

PUZZLING POST-PANDEMIC LABOR MARKET DYNAMICS

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Princeton

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Based on joint works with Sadhika Bagga, Gadi Barlevy, Stefano Eusepi, Bart Hobijn, Jason Faberman, Lukas Mann, Gianluca Violante
Analysis available at www.LaborMarketUpdate.net

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A narrative of the U.S. labor market since 2020

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IV. **2025+:** What is next?

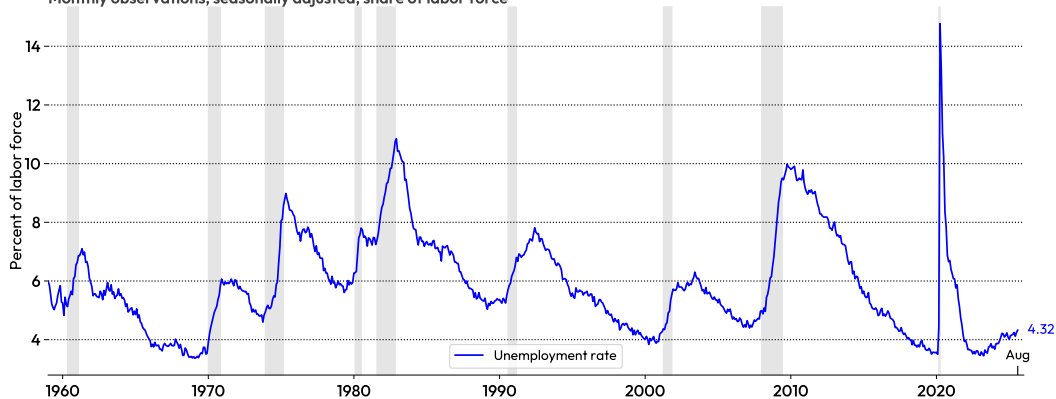
- ▶ Delayed effects of soft landing or onset of a recession?

2020-2021 Unemployment and Participation

BRISK RECOVERY IN UNEMPLOYMENT

Unemployment Rate

Monthly observations; seasonally adjusted; share of labor force



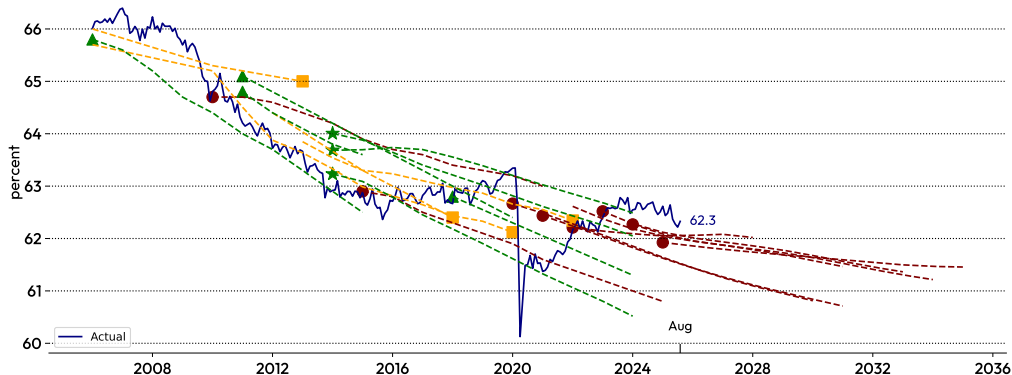
Source: Bureau of Labor Statistics

www.labormarketupdate.net

LABOR FORCE PARTICIPATION DID NOT RECOVER AS FAST

Labor Force Participation Rate, Actual and Trend Estimates

Monthly observations; seasonally adjusted; percent of the population



Source: Bureau of Labor Statistic, CBO, FRBoG, several other publications

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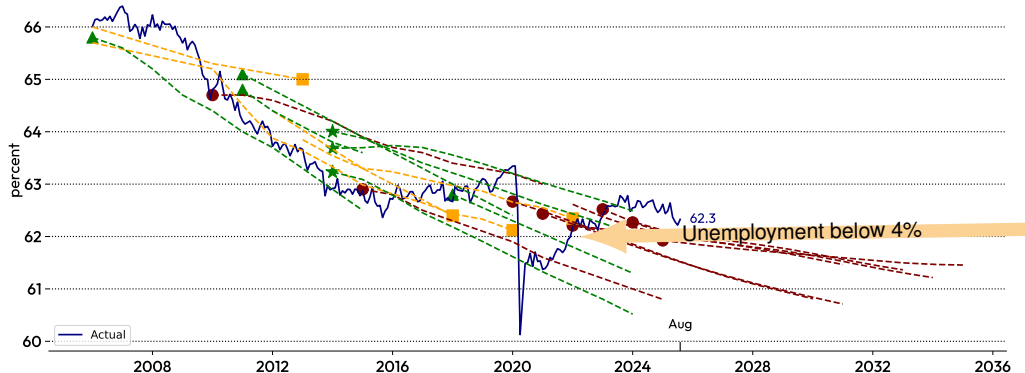
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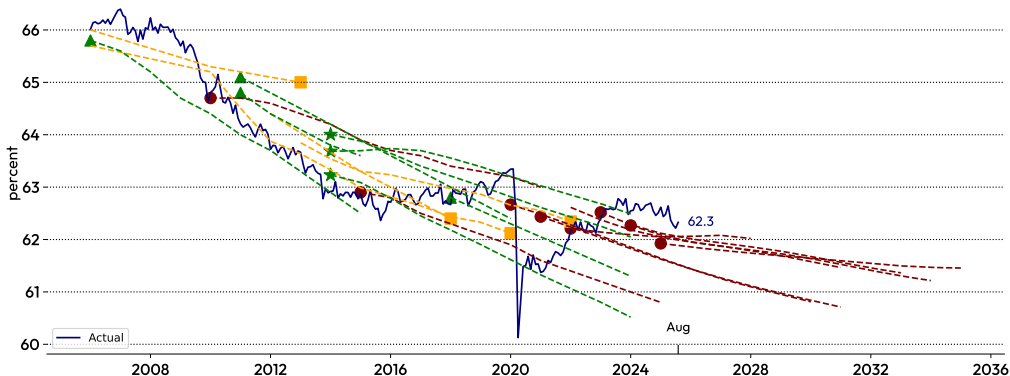
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LABOR FORCE TREND PREDATES THE PANDEMIC

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MAXIMUM EMPLOYMENT CONSIDERATIONS

We don't think it's time yet to raise interest rates. There is still ground to cover to reach maximum employment, both in terms of employment and in terms of participation.

Chair Powell, November 2021 Press Conference

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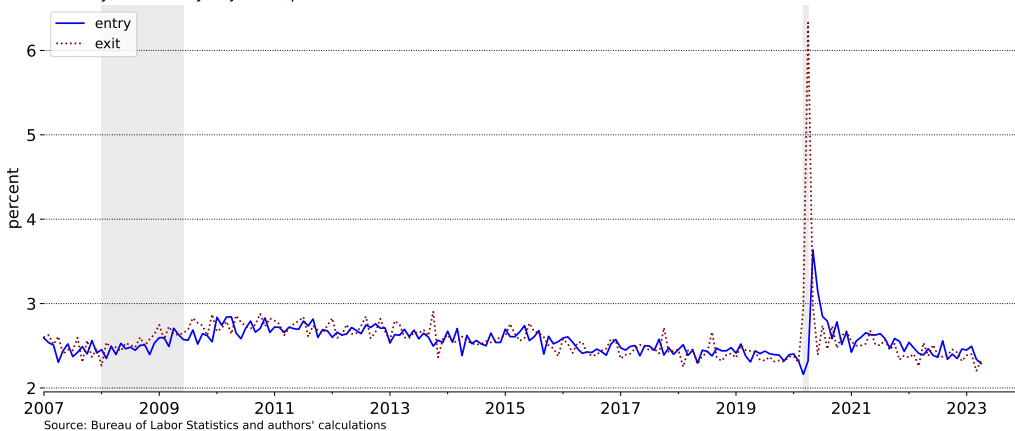
But the reality is, we don't have a strong labor force participation recovery yet, and we may not have it for some time.

