

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

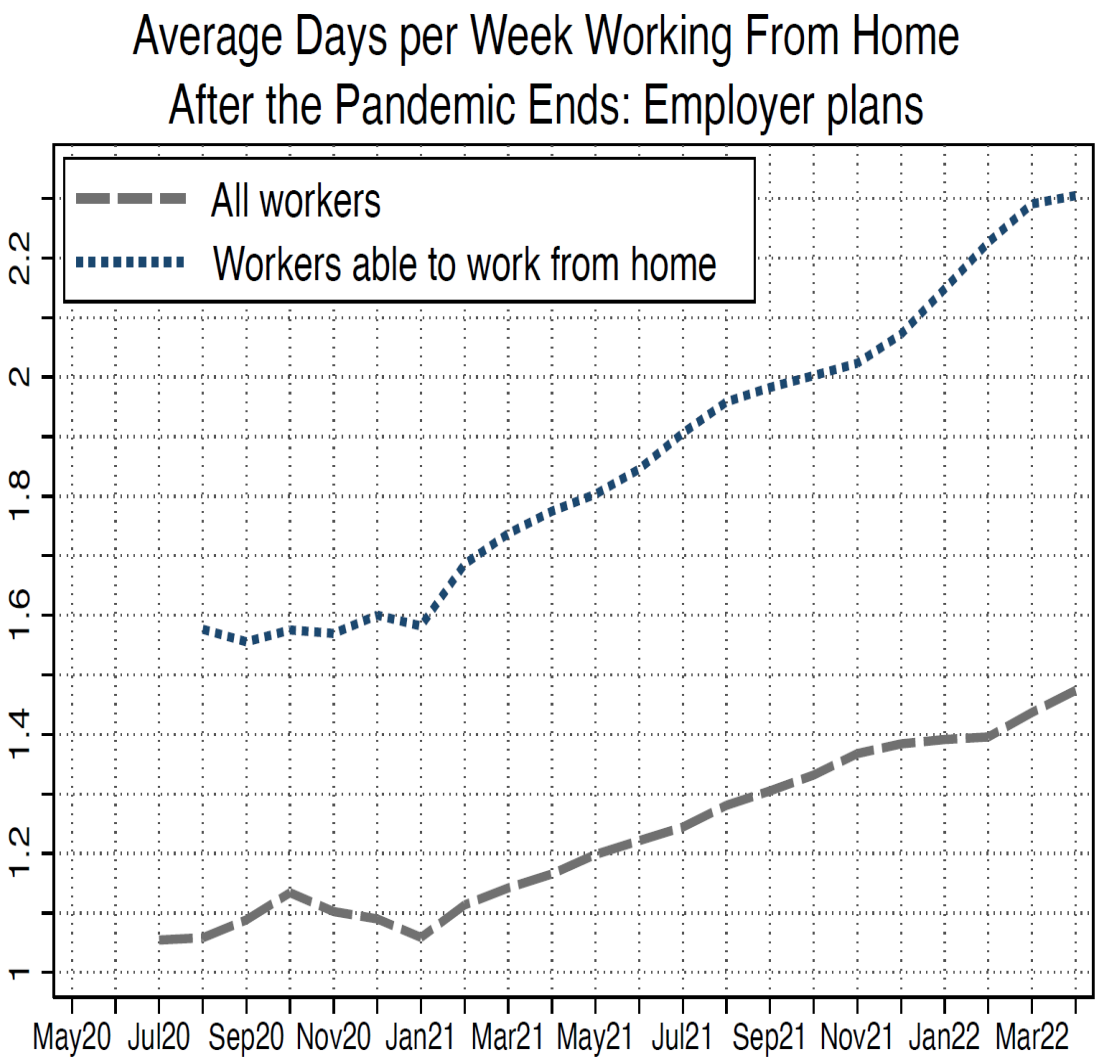
By

John Haltiwanger

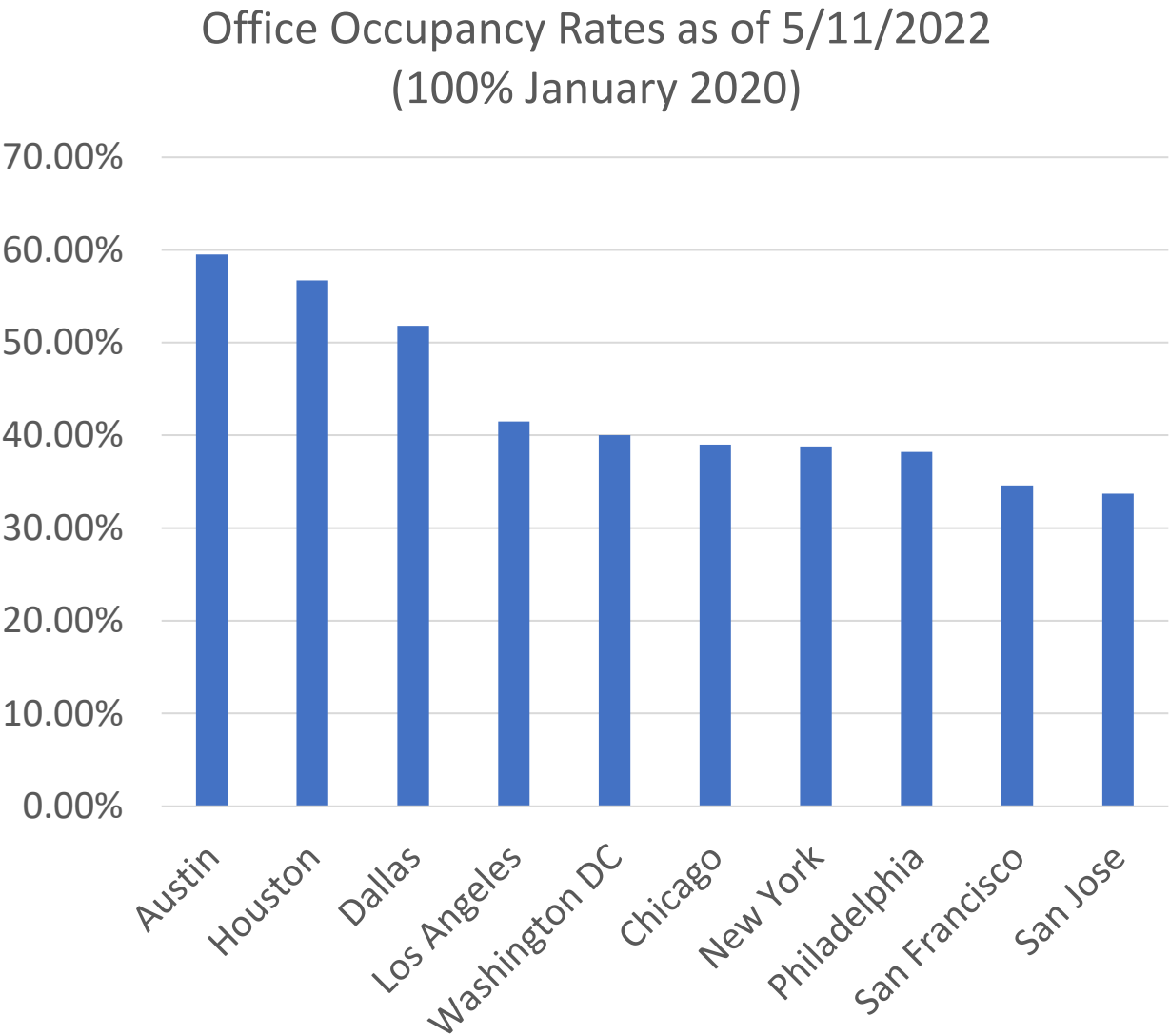
University of Maryland and NBER

*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



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



