Spatial and Sectoral Reallocation of Firms, Workers and Jobs Induced by the Pandemic*

By

John Haltiwanger
University of Maryland and NBER

*This presentation draws upon collaborative research with numerous co-authors (cited in the presentation). All views are my own.
Two Critical Changes as we emerge from Pandemic

Average Days per Week Working From Home After the Pandemic Ends: Employer plans

- All workers
- Workers able to work from home

Source: Barrero, Bloom and Davis (2021, updates)

Office Occupancy Rates as of 5/11/2022 (100% January 2020)

Source: Kastle.com
Open questions

What has been and will be the impact on firm, job and worker turnover?

- Gold standard databases tracking firm, job and worker turnover emerge with a lag. Now data through 2021:3 from some of the databases.
- New business applications data available in real time at high frequency:
  - Indicator of new business formation.
  - Leading indicator for restructuring and reallocation are new business applications.

Focus here:

- What we know so far about firm, job and worker turnover?
- What have we learned from new business applications?
- Indicators of sectoral and spatial reallocation?
Spike in closings induced job destruction but partly transitory.

Permanent closings (deaths) contributed about 1.2 million to job destruction in 2nd Quarter of 2020.

Establishment openings Spike initially reflects Re-openings.

Steady but substantial increase in job creation from Establishment Births.

Establishment births both from new firms and existing firms

Source: BED, Tabulations by Decker and Haltiwanger (2022)
Secular Decline in Pace of Reallocation (Business Dynamism)

Pre-Pandemic

Increase in Pandemic to levels not seen early 2000s

Source: BED
Both within and between industry reallocation increased

Source: BED, Excess=Job Reallocation less absolute value of Net Growth
New Business Applications:
1. Surged in Pandemic.
2. HBA highly predictive of actual startups
3. NHBA predictive of new nonemployer businesses.
4. Leading indicator of Reallocation.

Source: Tabulations from BFS.
Surge in Applications beginning to show up in Establishment Births.

Projected Startups have historically been very accurate.

Most applications don’t transit to actual businesses but elasticity of actual startups with respect to applications is close to one.

Source: Tabulations from BFS and BED. Expanded version of analysis in Decker and Haltiwanger (2022)
Five 3-digit (NAICS) sectors account for 50% of Surge

New Business Applications: Top 5 3-digit Naics in 2021, 2006-21

Source: Tabulations from the BFS.
Average annual growth rate of New Business Applications, 2010-19, State of Washington

Corr(Pct Urban 2010, Growth BA) = 0.46

Source: Tabulations from the BFS

Average annual growth rate of New Business Applications, 2019-20, State of Washington

Corr(Pct Urban 2010, Growth BA) = -0.30
Average annual growth rate of New Business Applications, 2010-19, New York

Manhattan (NY County) avg growth of 1.4%
Queens (Queens County) avg growth of 2%

Average annual growth rate of New Business Applications, 2019-20, State of Washington

Manhattan (NY County) avg growth of -1.7%
Queens (Queens County) avg growth of 12.7%
All counties surrounding Manhattan growth>9.75%

Source: BFS
New Business Applications Leading Indicator for Business Turnover

Source: BFS and BED, Tabulations by Haltiwanger (2022)
New Business Applications Leading Indicator for Worker Turnover

Source: BFS and BED, Tabulations by Haltiwanger (2022)
Open Questions

Young businesses are especially fragile

- In Great Recession, young businesses hit hard given adverse financial conditions
- In Pandemic, favorable financial conditions.
- But now contractionary monetary policy to combat inflation
- Impact on surge in young businesses?

Surge in young businesses and reallocation bucking secular decline over the last couple of decades

- Changing market structure and business models shifting activity to large, mature businesses
- Rising frictions: occupational licensing, non-competes, employment-at-will, zoning (see Davis and Haltiwanger (2015))
- Is this transitory or reversal?
References