Chair Powell, December 2021 Press Conference

EMPHASIS ON LABOR FORCE ENTRY/EXIT DYNAMICS

Labor Force Entry and Exit Rates

monthly; seasonally adjusted; percent of labor force

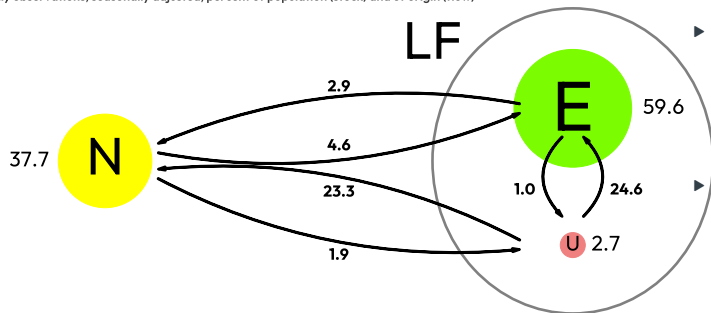


Reference: Hobijn and Şahin (2021)

PARTICIPATION DYNAMICS MORE SUBTLE

Flow Origins of the Participation Cycle: Aug 2025

Monthly observations; seasonally adjusted; percent of population (stock) and of origin (flow)



- ▶ Flows >> Net changes in stocks
 - Large flows in and out of labor force
- ▶ Unemployed are less attached than the employed
 - *Attachment wedge*

Source: Bureau of Labor Statistics and authors' calculations based on Elsby et al. (2015)

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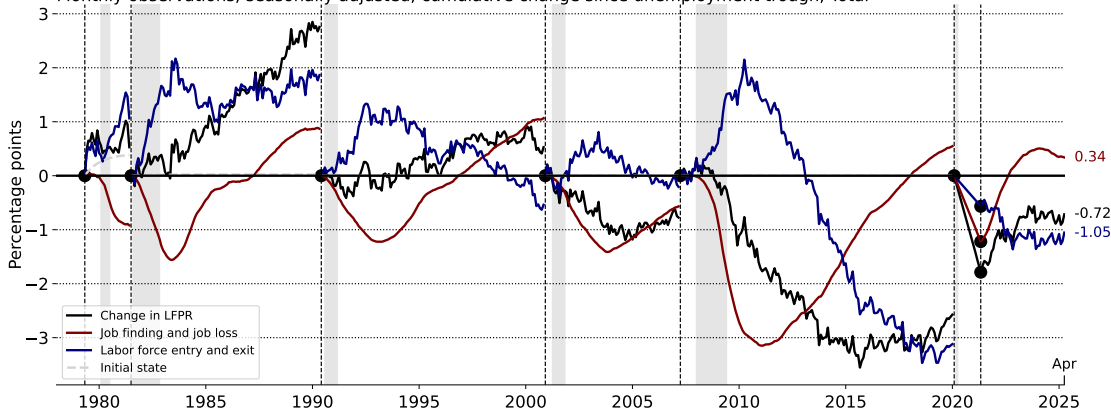
Key Intuition: When someone moves from U to E, they are more likely to remain in the labor force going forward. This simple mechanism (*the participation cycle*) is the source of procyclicality of participation, *not* labor force entry and exit.

Reference: Hobijn and Şahin (2021, 2022)

PARTICIPATION CYCLE DRIVEN BY JOB LOSS/FINDING

Trough to trough LFPR changes decomposed

Monthly observations; seasonally adjusted; cumulative change since unemployment trough; Total

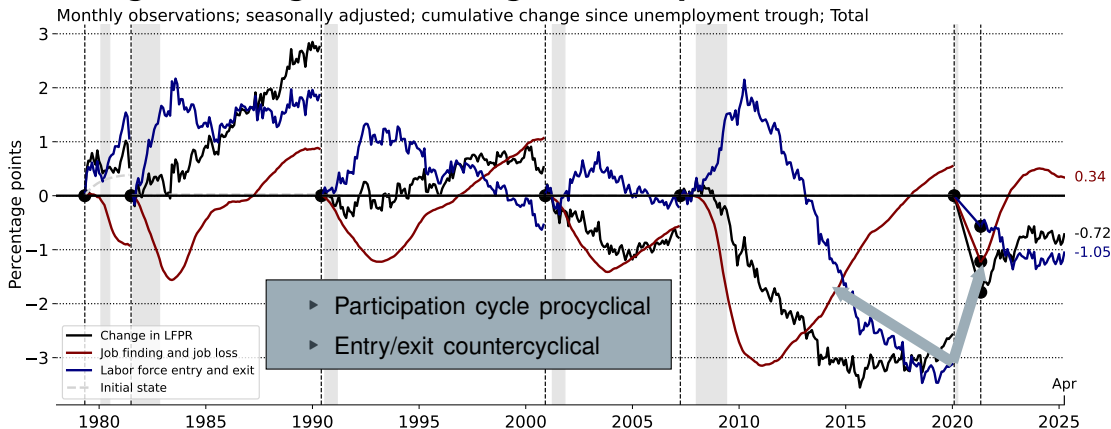


Source: BLS, CPS, and FRBC staff based on Hobijn and Sahin (2022)

Note: Seasonally adjusted monthly data. Cumulative effect on LFPR from every trough in the unemployment rate. Entry is contribution from $P_{N,U}$ and $P_{N,E}$, exit is contribution from $P_{U,N}$ and $P_{E,N}$, and cycle from flows between U and E , i.e. $P_{E,U}$ and $P_{U,E}$.

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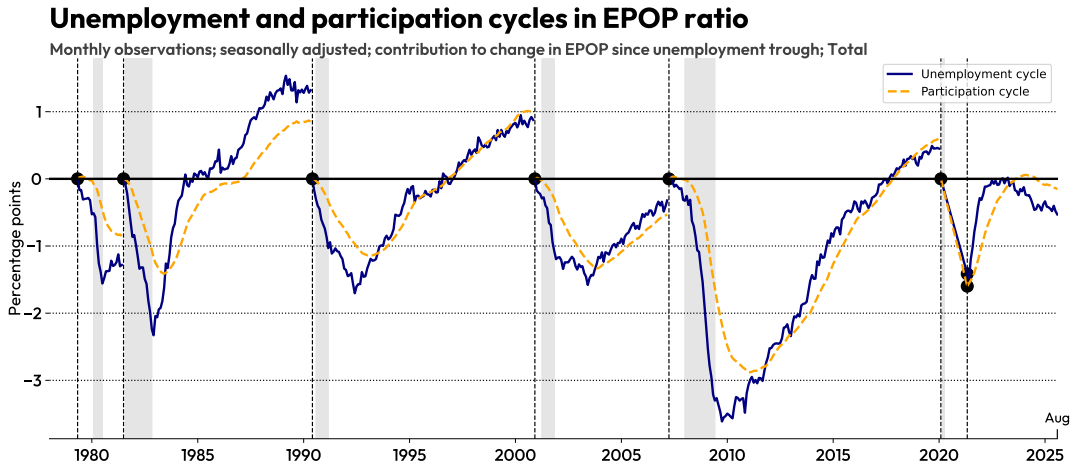
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UNEMPLOYMENT AND PARTICIPATION CYCLES

The cyclical change in the employment-to-population ratio is the sum of unemployment and participation cycles:

$$\Delta EPOP_t^c = \underbrace{-\overline{LFPR}_t \Delta u_t}_{\text{unemployment cycle}} + \underbrace{(1 - \bar{u}_t) \Delta LFPR_t^c}_{\text{participation cycle}}$$

EFFECT OF UNEMPLOYMENT AND PARTICIPATION CYCLES ON EMPLOYMENT-TO-POPULATION (EPOP)