Source: Kastle.com

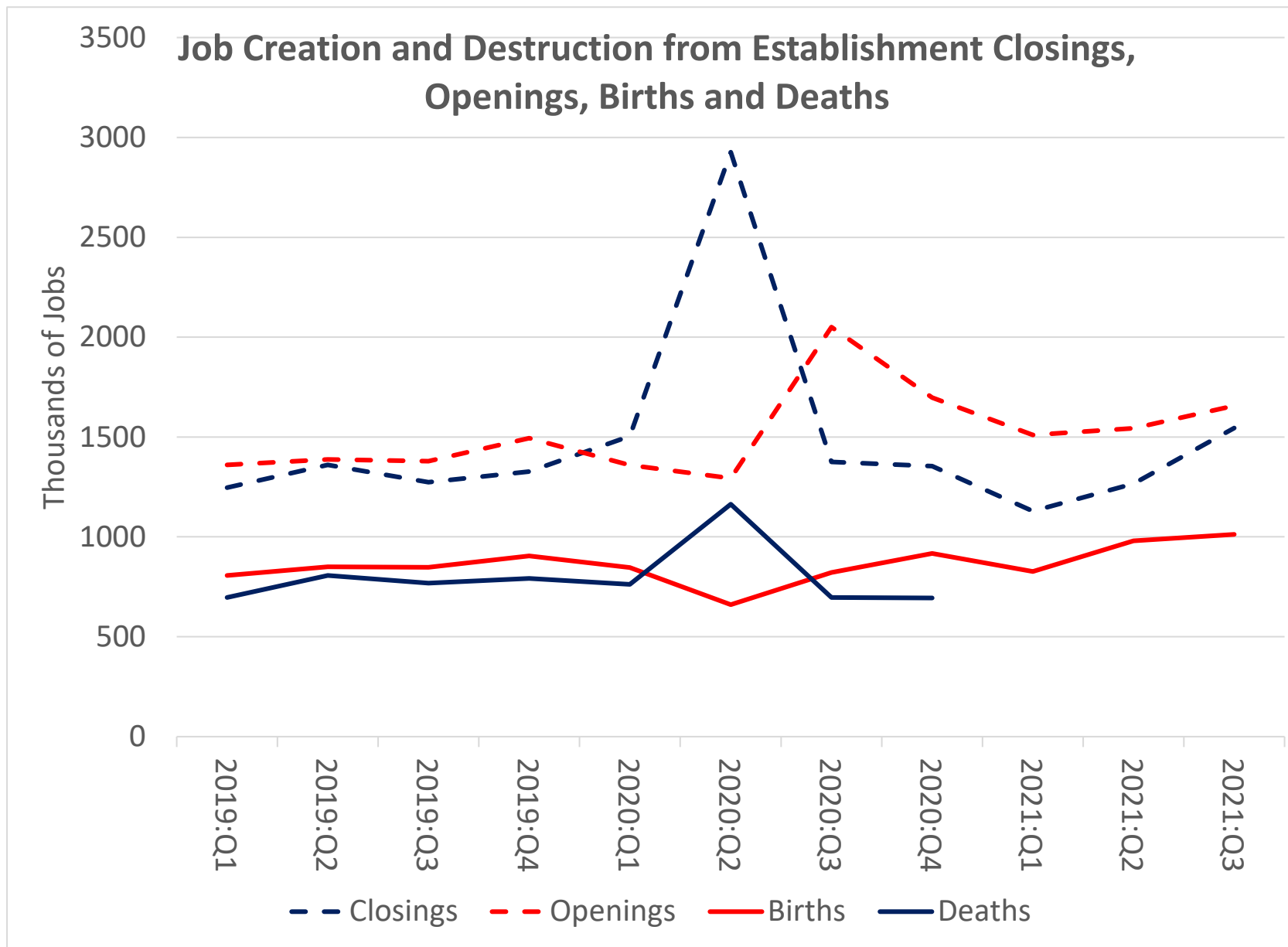
Open questions

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?



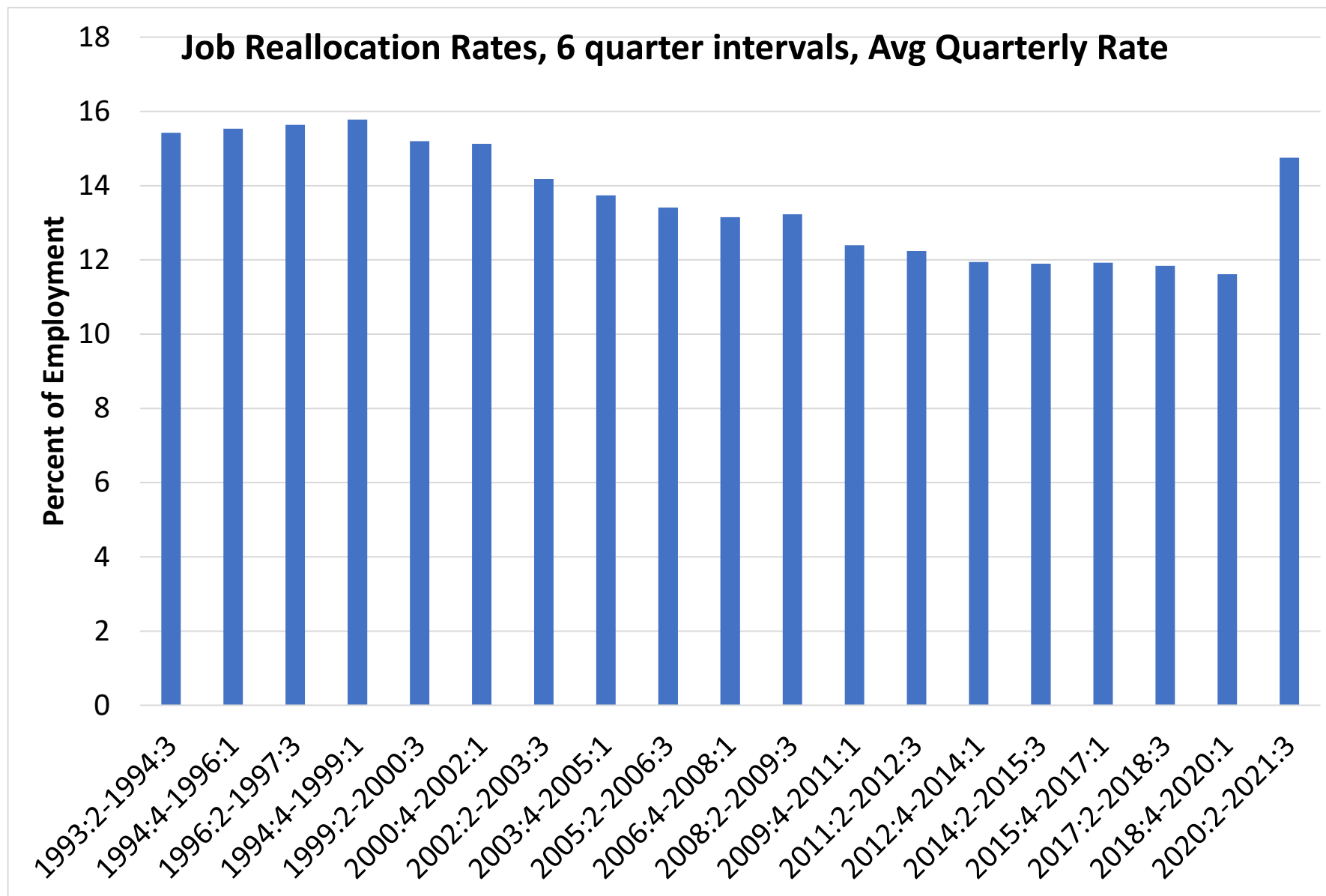
Spike in closings induced job destruction but partly transitory.

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.

