As of October, the U.S. economy had regained about 12 million jobs lost to COVID during March and April. The problem is the more than 10 million people who are still out of work. The number is even larger when we add the self-employed to the mix. Worse yet, prospects for another round of layoffs are rising now that COVID cases have once again surged. Plummets in temperatures is another hurdle because it is forcing outdoor dining to close across much of the country. This is despite a run on outdoor heaters - they are out of stock across much of the country - and an attempt to keep diners eating outside for longer.

Many confuse draconian lockdowns with the behavioral pullback that occurs in response to the threat of infection. We lost 1.4 million jobs in March, the largest monthly decline on record, before a single state actually went into lockdown. Consumers and businesses alike curbed travel, in-person meetings, conference attendance, eating out and going to doctor and dentist appointments. Jobs bounced back after cases receded only to slow again once cases mounted in the Sunbelt over the summer. Many states that experienced rapid recoveries have now hit a wall because of the economic losses due to a resurgence in COVID.

Sadly, I am not optimistic that we will come to a consensus on masking in time to avert the jump in cases and hospitalizations. Some states are already invoking curfews and restrictions on indoor dining and bars because of their outsize role in spreading contagion from an airborne virus. This will force more small businesses to close.

An aid package is desperately needed to offset the trauma created by COVID. The ranks of those who have run out of money for food and shelter are swelling, while risks of additional layoffs are mounting. A deal on more aid by Congress does not seem likely by year-end.
Senate Majority Leader Mitch McConnell signalled he may be willing to cut a deal. The gap between his offer and what Treasury Secretary Steve Mnuchin and House Speaker Nancy Pelosi have been negotiating is still substantial. Add in the divisive politics of a contested presidential election and I have given up holding my breath for a deal before the next president is sworn into office. Even then, it will likely be smaller than what is needed.

This inaugural edition of Economic Depths takes a closer look at the labor market and the wounds that this pandemic could inflict over the longer term. This report, divided into four parts, takes a deep dive into what specifically that means. The first part provides a check on the labor market given the hole punched by COVID. The second examines racial, gender and generational differences exposed and exacerbated by the pandemic. The third looks down the road: at the potential loss in educational attainment. The fourth highlights the impact COVID could have on the health of workers, even after recovery. Mortality is only the worst of health outcomes.

Why do we care? Because COVID has proven more than a transitory shock for the global and U.S. economies. The wounds it has inflicted on the labor market have begun to fester and could deepen. The loss of earnings and educational attainment could set us back an entire generation. Inequality could worsen, which will exacerbate the political divisions we see and even undermine the functioning of democracy, thereby slowing the pace of the recovery when the pandemic abates.

The economy can only grow as fast as the labor force grows (it is slowing now that baby boomers are retiring) and as each worker becomes more productive. Inequality creates hurdles to workers achieving their potential, exacerbating inefficiencies and mismatches in the labor market; that undermines productivity growth. Less diversity, notably in leadership positions, undermines the quality of decision making and in the case of individual firms, the trajectory of profits and ultimately, the bottom line.

Section I
Not Just a Low-Wage Recession
Chart 1 shows the distribution of employment losses across sectors. Overall losses are worse today than during the trough of the Great Recession in 2008-09. The COVID recession is the first recession led by the service sector. Low-wage workers in the leisure and hospitality sector were hit hardest by the initial pullback in activity and are struggling to cover the basics.

Chart 2 shows job losses by wage level. High-wage jobs recovered more fully in the initial phase of the recovery but have since lost momentum. The bubble of working from home fueled confidence for many, contributing to the surge in spending on big-ticket goods - boats, appliances, luxury vehicles and even second homes - that high-wage households engaged in as lockdowns eased. There is something visceral about actually watching coworkers clear their desks and carry out boxes after layoffs that has been absent during this recession. The bubble created by work from home and the seeming invincibility of some workers to survive the crisis will burst.

Chart 4
Black Unemployment Nearly Double Whites
Per cent of Total Unemployment Losses, by Race, Feb to Oct `20, 56.

Chart 5
Job Losses by Race
Per cent Unemployment Rate by Race, 54

Chart 6
Women Leave in Droves
Per cent of Total Labor Force Losses by Gender Feb-Oct `20

Source: BofA Merrill, as of October 2020.
Working from home is sustainable only as long as demand for that work remains strong. That reality seems to be sinking in as consumer attitudes about the economy faltered in October as layoff announcements picked up and prospects for another aid package faded.