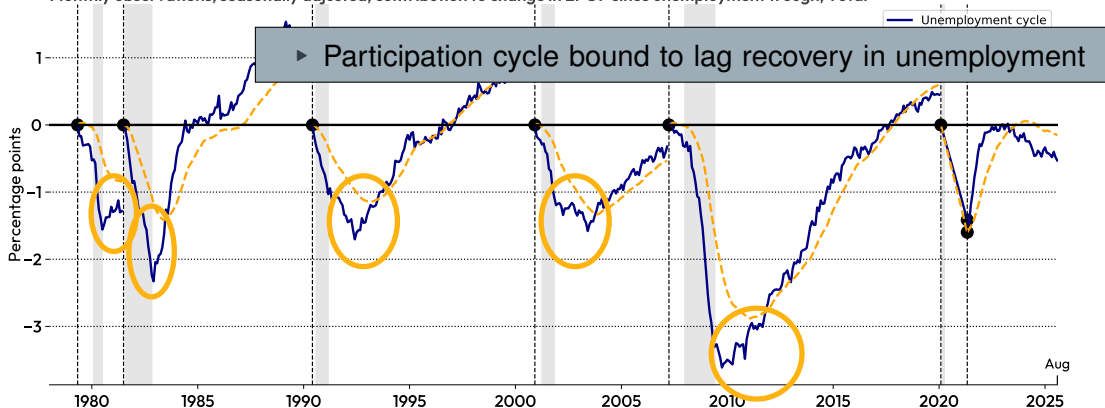
Source: BLS, CPS, and authors' calculations based on Hobijn and Şahin (2022)

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EFFECT OF UNEMPLOYMENT AND PARTICIPATION CYCLES ON EPOP

Unemployment and participation cycles in EPOP ratio

Monthly observations; seasonally adjusted; contribution to change in EPOP since unemployment trough; Total

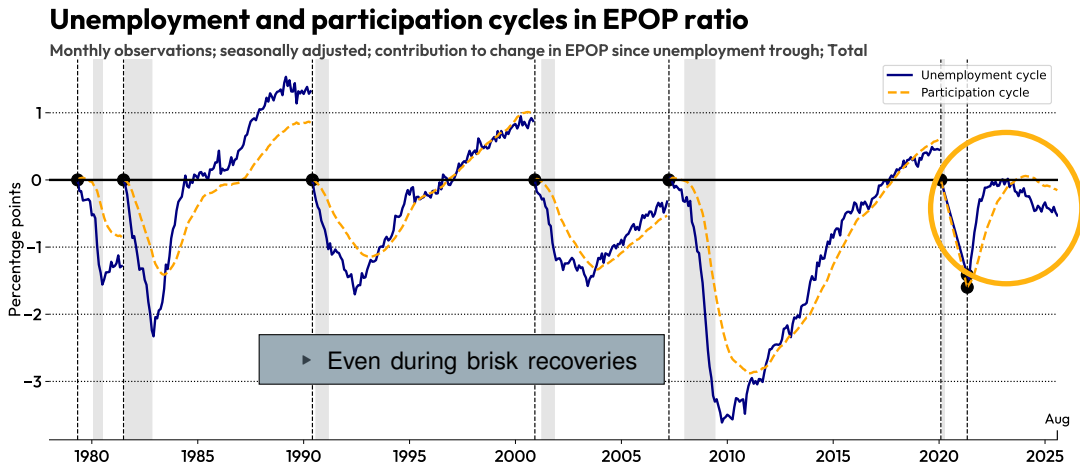


Source: BLS, CPS, and authors' calculations based on Hobijn and Şahin (2022)

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Note: Unemployment cycle is cumulative sum of $-\overline{LFPR}_t \Delta u_t$ and LFPR cycle is cumulative sum of $(1 - \bar{u}_t) \Delta LFPR_t^c$.

EFFECT OF UNEMPLOYMENT AND PARTICIPATION CYCLES ON EPOP

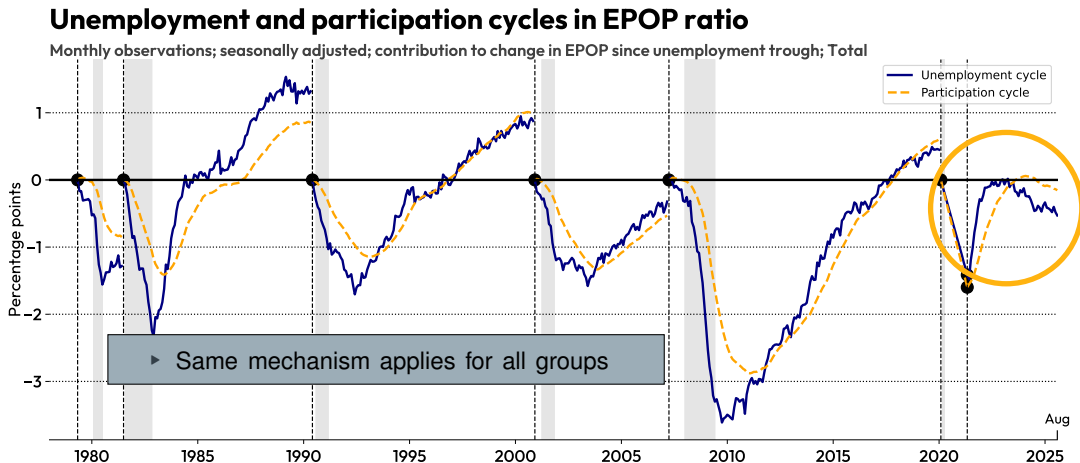


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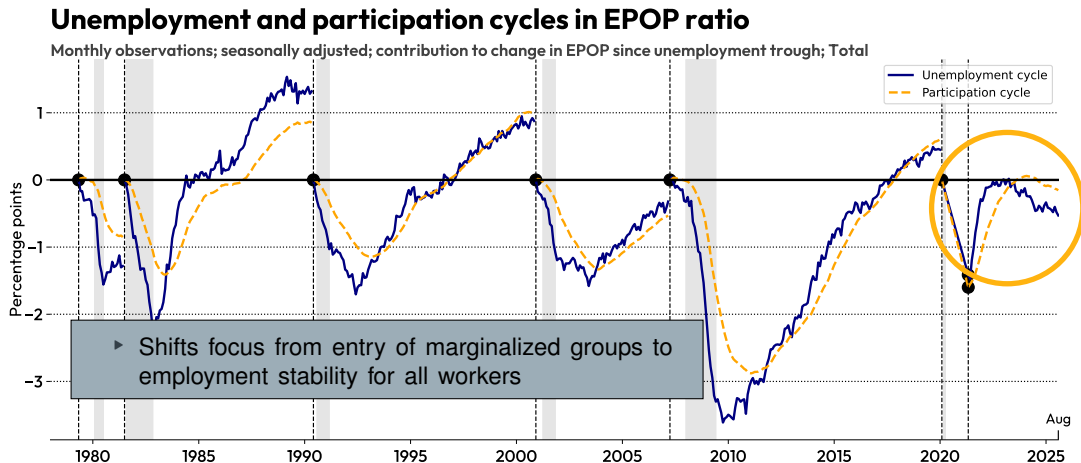


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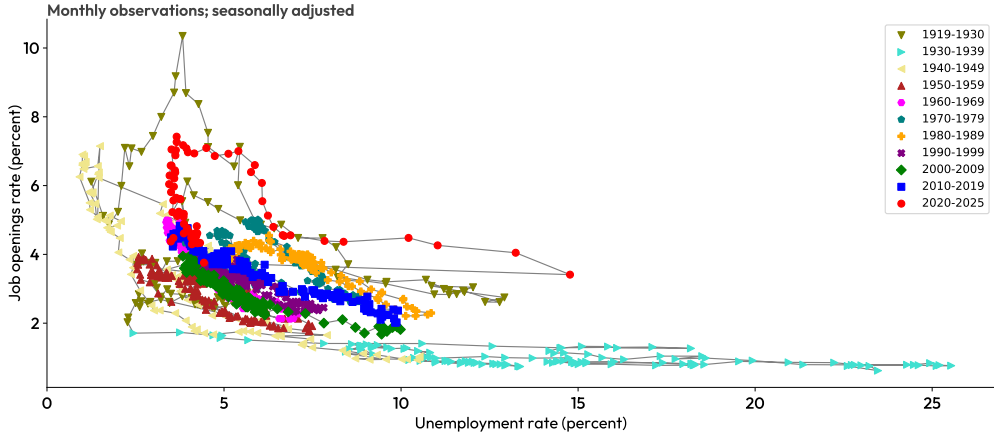
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2021-2022 Just a Quick Recovery?

