4 to 6 percentage points in US and UK since Spring 2020, vs 1.5 percentage points for overall annual wage growth.

- Policies to bring more workers back into the labor force would curb labor market pressures and inflationary risks, while making the recovery more inclusive.
Why Are Jobs Plentiful While Workers Are Still rather Scarce?
1. The pandemic itself

Low-skilled and older workers—both hard-hit by COVID—account for bulk of employment shortfalls, even though low-wage vacancies in which they are over-represented are now plentiful

Low-skilled and seniors: employment

(Deviation from pre-COVID-19 trend as % of total working-age population)

Vacancies: United Kingdom

(2019 average = 100)

2. COVID-19 may also have changed workers’ job preferences

*Workers with contact-intensive, physically strenuous, little flexible jobs have been disproportionately moving out despite plentiful opportunities. In the US, “excess quits” also point to changing preferences.*

**US: Top 5 industries with biggest rise in job quits**

(Percentage point change relative to 2019 average)

**US: Quits and labor market tightness**

3. Sectoral and occupational mismatch: rose early in the pandemic, small now

*Mismatch increased but then gradually receded in most advanced economies as labor market recovered*

### Contribution of Mismatch to Unemployment

(vis-à-vis 2019Q4 level, in percentage points)

![Graph showing contribution of mismatch to unemployment](image)

**Sources:** see Duval, Ji, Oikonomou, Pizzinelli, Shibata, Sozzi and Mendes Tavares (2022), “Labor Market Tightness in Advanced Economies,” IMF Staff Discussion Note 2022/001.
Labor Market Tightness and Wage Growth
Historically, labor market tightness has affected wage growth more in low-pay industries (and jobs) than in others.

In the US and the UK, the responsiveness of wage growth to tightness is over twice as high in low-pay industries.

United States: Historical relationship between tightness and wage inflation

United Kingdom: Historical relationship between tightness and wage inflation

This has also been the case during COVID-19, contributing to the pick-up in overall wage growth

_Tightness has fueled wage growth in low-pay industries/jobs in the US and the UK, although the impact on overall wage pressures has been dampened by the rather small share of such jobs in firms’ total labor costs._

United States: Estimated direct contribution of tightness to increase in wage inflation during Covid-19

(over 2020Q2-2021Q4, percentage points)

Policy implications

• Need to make sure tightness remains a blessing, not a curse

• Key policy priority: bring more workers back into the labor force and address shortages. Would curb labor market pressures and inflationary risks, while making the recovery more inclusive.

• Keeping control of the pandemic remains paramount: older workers, women with young children (US)

• Some active labor market policies also helpful: targeted short-term training programs focused on bringing back detached workers and addressing specific job shortages

• Labor laws and regulations: need to make telework more attractive to both workers and employers

• Immigration: its decline amplified (low-wage) labor shortages in some cases (CAN, UK)

• More distant future: mainstreaming job retention schemes could help keep disadvantaged workers attached to the labor force after major temporary shocks.
IMF Staff Discussion Note: Labor Market Tightness in Advanced Economies

THANK YOU!
Extra slides
Vacancies have risen more in countries where fiscal support to households has been larger

*The sharp rise in tightness has correlated with the amount of fiscal support given to households*

Vacancy-to-unemployment and fiscal support to households

*(Fiscal spending as percent of 2020 GDP)*

Online job search data also point to growing interest in teleworkable jobs among job searchers

Aggregate job search intensity

(Google search, index=100 in 2019 Average)

Teleworkable job search intensity

(Google search, index=100 in 2019 Average)

New hires have enjoyed stronger wage growth than incumbent workers lately

Nominal wages for new hires vs incumbent workers: United States
(index=100 in 2015Q1)

Nominal wages for new hires vs incumbent workers: United Kingdom
(index=100 in 2015Q1)

Vacancies have risen across the board, but particularly so for some low-wage occupations.
Some of the industries where quits have risen the most have higher shares of contact-intensive, physically strenuous and/or little flexible jobs.

**Top Five Industries with Biggest Rise in Job Quits during the Pandemic**

(Percentage point change relative to 2019 average)

**United States**

**United Kingdom**