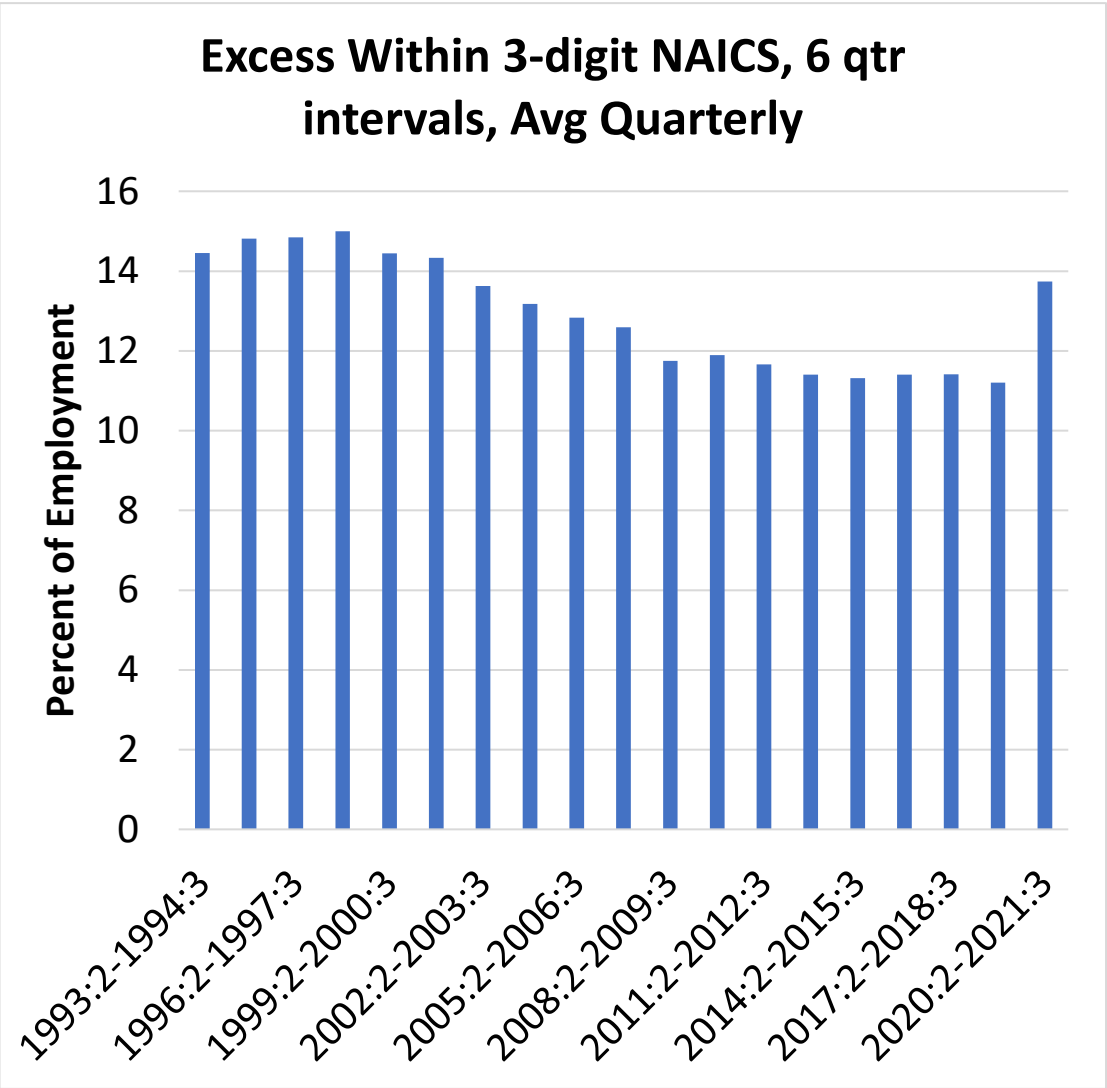
Establishment births both from new firms and existing firms



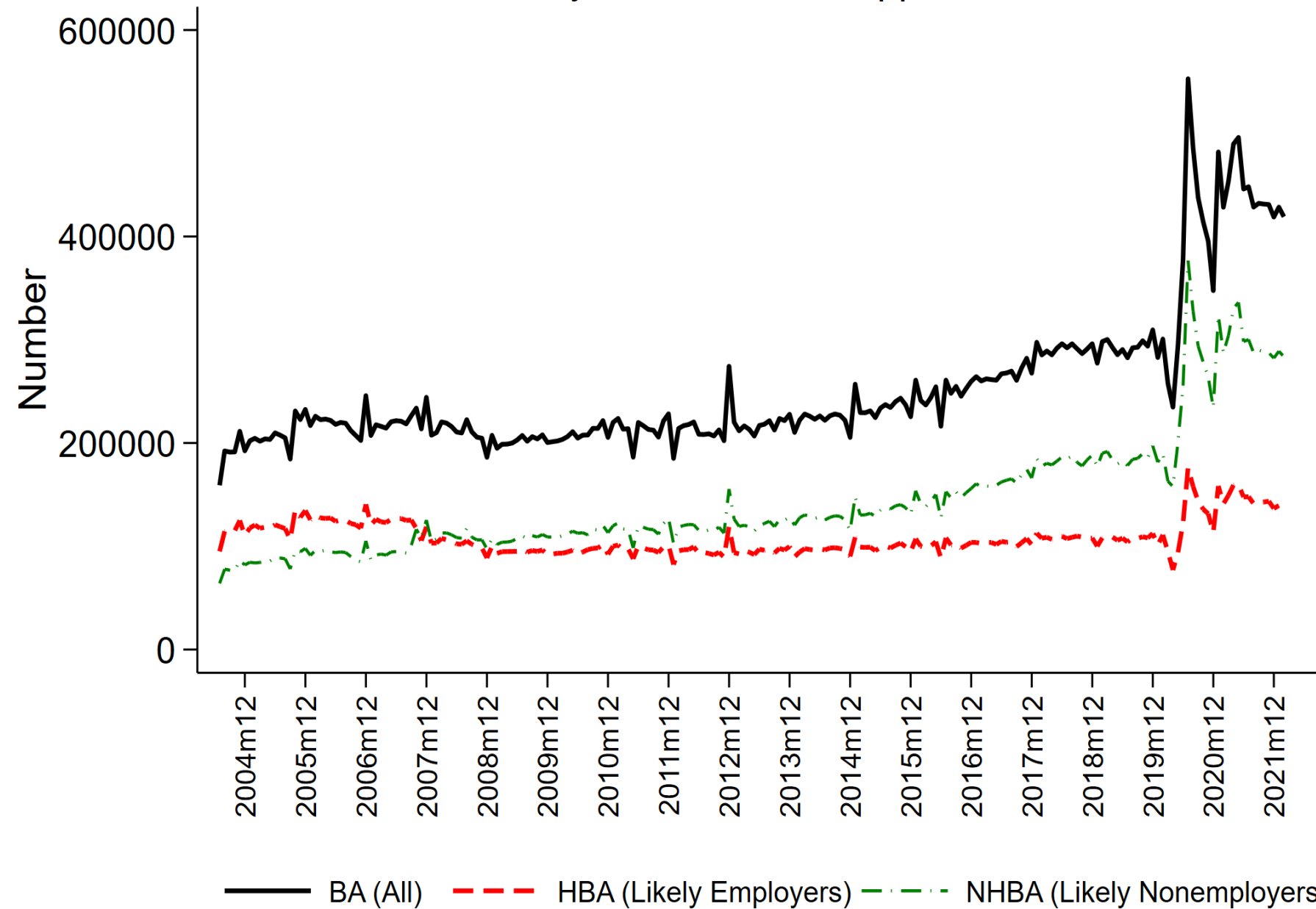
Secular Decline in
Pace of Reallocation
(Business Dynamism)
Pre-Pandemic