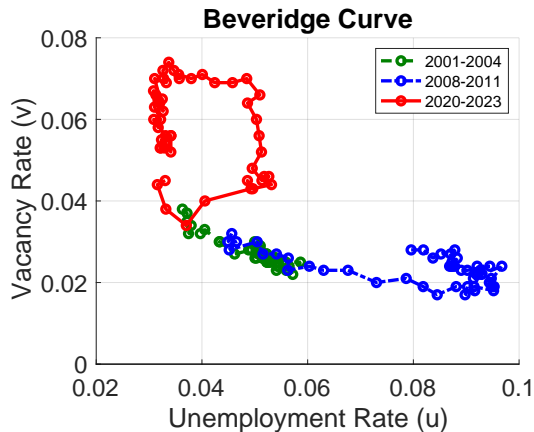
BEVERIDGE CURVE

U.S. Beveridge Curve: 1919 - Now



Reference: Barlevy, Faberman, Hobijn & Şahin (2023)

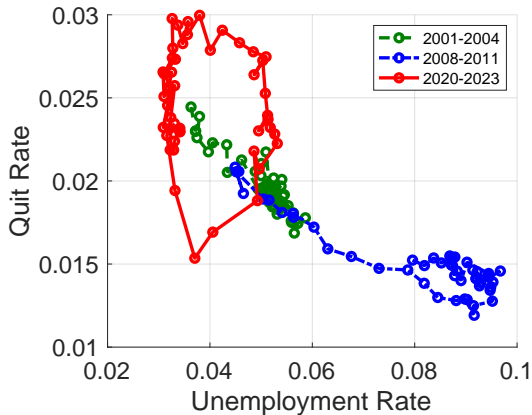
DISTINCTIVE FEATURES OF THE PANDEMIC RECOVERY



Joint behavior of unemployment and vacancies

[→] Beveridge Loop

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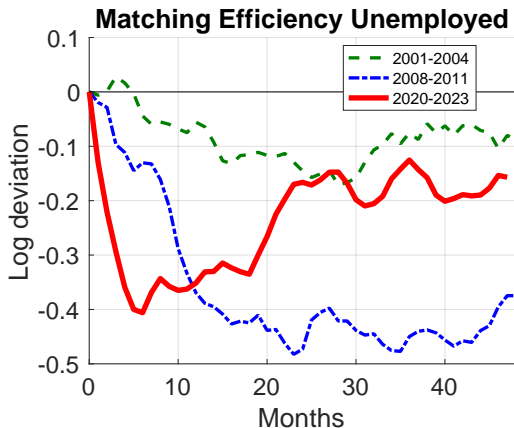
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Large reallocation flows through quits and job-to-job flows

[→] Great Resignation

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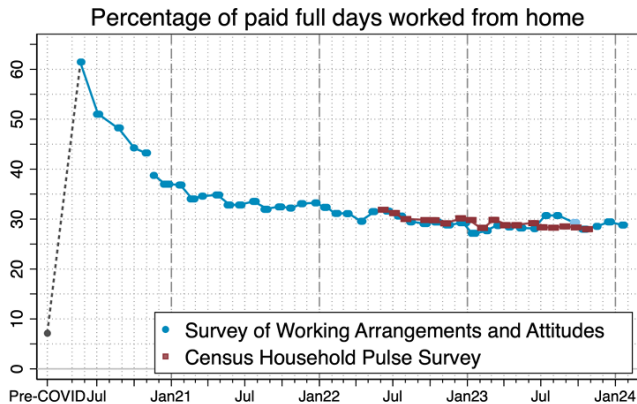
Depressed match efficiency

[→] Mismatch between jobseekers and vacancies

Reference: Bagga, Mann, Şahin & Violante (2025)

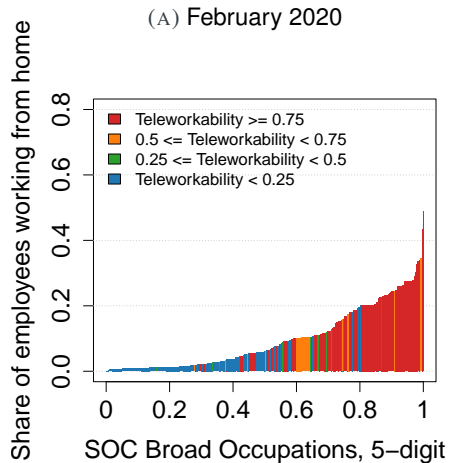
A New Amenity: Remote Work

THE RISE OF TELEWORK

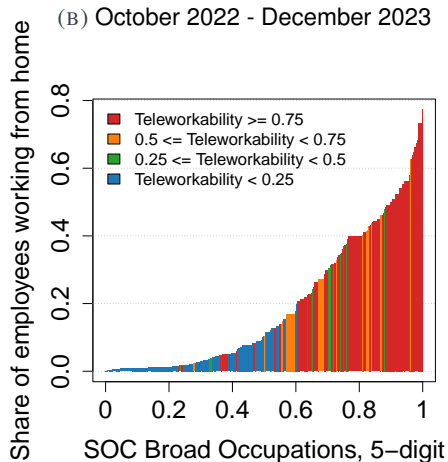
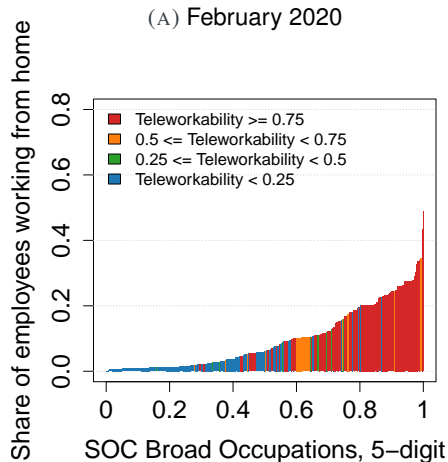


Source: Barrero, Bloom & Davis (2023)

FEASIBILITY VS. REALIZATION OF TELEWORK



FEASIBILITY VS. REALIZATION OF TELEWORK



Source: CPS Telework Supplement, Dingel & Neiman (2020), Bagga, Mann, Şahin & Violante (2025)

Survey of Consumer Expectations

- ▶ *Is WFH now more important for your job choice?*

More than 50% said yes, others indifferent

Chen et al. (2023)

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Survey of Working Arrangements and Attitudes

- ▶ *Compared to your expectations before COVID (in 2019), how has working from home turned out for you?*

60% responded “better/substantially better/hugely better than expected”

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STATED PREFERENCES FOR TELEWORK

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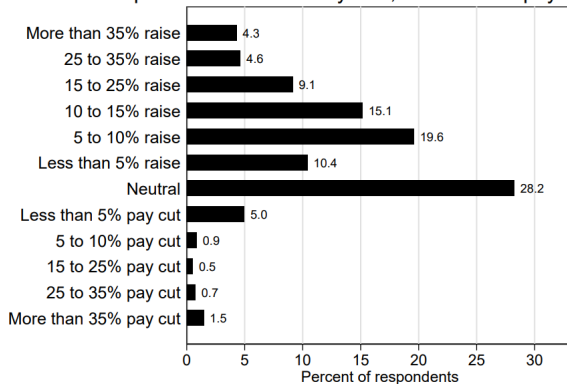
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Barrero et al. (2021)

Value of the option to WFH 2 - 3 days/wk, % of current pay?