The unemployment rate has fallen from its peak but remains extremely high and is understating the actual pain in the labor market. Participation in the labor market has fallen precipitously since February. We have 3.8 million fewer workers in the labor force today than we did then. Some people are not counted because they are not actively looking for jobs that are scarce; workers who have not looked for work over the last month are not classified as “unemployed” in the official data. Others were forced to quit to care for children who are no longer in school but attempting to learn online.

The number of the long-term unemployed and workers who are facing permanent, as opposed to temporary, job losses is rising. (See Chart 3.) That is beginning to leave scars on the broader labor market.

Clusters of unemployment are particularly bad; they can undermine the social structure of entire communities. Research on the unemployed shows those who are unemployed for six months or longer lose more than a paycheck. They suffer mental and physical health problems and are forced to accept lower pay to replace the jobs they lost. This reduces lifetime earnings and puts a strain on families and children.

“The dominance of women among the unemployed is so large that some have called the COVID recession a ‘she-cession.’”

The result is showing up in the ranks of those who are unable to pay for the basics of food and shelter and the growing number of people who have sunk into poverty. Tent towns are already cropping up in some parts of the country. A recent study by researchers at Columbia University suggests that some 55 million people as of September, including 8 million since May, are now living below the poverty line in the U.S. A family of four slips into the official poverty data once its household earnings fall to $26,200 or less a year.

Conditions could get materially worse before they get better, given the current surge in cases. Layoff announcements mounted in September as airlines, amusement parks and theaters were forced to make permanent cuts; there is pressure to make even more cuts.

The employment situation is likely to worsen before it improves. Falling temperatures and limits on indoor dining are expected to result in another round of layoffs and small business failures before year-end. Exports will slow as lockdowns abroad increase and intensify. Holiday celebrations including travel and large gatherings will have to be dramatically scaled back or cancelled.

Section II

Downturn Exposes Racial Bias

Chart 4 shows the breakdown of employment losses by race. Black, Hispanic and Asian workers were hit significantly harder by COVID-related layoffs than whites. The unemployment rate for Black workers remains the highest and shows the least amount of improvement. (See Chart 5.) This is despite a drop in participation in the labor force, which means fewer are classified as unemployed.

“The dominance of women among the unemployed is so large that some have called the COVID recession a ‘she-cession.’”

The unemployment rate for Black people is higher at every level of educational attainment. White men were hired back at twice the pace of Black men once the economy reopened.

Discrimination in hiring is well documented. A study by Harvard in 2017 revealed that discrimination in hiring practices against Black applicants was not only prevalent but entrenched. It had not changed since 1989 despite shifts in the views of the broader population about the need for more equity and inclusion of Black workers in the labor market. White workers received 38% more callbacks than their Black counterparts and 24% more callbacks than their Hispanic counterparts. The discrepancy between callbacks between white and Hispanic workers narrowed a bit over that period but did not move between white and Black workers.

Significant biases emerged with job applications. In one study on the retail sector, which honed in on same-race preferences, whites were much more likely to apply for jobs where the manager was also white.

Another study revealed that networks, especially in high paying fields such as finance, law and medicine, acted as hiring hurdles for Black workers. White people tend to recruit and hire people who look like themselves, which excludes people of color.
Research by the Federal Reserve Bank of Minneapolis found the disparities between white and Black workers did not close fully during boom times. Both Black and Hispanic workers were forced to take more part-time work when they were looking for full-time compared with their white counterparts, even when the rate of unemployment plummeted.

This conclusion is backed up by work done at the Economic Policy Institute. Incomes picked up across races since the turn of the century by 2018. Black workers started losing ground again, rather than narrowing the income gap. The gap in annual incomes between Black and white workers actually widened, while the gap between Hispanic and white workers narrowed. Black women came in dead last.

The late-in-the cycle acceleration in wages for low-wage workers and improvements in opportunities for underrepresented groups are two reasons the Federal Reserve shifted its decision rule on interest rates. The Fed is now willing to wait for a modest overshoot on inflation and unemployment before raising rates. Fed officials reason that a prolonged period of ultra-low unemployment is worth the cost of a little inflation if it delivers for the most marginalized of workers.