Increase in Pandemic
to levels not seen
early 2000s

Both within and between industry reallocation increased



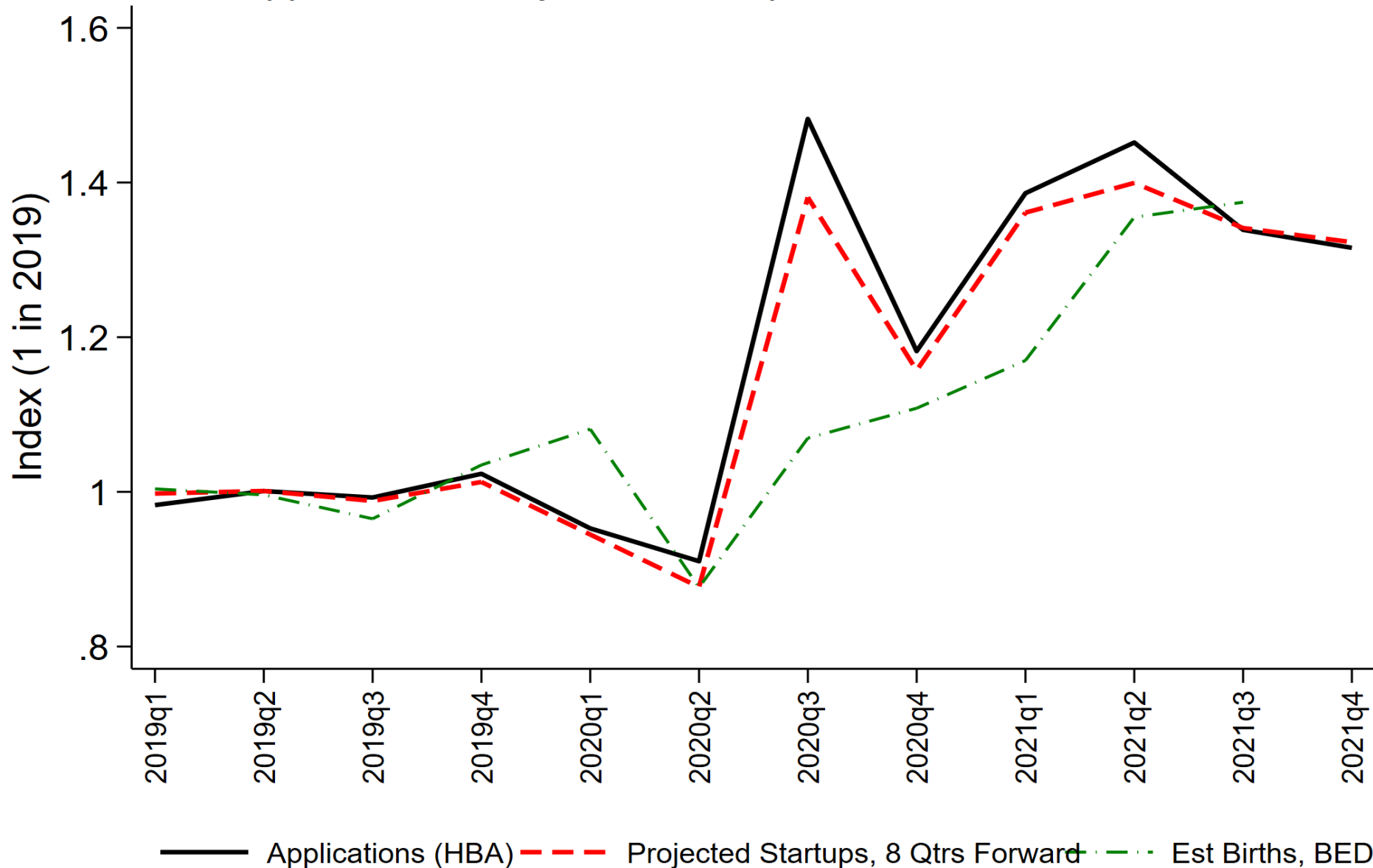
Monthly New Business Applications



New Business Applications:

- 1. Surged in Pandemic.
- 2. HBA highly predictive of actual startups
- 3. NHBA predictive of new nonemployer businesses.
- 3. Leading indicator of Reallocation.

Applications, Projected Startups and Establishment Births

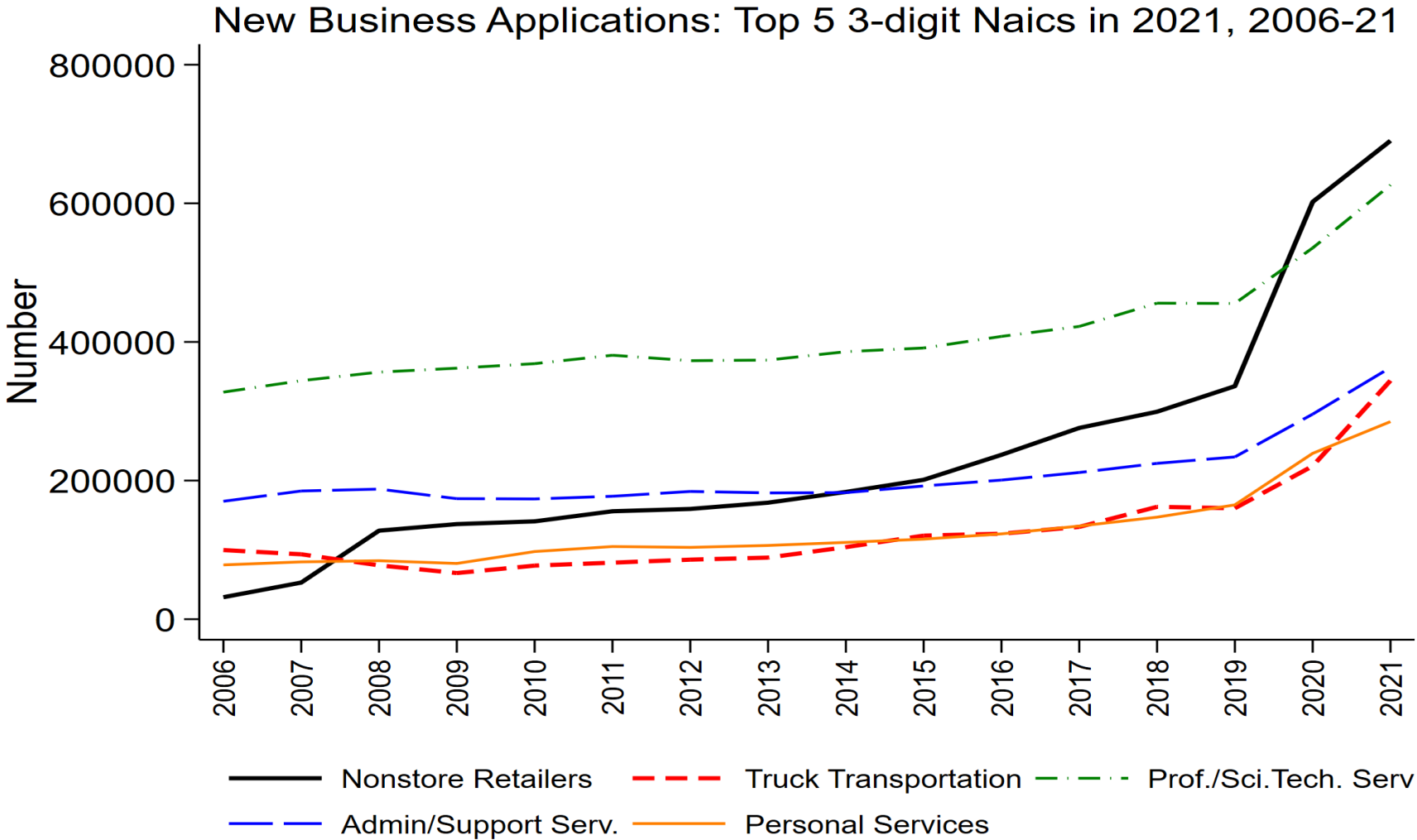


Surge in Applications beginning to show up in Establishment Births.

Projected Startups have historically been very accurate.