Source: Barrero, Bloom & Davis (2021)

Quantitative Framework

Frictional random search model – Bagga, Mann, Şahin & Violante (2025)

- ▶ On-the-job search and Bertrand competition for workers

Postel-Vinay & Robin (2002); Lise & Robin (2017)

- ▶ Jobs differ in match-specific productivity and in whether they offer **an amenity (a)**

Hwang et al. (1998); Bonhomme & Jolivet (2009), Lindenlaub & Postel-Vinay (2023)

- ▶ Workers are heterogeneous in their **preference for amenities (x)**

Rosen (1986)

- ▶ Sunk entry cost → vacancies are a *stock* → quits induce vacancies

Fujita & Ramey (2008); Hornstein et al. (2007)

MODEL FRAMEWORK

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Account for post-pandemic labor market dynamics with three shocks

Productivity Z_t^y , Value of leisure Z_t^b , Value of the amenity Z_t^x

WORKER DEMOGRAPHICS AND PREFERENCES

- ▶ Unit measure of ∞ -lived workers
- ▶ Discount the future at rate r
- ▶ Can be employed (e) or unemployed (u)
- ▶ Value the job amenity a (telework)
- ▶ Distribution of taste for amenity x across the population $\ell(x)$ [assume $x \in \{0, \bar{x}\}$]
- ▶ Linear flow utility:

$$u_t = \begin{cases} w_t + Z_t^x x a & \text{if employed on a job with amenity } a \text{ and wage } w \\ Z_t^b b & \text{if unemployed} \end{cases}$$

JOB TYPES AND AMENITIES

- ▶ Three job types indexed by $n \in \{0, 1, 2\}$
 - ▶ **Non-teleworkable** ($n = 0$): never offers the amenity $\rightarrow a(0) = \underline{a}$
 - ▶ **Passive teleworkable** ($n = 1$): is capable, but does not currently offer it $\rightarrow a(1) = \underline{a}$
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- ▶ Passive TW jobs (vacant & filled) draw a random cost $c \sim F_c(\cdot)$ at an exogenous rate
- ▶ If they choose to pay this cost c , they **upgrade** to active TW
 - \Rightarrow Endogenous share of TW jobs offering the amenity

JOB CREATION, VACANCIES AND PRODUCTION

Job creation

- ▶ Free entry of new job opportunities upon payment of sunk cost of $= \kappa$
- ▶ Each new vacant job opportunity becomes either $n = 0$ or $n = 1$ with probabilities ζ and $1 - \zeta$

Vacancies are a stock

- ▶ **Inflows:** new job creation + jobs vacated by worker separations
- ▶ **Outflows:** vacancy destruction + vacant jobs filled by new hires

Production

- ▶ upon meeting a worker, draw $y \sim F_y(\cdot)$, match produces $Z_t^y y$ units if formed
- ▶ Matches and vacancies are destroyed at exogenous rates δ and δ_v , respectively

Aggregate meeting technology

$$m_t = m(v_t, s_t), \quad m \text{ is CRS}$$

Contractual environment based on Postel-Vinay & Robin (2002)

- ▶ Negotiation protocol: firms make take-it-or-leave-it offers to workers
- ▶ Renegotiation occurs only under mutual consent
- ▶ Firms and workers commit to **upgrading** iff it is surplus-maximizing

QUANTITATIVE ANALYSIS

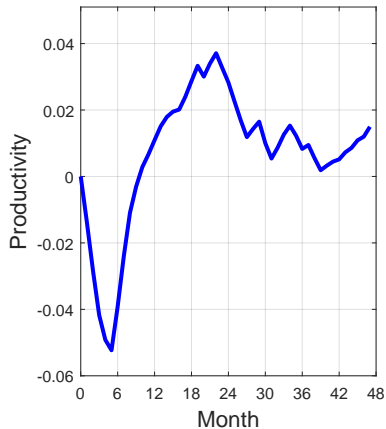
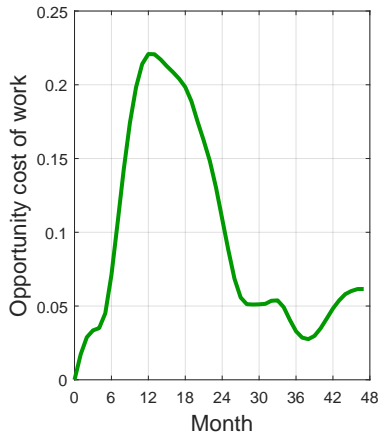
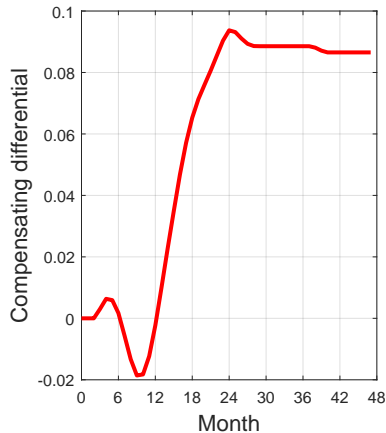
- Calibrate the model to the pre-pandemic US economy

Parameter		Value	Target to match	Target value
Share of pop. with $x = \bar{x}$	$\ell(\bar{x})$	0.5	<i>Barrero, Bloom & Davis (2021)</i>	
Prob. of TW job creation	ζ	0.33	Share of teleworkable empl.	37%
Utility flow from amenity	\bar{x}	0.048	Compensating differential	2.5%
Amenity	\underline{a}, \bar{a}	-0.11, 0.89	Long run response of Y to Z_t^x	0
Cost parameter $F_c(c) = \xi c$	ξ	$5.0 \cdot 10^{-4}$	Share working remotely	0.1
Rel. vacancy upgrading rate	ϑ	63.2	New vacancies with WFH option	0.05

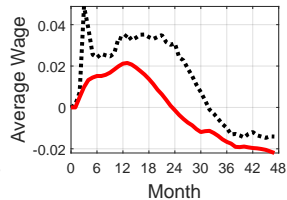
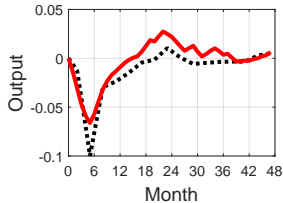
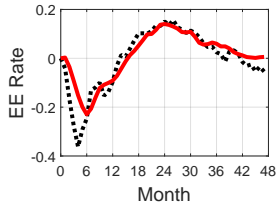
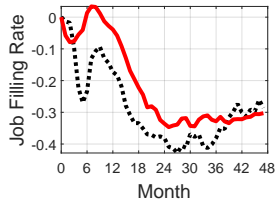
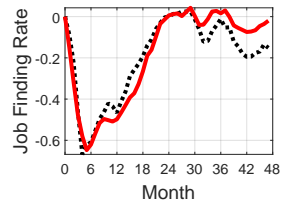
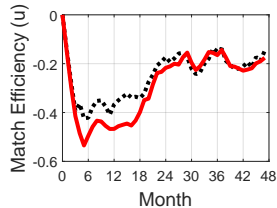
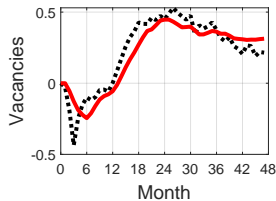
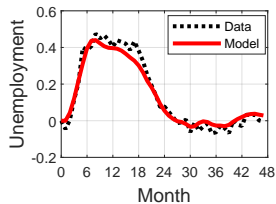
- ▶ Calibrate the model to the pre-pandemic US economy
- ▶ Consider IRFs with respect to shocks to
 1. Productivity Z_t^y
 2. Value of leisure Z_t^b
 3. Value of the amenity Z_t^x
- ▶ Infer the realizations of these three shocks that best fits:

$$\{u_t, v_t, JFR_t, JFillR_t, MatchEff_t, EE_t, Y_t, w_t\}_{t=2020:01}^{2023:12}$$

ESTIMATED PATHS OF THREE SHOCKS

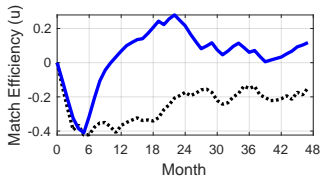
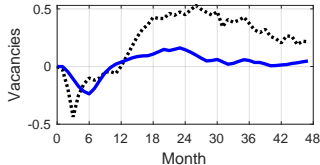
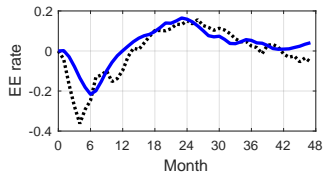
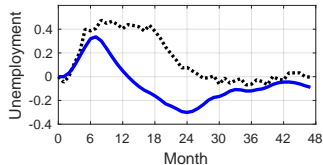
 Z_t^y  Z_t^b  Z_t^x 

MODEL FIT



DECOMPOSITION: y

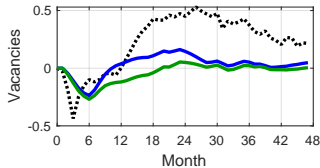
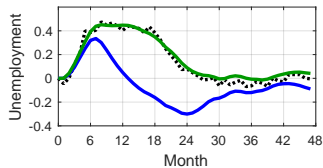
y