Fed officials actually use the word “inclusive” when they talk about growth, something that was conspicuously absent from their rhetoric prior to 2019. Last year, the Fed engaged in a series of meetings to reassess its policy-setting framework. Those deliberations were heavily influenced by the progress that community leaders reported they saw when unemployment dropped below what the Fed had once considered full employment. Employers were finally willing to look at Black and Hispanic workers whom they had ignored until their traditional labor pools dried up.

That said, it will take a long time - too long - for unemployment to drop back to the lows hit during the peak of the last expansion to allow Black and low-wage workers to gain bargaining power with employers.

The cost of waiting is high. A recent study by Citigroup estimates that bias against Black people alone cost the economy $16 trillion in overall GDP since the turn of the century. That means the U.S. economy could have grown more than twice as fast during the last two decades if the pervasive racism and related hurdles erected to hold back Black people were not in place.

A “She-cession” - Losses by Gender

Women have been hit much harder than men by layoffs as a result of the pandemic. Much of this has been attributed to the fact that women tend to dominate low-wage jobs. Black and Hispanic women have suffered the worst losses, which reflects their roles in the service sector and the biases they face by race and gender. The dominance of women among the unemployed is so large that some have called the COVID recession a “she-cession.”

Chart 6 shows the distribution of those who have left the labor market. Women accounted for almost two thirds of the losses. The trend accelerated in September when children stayed home from school because their districts moved to hybrid or resumed in-person education for fear of contagion.

The drop in participation by women occurred across all races but has disproportionately affected women of color. Black and Hispanic women have led the decline in labor force participation since February when many service companies shut their doors and schools went online only. (See Chart 7.)
“High-wage jobs recovered more fully in the initial phase of the recovery”

Research by Rand showed that participation varied by both the age and number of children in a household. Women with children between the ages of two and six and with two children instead of one were more likely to quit. This has highlighted the need for more affordable daycare. Many informal networks of older parents and relatives that were historically tapped by low-wage households as a stopgap for childcare had to be abandoned due to the higher risks that COVID carries for people 60 and up.

This is despite the penalty women pay for having children during their professional careers. Much of the gender pay gap can be traced to childbearing, lack of affordable daycare and the disproportionate role women play in caring for children.

A recent study estimates that the blow to lifetime earnings for women could top $64 billion. That is despite the fact that women now attain a higher level of education than men on average and play an outsized role in household earnings. It is not a matter of whether COVID sets back women; it’s a matter of how far back COVID resets the gender gap. We could see a loss of 10 to 20 years.

The blow to both race and gender comes at a time when firms are finally realizing what researchers already know. Diversity improves the quality of decision making and boosts profits for firms that embrace it. Leaving women and minorities behind could cost them current as well as future earnings.

A Generation Gap

Millennials and Generation Z are the most racially diverse parts of the labor force. They are the hardest hit age group by the recession. Millennials and Gen Z are more likely than other age groups to work in services and in the gig economy, two sectors that have been heavily disrupted. The Bureau of Labor Statistics (BLS) shows that gig workers (also known as contingent workers) are more likely to be under the age of 25. In 2019, workers under the age of 34 occupied more than a third of all service jobs. As services were suspended and jobs cut, many fled to the gig sector, which pushed down wages.

The unemployment rate for 25 to 34-year-olds jumped to 14.5% at the height of lockdowns (highest except for teenagers); it sat at 8.7% in September, while older age groups fell between 6.2-6.7%.

Those aged 25 to 34 outnumber the unemployed in other age cohorts, with 3.3 million unemployed. (See Chart 8.)

Millennials make up the largest share of the working-age population; they overtook baby boomers in 2013 and Generation X in 2016. This cohort is more educated than its baby boomer parents, mostly because women are achieving higher levels of education; they have also faced the largest increases in costs for college and graduate school.

When the Great Recession ended, older millennials graduated into a very uncertain and slow-to-recover job market. Many took on jobs below their education and training levels. About a third did not view their jobs as careers. Research by the San Francisco Federal Reserve shows a stark gap between millennials’ post-college earnings compared to previous generations’. COVID dealt another blow to those life-time earnings. (See Chart 9.)

Research in other countries shows that underemployment takes a toll on the mental health and job satisfaction of young adults. It also impacts physical health. That is before any long-term effects from COVID-19 are taken into account. Younger adults account for many of the super-spreader events; they are far less likely to die than older patients but can sustain complications we are just beginning to learn about.