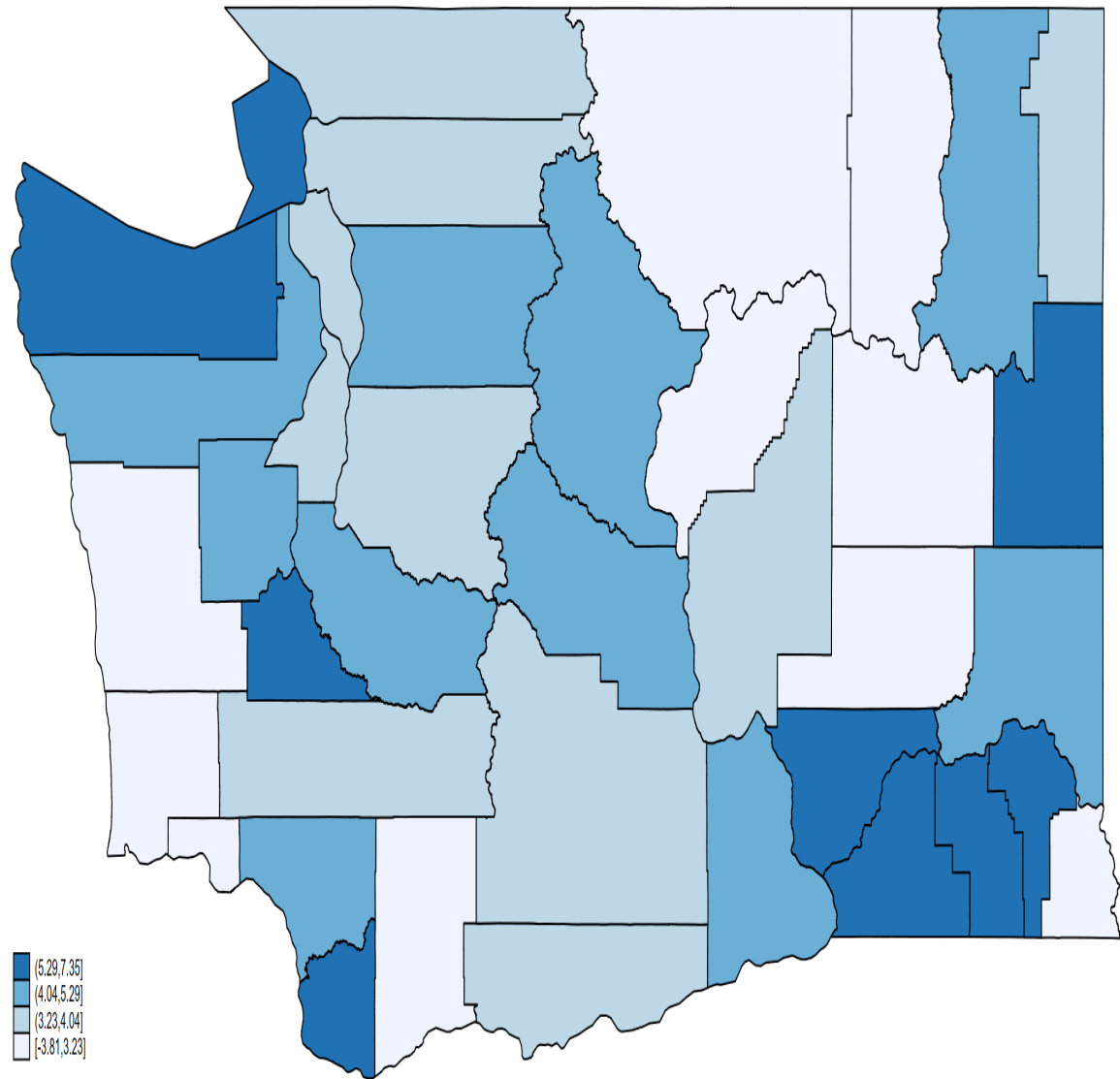
Most applications don't transit to actual businesses but elasticity of actual startups with respect to applications is close to one.

Five 3-digit (NAICS) sectors account for 50% of Surge



Source: Tabulations from the BFS.

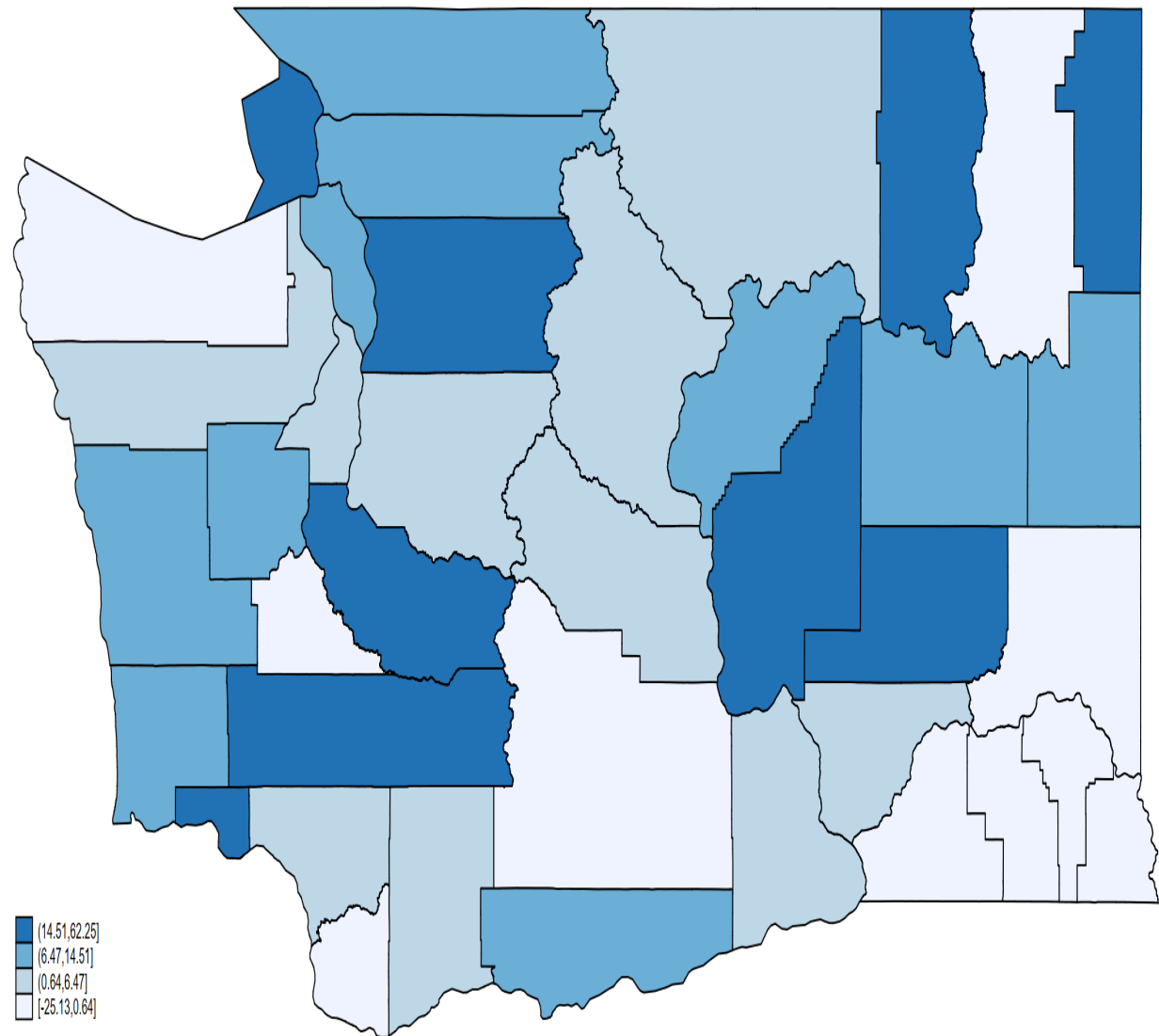
Average annual growth rate of New Business Applications, 2010-19. State of Washington



