

Are temporary layoffs becoming permanent during COVID-19?

Cody Parkinson

Data and definitions from the Current Population Survey (CPS) are used for the analysis. During the survey process, people classified as unemployed are asked a series of questions to determine the reasons for their unemployment. These reasons include being on temporary layoff, permanent layoff, quitting their job, reentering the labor force, and so forth. People on temporary layoff have either received a date to return to work by their employer or expect to be recalled to their job within 6 months. When firms and workers have preestablished relationships, the process for returning to work is generally less time consuming and less costly than situations in which firms and workers need to establish a new employment relationship.

During periods of high unemployment, a higher aggregate share of people on temporary layoff generally signals a more rapid recovery. The authors present data showing that temporary layoffs were the main contributor to the high unemployment rate of 14.7 percent in April 2020. Temporary layoffs contributed 11.5 percent to the total rate, which was the highest contribution of temporary layoffs to total unemployment since at least 1967. In October 2020, temporary layoffs accounted for 2.0 percent of the 6.9 percent unemployment rate. Data from the Survey of Business Uncertainty also confirmed that temporary layoffs contributed to the increase in the unemployment rate. However, reasons for unemployment other than temporary layoffs have increased. If people continue to cycle through periods of joblessness, hold short-term jobs, or remain out of the labor force entirely, then future unemployment could remain persistently elevated.

Using CPS data, the authors can track changes in the labor market status of workers from one month to the next. The data show that the probability of someone moving from temporary layoff to permanent layoff increased during the COVID-19 pandemic but remains low by historical standards. Other than temporary layoffs, the April 2020 unemployment increase was largely attributable to people moving from employed to permanent layoff. However, the proportion of people moving from employed to permanent layoff fell in May and June. The proportion of people moving from out of the labor force to unemployed increased in May and June and has remained around the same level through at least September 2020. The data show that temporary layoffs are generally not turning into permanent layoffs. In addition, while the number of people who are considered long-term unemployed is still lower than the number during the 2007–09 recession, that amount may increase if the pandemic continues.

The authors close by summarizing their findings, stating that despite unemployment being well above prepandemic levels, data do not show that temporary layoffs are becoming permanent. However, as the crisis continues, recovery may slow as people battle persistent types of joblessness.