The scars of the Great Recession went beyond a blow to earnings. They included a larger overhang of college debt than other generations at the same age. This, coupled with a later start to their careers, delayed starting families and buying homes. The two are often intertwined, which has inhibited the ability to accumulate wealth. (See Chart 10.)

The costs are already compounding for young people. COVID triggered a surge in delayed payments for student loans, rent and mortgages. That could show up as a surge in defaults and a hit to credit ratings in 2021 after the moratorium on those payments expires at the end of December.

The blow to a credit rating tied to a student loan default is particularly hard to recover from; it acts as a permanent stain on a credit record. That affects the ability to access the broader credit market, including mortgages. As credit conditions remain tight in response to heightened uncertainty, consumers will need stronger, not weaker, credit scores in order to participate in the housing market or access other credit.

That could exacerbate the surge in young adults who are not in school but have been forced to move back in with their parents since the onset of the virus. By July, a Pew study showed a record breaking 52% of adult children were living with their parents. (See Chart 11.)
Section II

A Blow to Education

K-12: By the peak of lockdowns last spring, estimates by Education Week suggest that at least 55.1 million students in 124,000 public and private schools were affected by the shift to online education. Many schools that attempted to reopen this fall have been forced to close or will have to find ways to better socially distance children in the classroom. The viral load in children makes them much more effective “silent spreaders” than first believed.

This means many students could lose a year if not more of education in person. Special needs and low-income students, who already face major hurdles, are suffering more than the rest of the population. This is exacerbating well-documented income and racial inequalities in the education system.

Access to the internet, tablets and/or a computer, are exacerbating the problem. The problems occur among income strata and geography. Many rural areas lack the broadband necessary to learn online, while public hotspots in urban areas are shuttered. It is not uncommon for kids to sit near or park next to a hotspot to access the internet to take classes online.

Software for digital instruction and assessment revealed that only 60% of students from low-income households regularly logged onto web-based instruction last spring. When they did log in, it was of low quality. Poor internet connections, sharing of devices, lack of quiet spaces to study in and parents with lower levels of education compromised their learning experience. The figures were worse for Black and Hispanic students than whites. (See Chart 12.)

Losses in learning were not for lack of trying. The Household Pulse survey in May showed that parents from the lowest income households spent the same amount of time - about 13 hours per week - as high-income parents spent with their children online.

Disruptions to school and hurdles to online instruction have caused declines in enrollments. More than half of school administrators reported a drop in enrollments for preschool and elementary school in a recent survey; almost half reported similar declines in secondary school enrollment. The reasons span the spectrum from access to outside responsibilities. Participation in the labor market by Hispanic teens is close to the highs hit prior to the crisis as they have rushed to get jobs to help make ends meet as their parents were laid off.

Our experience with natural disasters suggests that a good portion of older student dropouts could become permanent. This is in addition to the loss in learning triggered by the disaster. More than a third of students in middle and high-school were a year behind their counterparts five years after Katrina.

A study done by McKinsey estimates that students enduring the crisis could lose more than $100 billion in their cumulative earnings over their lifetimes. About 90% of those losses are due to setbacks in learning; about 10% are due to permanent dropouts. The losses vary dramatically by household incomes and race. Students from low-income households suffer much more than students from high-income households. Black and Hispanic students suffer the largest losses.

Higher Education: Many students deferred and/or dropped out of college when schools moved online last spring. The number of students from low-income households taking on debt to finance their education dropped. Those students will suffer a blow to their educational attainment, their job prospects and lifetime earnings. That will make their student debts even harder to service in the months to come and could set them even further back financially.
Foreign students, who had already been declining in response to new limits for legal immigration, suffered another setback from travel restrictions and executive orders as a result of the pandemic. Those students have played a key role by filling graduate school positions and feeding a pipeline of talent, notably in the technology sector.

The loss of foreign students is a blow to university revenues and the educational attainment of young people. They are a primary source of funding and subsidize the costs of going to college for U.S. students. In 2018, foreign students added $45 billion to GDP, mostly through tuition, fees and living expenses.

The change will exacerbate budget cuts that colleges and universities have already had to implement, which include cuts to support and educational programs. Some schools have suspended offerings, consolidated departments, frozen entry for graduate students and even eliminated majors.

