Job Recovery and Recent Momentum in Labor Participation

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Employment continued to recover in the second half of 2020, after dropping sharply during the first six months of the year. However, the labor market, in general, is still extremely slack as a result of the Covid-19 health crisis, and there are major disparities between population groups and changes in the composition of employment. The most blatant disparities are the gender gaps in employment, participation, and unemployment. The changes in the composition of employment are the result of a faster recovery in the non-wage-earning and informal segments versus the wage-earning and formal segments, which is predictable due to their flexibility and lower entry costs. Labor income in the non-salaried and informal segments was the hardest hit at the beginning of the crisis, and, although there has been some recovery, it is mainly due to an increase in the number of hours worked. Labor participation also continues to recoup, but the levels are still below those observed before the pandemic. However, the labor supply is growing slower than employment, and this has been reflected in successive declines in the unemployment rate (UR). The pace of these reductions, which was significant at the beginning of the recovery in employment, has shown a tendency to slow in recent months, leaving UR figures at levels that are still quite high. Given these elevated URs and low job vacancy rates even now, the Beveridge curve suggests the Colombian labor market is very slack. The UR is expected to continue to decline in 2021, although at a slower pace than in the second half of 2020. The national UR is likely to average between 12.5% and 15.5% in 2021, with 14% being the central figure. Long-term UR estimates consistent with stable inflation (Nairu) suggest a positive UR gap of around 2.4 percentage points (pp) by 2021. So, the labor market slack would endure, although to a lesser extent than in 2020. This being the case, the labor market would not be expected to generate upward pressure on inflation during 2021 due to wage costs.

As usual, this report is divided into two sections. The first offers a detailed look at the main market conditions in the labor market. The second section examines the recent determinants of labor participation, and particularly how the health crisis has affected the probability of participation by different population groups, according to both their individual and household characteristics. We see the pandemic has had negative effects on the probability of participation among women, people without higher education, and households with children. In households with children, the pandemic increases the participation of men and reduces that of women, reflecting important gaps in the distribution of caregiving activities. The differential effect of the pandemic on women is concentrated among women in households with children, which may mirror the limitations of early childhood services and schools during the pandemic. This result is used to quantify the additional pressure on labor supply and unemployment that would come from these services reopening fully. It is estimated that between 159,000 and 205,000 women would return to the labor market. This would translate into an increase in the total labor participation rate of 0.4 to 0.51 pp. In general, the effect of this movement on unemployment would be small.

Fuente: https://www.banrep.gov.co/en/job-recovery-and-recent-momentum-labor-participation