- Productivity shock captures early pandemic dynamics
- Counterfactual implications for unemployment, vacancies and match efficiency going forward

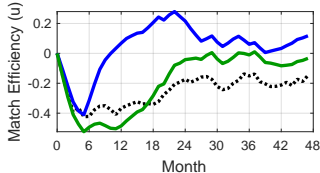
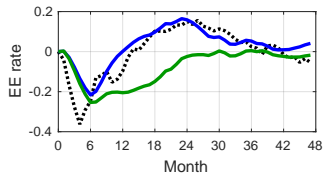
DECOMPOSITION: $y + b$

$y + b$



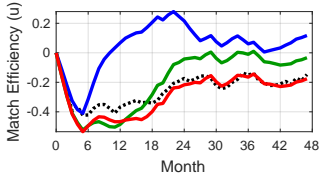
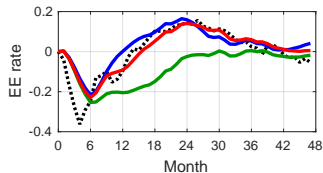
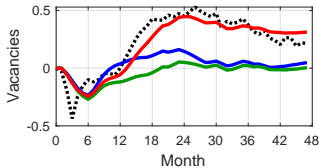
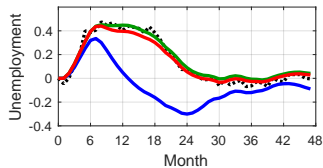
► Negative labor supply shock captures unemployment dynamics

► But depresses vacancy creation and EE rate



DECOMPOSITION: $y + b + x$

$$y + b + x$$

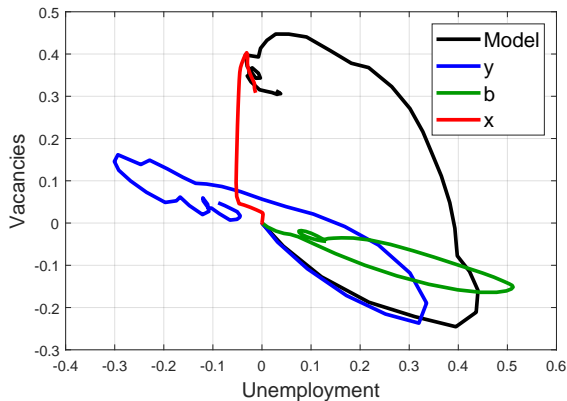


- ▶ Amenity shock triggers a wave of reallocation
- ▶ As EE rises, quits generate more vacancies, making job filling difficult
- ▶ High- x workers willing to accept low y for high-amenity jobs

Barrero et al. (2022)

BEVERIDGE CURVE DECOMPOSITION

$$y + b + x$$

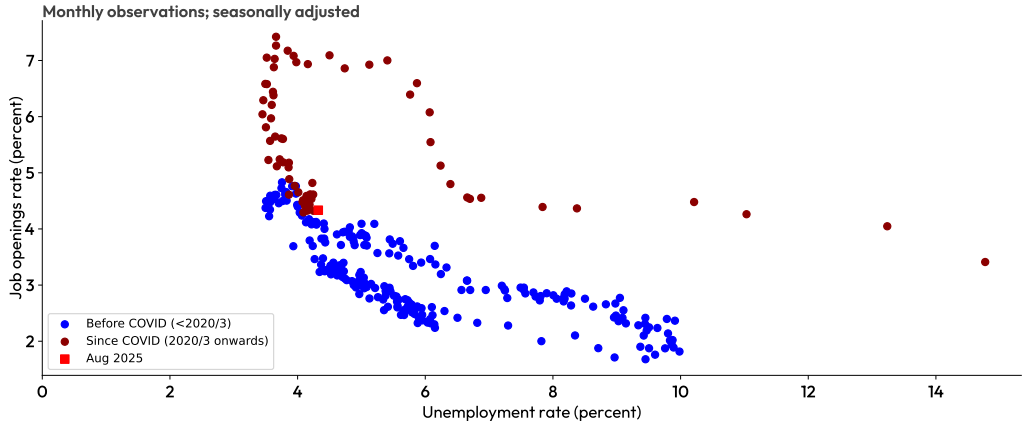


- ▶ Standard Beveridge curve from y and b shocks
- ▶ x -shock generates the vertical shift and the wide loop

2023-2024 Soft Landing

BEVERIDGE CURVE

U.S. Beveridge Curve



Source: Bureau of Labor Statistics

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Reference: Barlevy, Faberman, Hobijn & Şahin (2023)

VACANCY DYNAMICS

Employment evolves as workers separate and vacancy positions get filled:

$$E_{t+1} = E_t - \underbrace{s_t E_t}_{\text{separations}} + \underbrace{q_t V_t}_{\text{hires}}$$

Vacancy rate depends on employment growth g_t , separation rate s_t and the job-filling rate q_t :

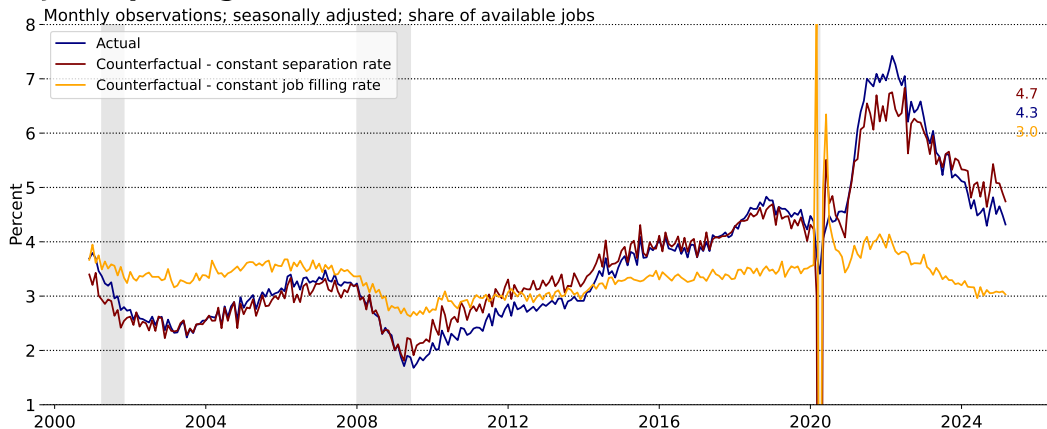
$$V_t = \frac{1}{1 + \frac{q_t}{g_t + s_t}}$$

With $g_t \approx 0.067\%$ and $s_t \approx 3.6\%$, vacancy rate predominantly determined by how quickly separations are replaced, s_t/q_t .

Reference: Eusepi and Şahin (2025)

VACANCIES ARE DRIVEN BY JOB-FILLING AND SEPARATIONS

Job Openings Rate: Actual and Two Counterfactuals

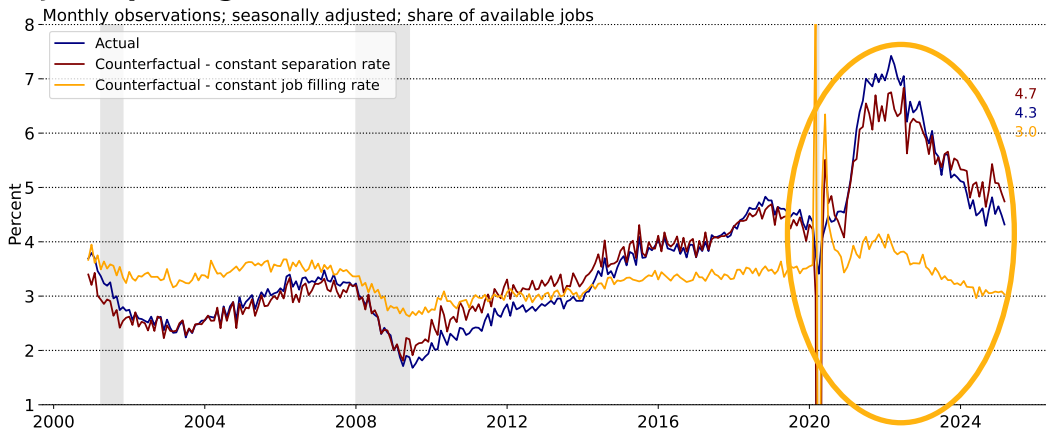


Source: Bureau of Labor Statistic and authors' calculations

Reference: Eusepi and Şahin (2025)