Corr(Pct Urban 2010, Growth BA)=0.46

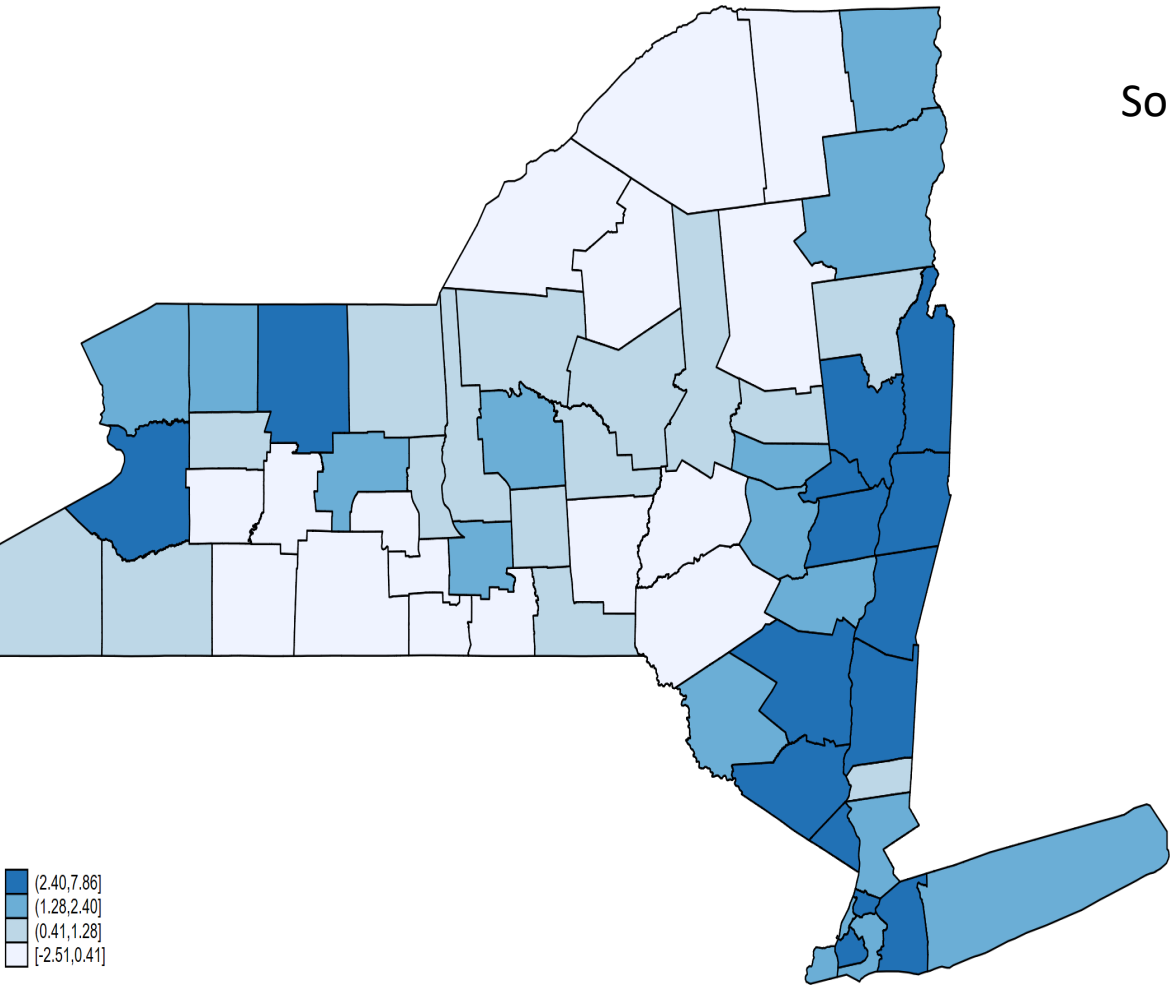
Source: Tabulations from the BFS

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



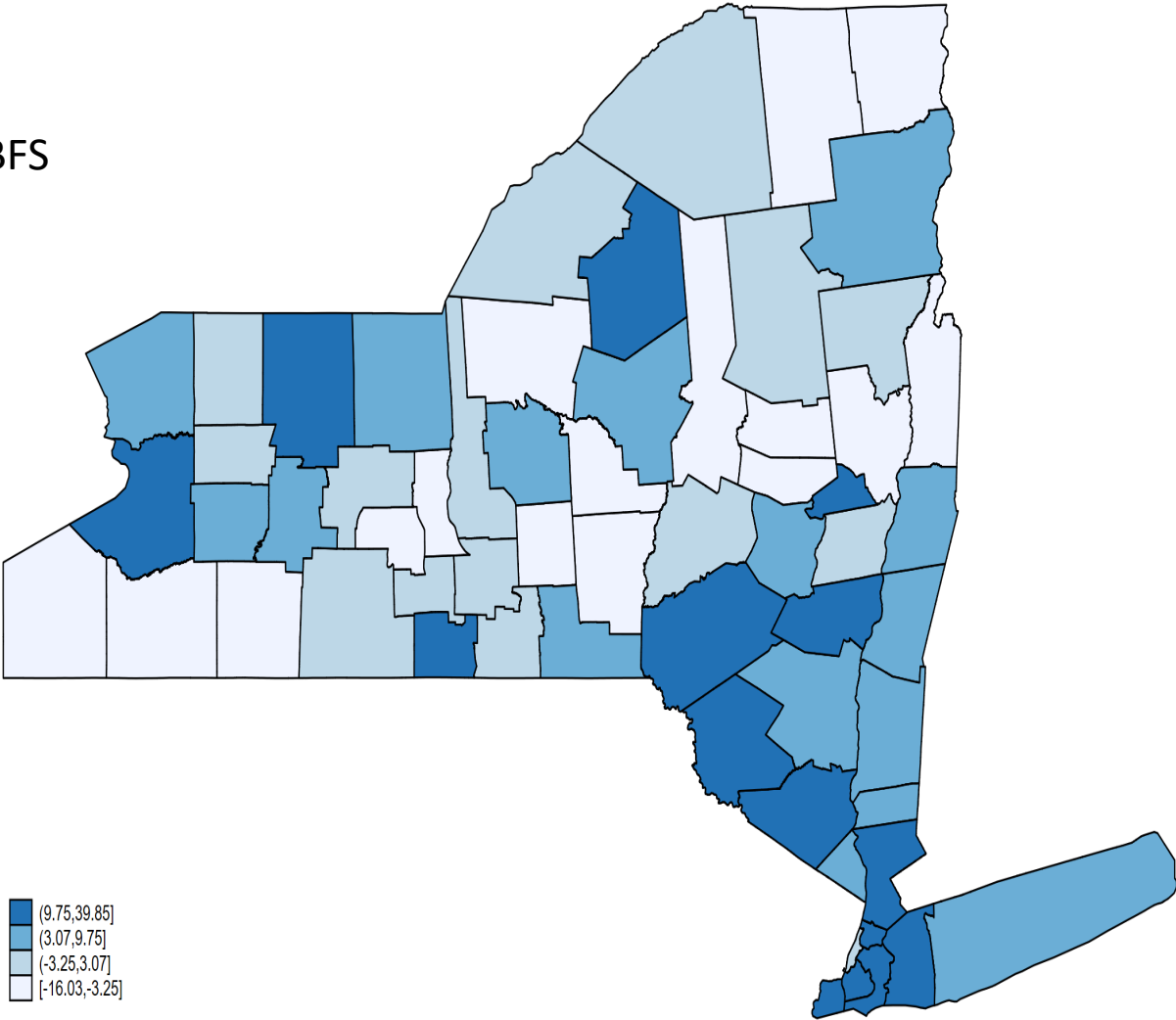
Corr(Pct Urban 2010, Growth BA)=-0.30

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%