Medical schools have been hard hit by the shift to dealing with COVID instead of more profitable, elective surgeries. This crimps their budgets, undermines the pipeline of doctors and medical professionals they can train and further squeezes the budgets of the universities that house them. University hospitals transfer a portion of their revenues to fund the overall university each year.

Many are already scaling back by cutting employment and wages. Universities are the largest employers in numerous cities and sometimes entire states. Some schools will be forced to close entirely. How will students graduate if their schools close?

Section IV
Health Consequences

As of the writing of this report, officially reported COVID cases in the U.S. approached 10 million; deaths were close to 240,000. Studies on the antibodies associated with COVID cases suggest those figures are a large undercount, especially during the early phase of the pandemic. We were slow to ramp up testing and when we did, many of the initial tests reported a high incidence of false negatives. Many early deaths were misclassified.

There is evidence of reinfection, or people who have contracted the disease, experienced symptoms, tested negative and then contracted the disease again. This could further increase the count of cases. It also ups the ante on the need for therapeutics. Vaccines are only expected to be about 70% effective and last for a limited period of time. That underlines the Centers for Disease Control and Prevention (CDC)’s constant warnings that masks will be necessary to reduce the pace of infections for some time.

Blacks and Hispanics, many of whom work in essential services, are more likely to contract and perish from COVID than white people. Socioeconomic factors including low wages, the rising cost of health care, limited access to health insurance, a higher incidence of underlying health problems and higher density housing have been blamed for the disparities. A good portion of those gaps are due to systemic bias in treatment for people of color.

Bias in the health care system is rampant, especially for Black people. Their symptoms are not taken as seriously and red flags are more often overlooked, which raises the risk of mortality. Even perceptions of bias can compromise the quality of care, as slights in interactions between patients and doctors can undermine diagnoses. Black women suffer the most, regardless of their educational attainment and insurance coverage.

Undercounts in the data early in the pandemic were likely higher in the Black community than in other populations. The disproportionate toll that COVID inflicted on Asian and Native American communities also received less attention in the initial reporting of cases and deaths but has become clear now.

The data on the uninsured comes out with a substantial lag, but it is a good bet that those covered by employer-sponsored health insurance has fallen since the onset of the crisis. This coupled with a dearth of hospitals in rural areas is further compromising our ability to combat COVID, even as more therapeutics are becoming available.

COVID has proven to have long-term as well as short-term consequences for a person’s health. According to the Mayo Clinic, these include:

- Organ damage: hearts, lungs and brains can suffer long-term damage from a COVID infection, even in children and people who have relatively mild cases. The risks of heart failure, breathing problems, strokes, seizures and the threat of Alzheimer’s and Parkinson’s are all greater among patients who have had COVID.

- Blood clots and blood vessel problems, all of which exacerbate long-term threats to health.

“If not treated, the wounds created by COVID will deepen and leave a multitude of scars on the complexion of the labor market.”

7 Monthly Economic Outlook: Wounds that Scar
• Problems with fatigue and mood. People who experienced long periods of time in the hospital and intensive care units can suffer bouts of post-traumatic stress, depression and anxiety. There is also concern that people who recover from COVID could also suffer from chronic fatigue syndrome. This occurred in people who recovered from SARS, a related virus.

It will take time to determine the full spectrum of long-term effects associated with COVID and treatments that could deter the worst of those effects from occurring. The fact that they exist is important, given the millions who have already suffered at least one round of COVID.

Sick days and time away from work could rise along with health care costs for employees and employers. Some could be forced to move onto disability and quit. Paid sick leave provided by the CARES Act has also expired.

**Bottom Line**

COVID and the resurgence in cases is further stressing the labor market and the broader economy at a critical time. The aid provided by the CARES Act has lapsed. Too many households are running on fumes. This increases the risks we could suffer additional setbacks. The costs have disproportionately hit low-income, Black and Hispanic households, but do not stop there.

If not treated, the wounds created by COVID will deepen and leave a multitude of scars on the complexion of the labor market. Those scars will limit the economy’s potential to grow and recover from COVID for years to come. Some losses could span a generation.

The longer Congress waits to act, the larger the costs to the overall economy and the harder it will be for all of us to fully recover from the ravages of COVID. We have already lost enough souls to this devastating disease. Passing an aid bill before year-end would represent a start.