VACANCIES ARE DRIVEN BY JOB-FILLING AND SEPARATIONS

Job Openings Rate: Actual and Two Counterfactuals

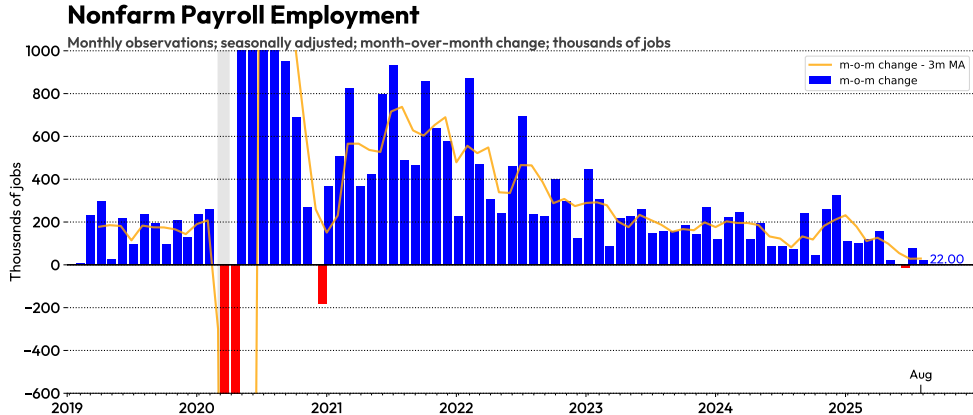


Source: Bureau of Labor Statistic and authors' calculations

Reference: Eusepi and Şahin (2025)

2025+
What is next?

PAYROLL EMPLOYMENT GROWTH



Source: Bureau of Labor Statistics

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SLOW LABOR SUPPLY GROWTH TRANSLATES INTO SLOW JOB GROWTH

Trend payroll job growth is very low without immigration

- ▶ Latest CBO projection is roughly 0.4% growth in civilian noninstitutionalized population in 2025
- ▶ Implies \approx 20K jobs a month in 2025.

Soft landing+declining population growth imply substantial slowdown in job growth

- ▶ Even in the absence of a recession, expect substantial slowdown in job creation
- ▶ Slow job creation could co-exist with stable unemployment rate
- ▶ Weakness mostly in lagging indicators not leading ones

ACCOUNTING IDENTITY THAT LINKS JOBS AND WORKERS

“Missing” jobs (payroll jobs) related to “Missing” workers

$$\underbrace{J_t}_{\text{Payroll jobs}} = \underbrace{\left(\frac{J_t}{J_t^H} \right)}_{\text{Survey difference}} \underbrace{\left(\frac{J_t^H}{E_t} \right)}_{\text{Scope difference}} \underbrace{(1 - u_t)}_{\text{(Un-)employment rate}} \underbrace{LFPR_t}_{\text{Participation rate}} \underbrace{POP_t}_{\text{Population}}$$

- J_t^H is CPS-based proxy of nonfarm payroll employment.

Reference: Hobijn and Şahin (2022)

RULES OF THUMB ABOUT JOB GROWTH, UNEMPLOYMENT, AND PARTICIPATION

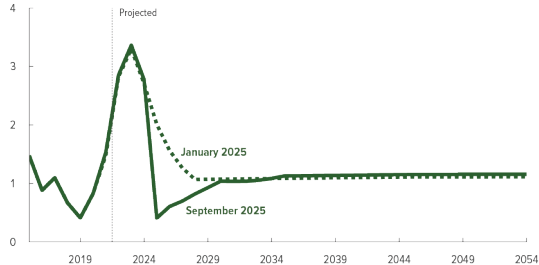
$$\underbrace{\Delta \ln J_t}_{\text{Payroll growth}} \approx \underbrace{\Delta \ln \left(\frac{J_t}{J_t^H} \right)}_{\text{Change in survey difference}} + \underbrace{\Delta \ln \left(\frac{J_t^H}{E_t} \right)}_{\text{Change in scope difference}} - \underbrace{\Delta u_t}_{\text{Unemployment change}} + \underbrace{\Delta \ln LFPR_t}_{\text{Participation change}} + \underbrace{\Delta \ln POP_t}_{\text{Population growth}}$$

Change in u_t , $LFPR_t$ or POP_t	Percent change in Nonfarm payrolls	Change in nonfarm payroll jobs
0.1 pct point decrease in the <i>unemployment rate</i>	0.1 pct increase in nonfarm payrolls	150K more nonfarm payroll jobs
0.1 pct point increase in the <i>participation rate</i>	0.16 pct increase in nonfarm payrolls	250K more nonfarm payroll jobs
1% increase in <i>population</i>	1% increase in nonfarm payrolls	1.6 million more nonfarm payroll jobs

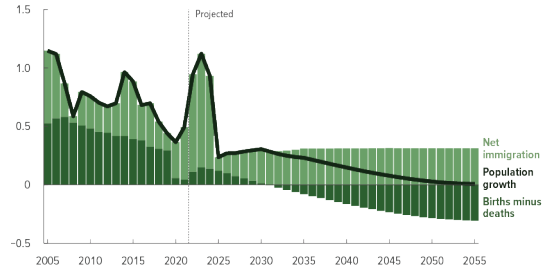
Reference: Hobijn and Şahin (2022)

CBO'S NEW IMMIGRATION AND POPULATION GROWTH ESTIMATES

Net Immigration Estimates



Population Growth projections



Reference: <https://www.cbo.gov/publication/61390>

LABOR MARKET IN 2025: SOME UNPLEASANT ARITHMETIC

Change in u_t or $LFPR_t$	Percent change in Nonfarm payrolls	Change in nonfarm payroll jobs
0.2 pct point increase in the <i>unemployment rate</i>	0.2 pct decrease in nonfarm payrolls	300K less nonfarm payroll jobs
0.3 pct point decrease in the <i>participation rate</i>	0.48 pct decrease in nonfarm payrolls	750K less nonfarm payroll jobs

Need 1.6 million increase in population for employment to remain steady in 2025

WHY DO WE THINK THE LABOR MARKET IS NOT DOING WELL?

Often cited statistics

- ▶ Payroll growth → influenced by fluctuations in population growth
- ▶ Unemployment rate → all the rise due to job-finding margin
- ▶ Labor force participation rate → delayed soft landing effect+downward trend
- ▶ Job openings/hires rates → lower due to declining turnover
- ▶ Duration of unemployment/Job-finding rate → lagging indicators

So far, we are seeing lagged effects of soft landing+low population growth

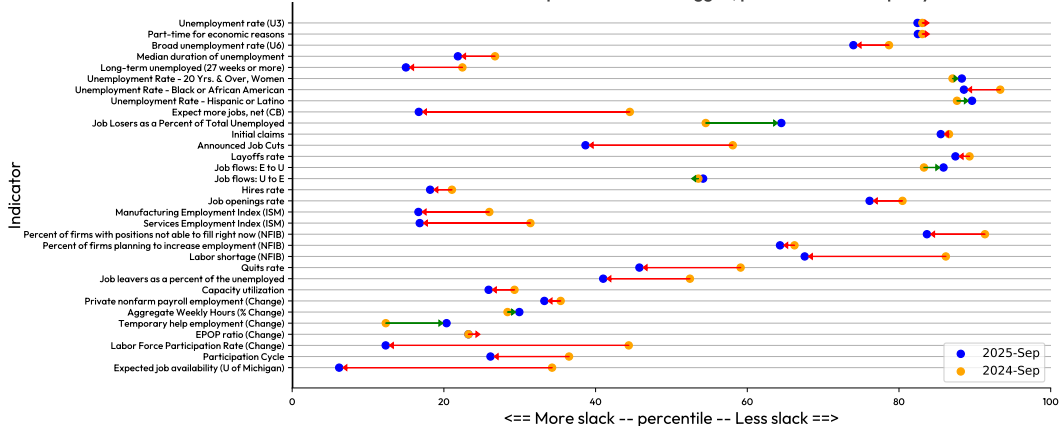
▶ Duration Distribution

▶ Reason Distribution

SEPTEMBER 2025

Labor Market - Slack Dash

3-m MA for latest available \leq Sep-2025 and 12-m lagged; prctile of historical procyclical time series