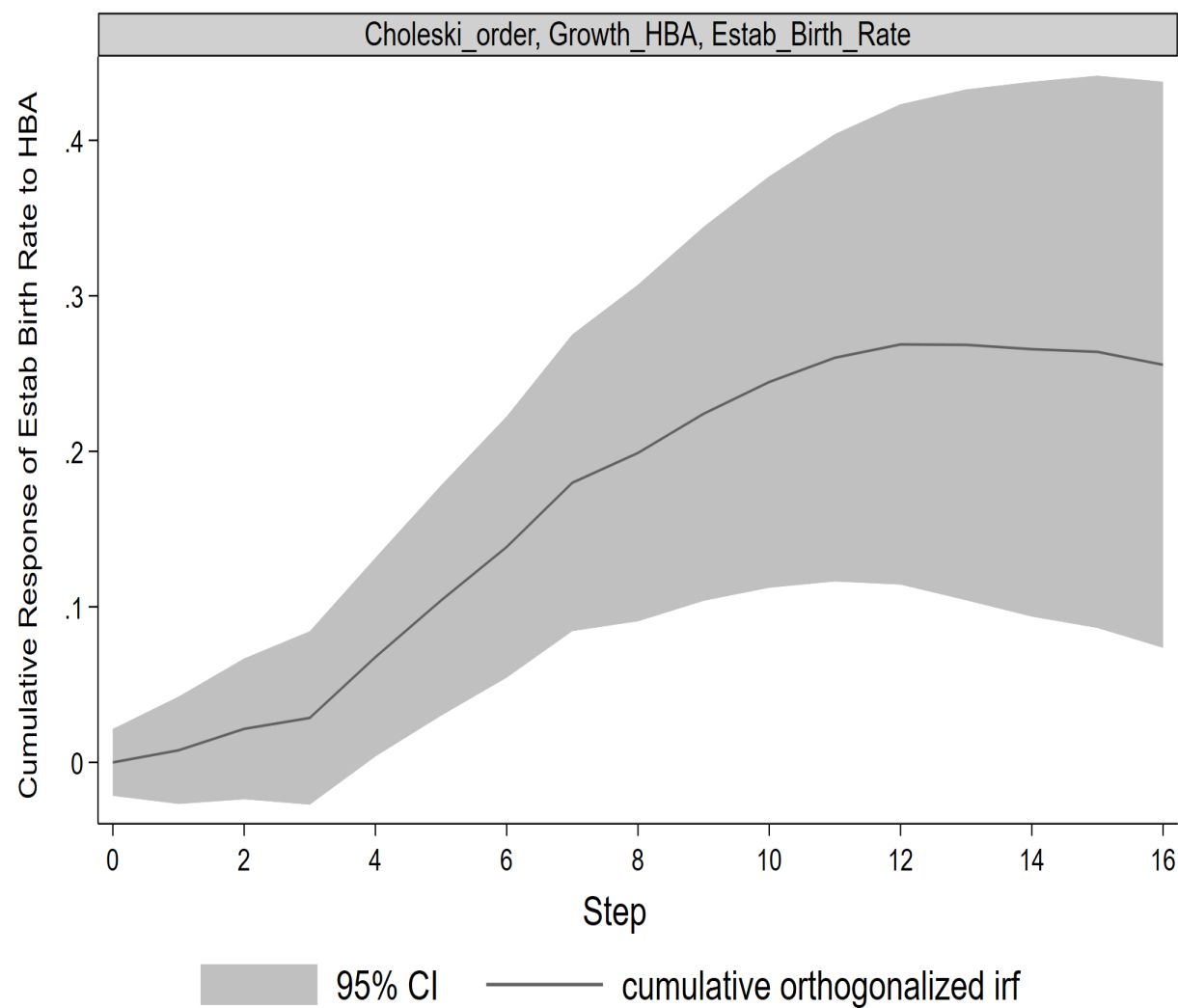
Average annual growth rate of New Business Applications, 2019-20, State of Washington



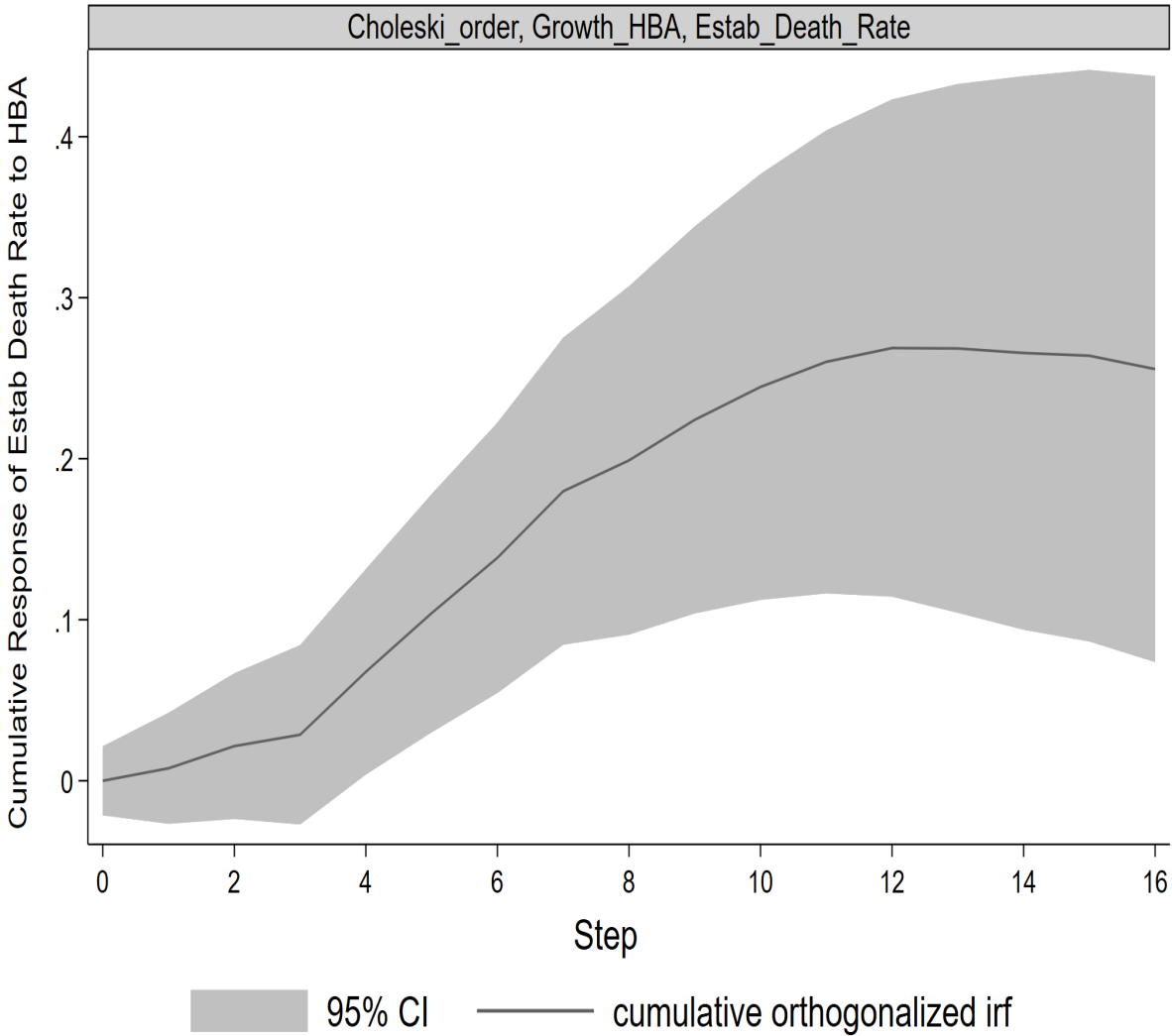
Manhattan (NY County) avg growth of -1.7%
Queens (Queens County) avg growth of 12.7%
All counties surrounding Manhattan growth > 9.75%

Source: BFS

New Business Applications Leading Indicator for Business Turnover

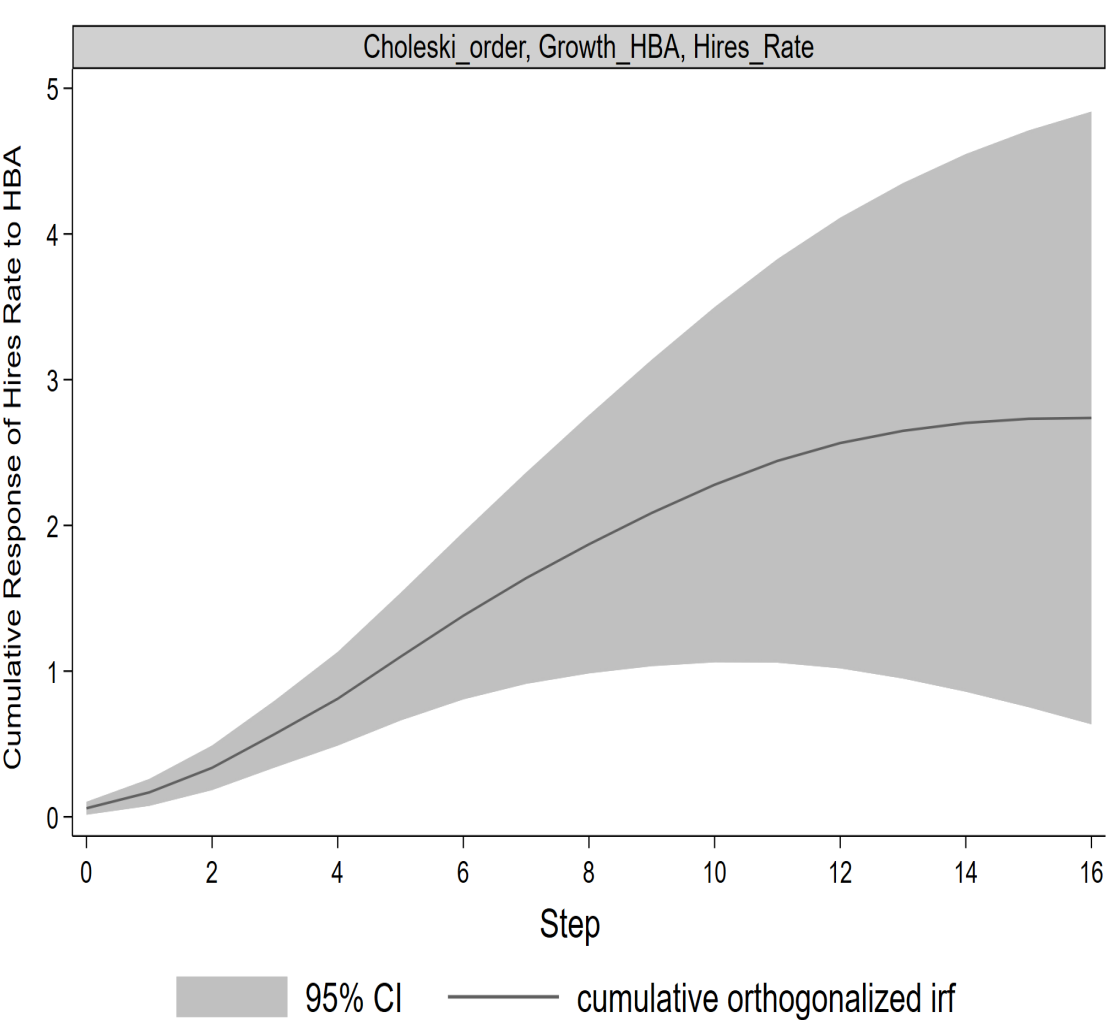


Graphs by irfname, impulse variable, and response variable

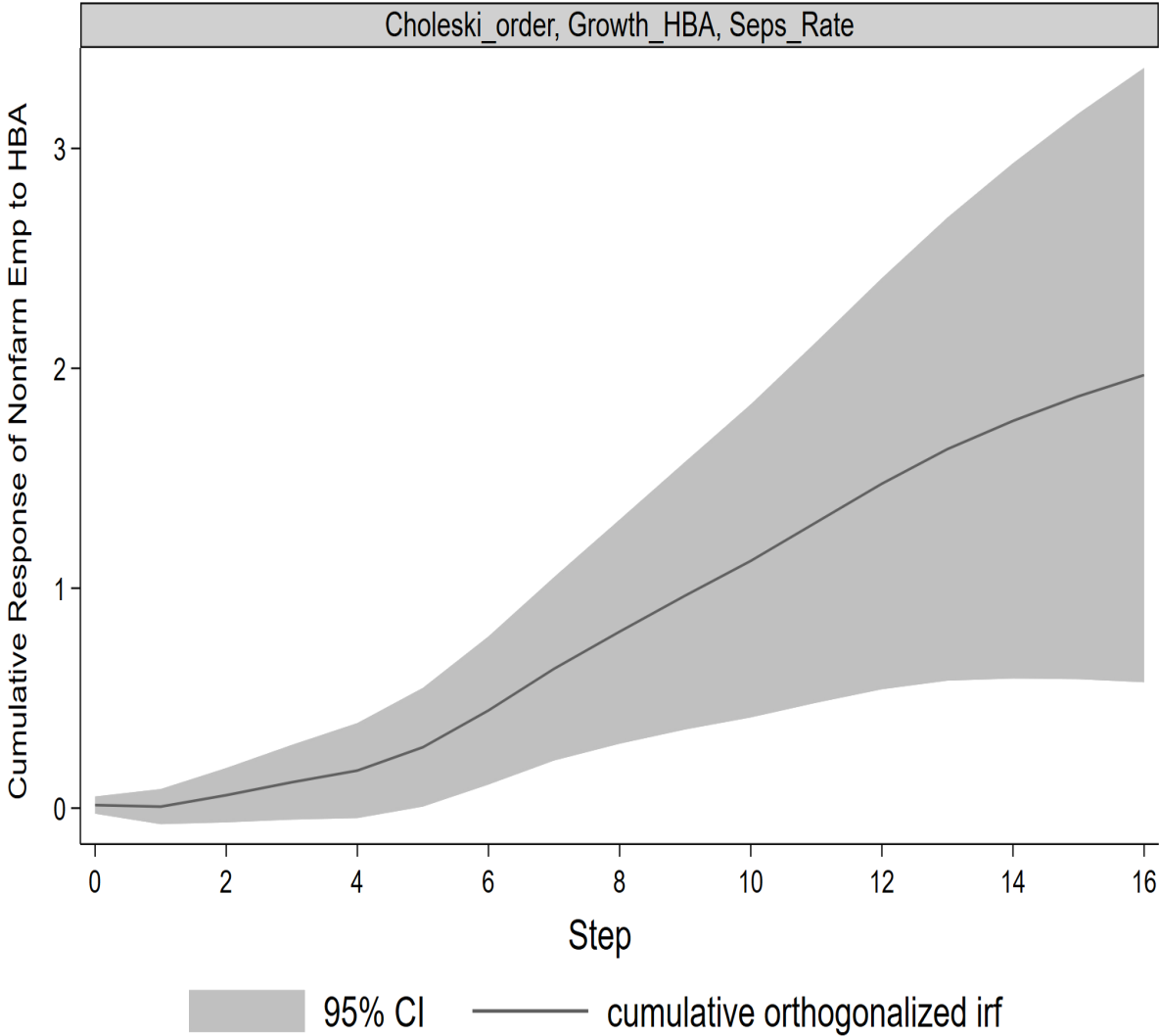


Graphs by irfname, impulse variable, and response variable

New Business Applications Leading Indicator for Worker Turnover



Graphs by irfname, impulse variable, and response variable



Graphs by irfname, impulse variable, and response variable

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

Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis (2021). "Why Working from Home Will Stick," NBER Working Papers 28731, National Bureau of Economic Research, Inc.

Davis, Steven, and John Haltiwanger (2015) "Labor Market Fluidity and Economic Performance" in Re-Evaluating Labor Market Dynamics 2014 Jackson Hole Symposium Volume Published by the Federal Reserve Bank of Kansas City, 17-108.

Davis, Steven, and John Haltiwanger (2019). "Dynamism Diminished: The Role of Housing Markets and Credit Conditions" NBER Working Paper No. 25466, January.

Decker, Ryan A., and John Haltiwanger (2022). "Business entry and exit in the COVID-19 pandemic: A preliminary look at official data," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, May 06, 2022, <https://doi.org/10.17016/2380-7172.3129>.

Haltiwanger, John. (2022) "Entrepreneurship During the COVID-19 Pandemic: Evidence from the Business Formation Statistics." NBER Working Paper no. 28912. (forthcoming, *NBER Entrepreneurship and Innovation Policy and the Economy*, 2022)