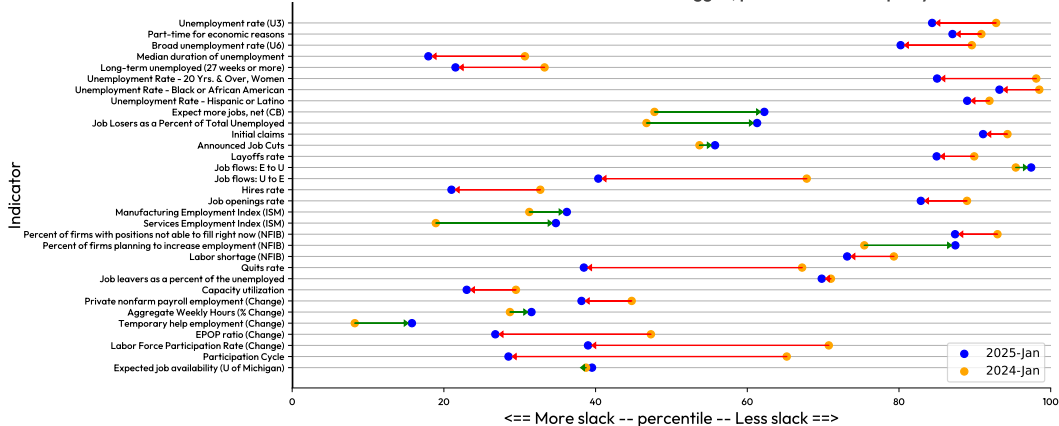
Source: BLS, BEA, NFIB, CB, UMICH, CGC, ISM, DOLETA - Authors' calculations

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JANUARY 2025

Labor Market - Slack Dash

3-m MA for latest available \leq Jan-2025 and 12-m lagged; prctile of historical procyclical time series



Source: BLS, BEA, NFIB, CB, UMich, CGC, ISM, DOLETA - Authors' calculations

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TAKEAWAYS

What did I learn?

I. **2020-2021:** COVID-19

- ▶ Participation cycle lags even during brisk recoveries and is driven by job-loss and job-finding

II. **2021-2022:** Record low unemployment+high inflation

- ▶ Labor market dynamics driven by labor market mismatch and high reallocation

III. **2023-2024:** Soft landing

- ▶ Most vacancies are posted to accommodate turnover

IV. **2025+:** What is next?

- ▶ Population growth fluctuations drive a wedge between unemployment and payroll growth

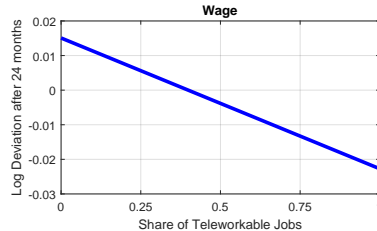
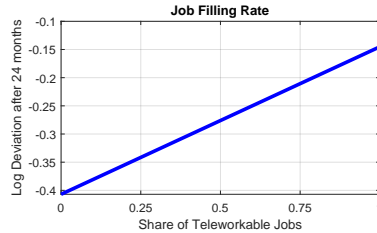
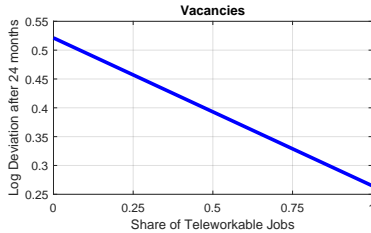
*“If we could first know where we are, and
whither we are tending, we could then bet-
ter judge what to do, and how to do it.”*

Collected Works of Abraham Lincoln, Vol. 2

REFERENCES

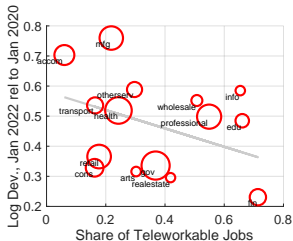
1. Bagga S., Mann L., Şahin A. and G. Violante. “Job Amenity Shocks and Labor Reallocation,” 2025.
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3. Eusepi S. and A. Şahin. “Assessing Maximum Employment: A Flow-Based Approach,” Thomas Laubach Conference, 2025.
4. Hobijn B. and A. Şahin. “Maximum Employment and the Participation Cycle,” Jackson Hole Symposium, August 2021.
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SECTORAL HETEROGENEITY IN THE MODEL

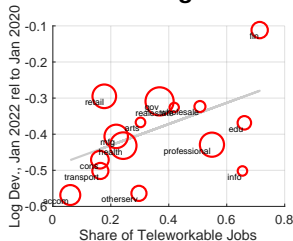


SECTORAL HETEROGENEITY IN THE DATA

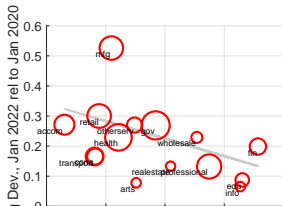
Vacancy Rate



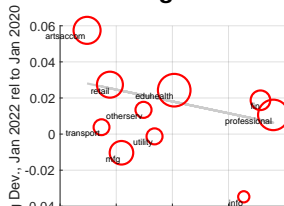
Job Filling Rate



Quit Rate



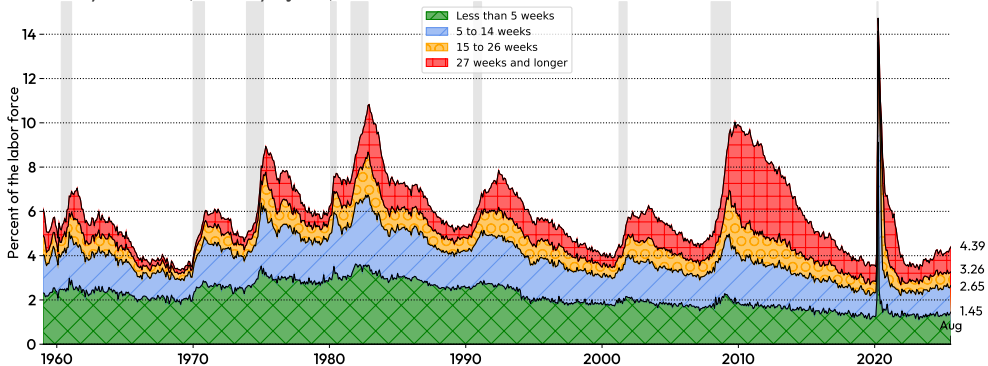
Wages



DURATION DISTRIBUTION

Unemployment by Duration

Monthly observations; seasonally adjusted; share of the labor force



Source: Bureau of Labor Statistics and authors' calculations

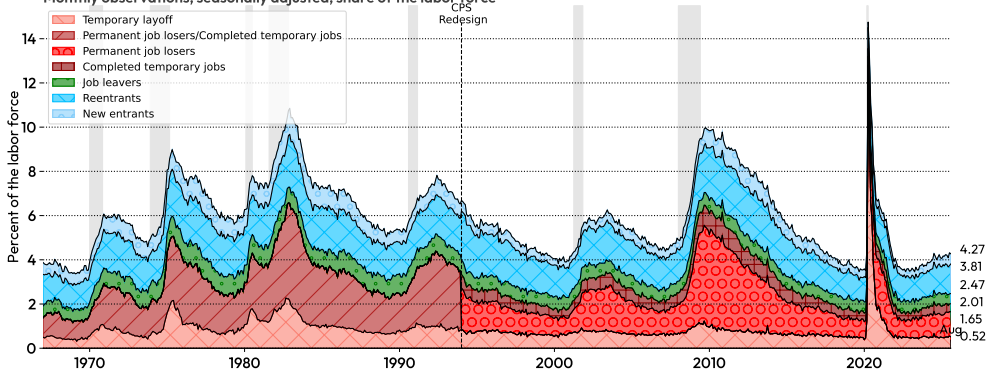
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REASON DISTRIBUTION

Unemployment by Reason

Monthly observations; seasonally adjusted; share of the labor force



Source: Bureau of Labor Statistics and authors' calculations

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