

Fed Listens 2021: Summary of the Cleveland Fed's Program

The COVID-19 pandemic has upended many customary arrangements in labor markets and households, creating challenges and opportunities, as well as new patterns of employment that are expected to endure even as the impact of the public health crisis fades.

That was the assessment of a diverse set of small- and large-business leaders, labor professionals, bankers, academics, social-service providers, and others who participated in 2021 Fed Listens events hosted by the Federal Reserve Bank of Cleveland.

The Cleveland Fed discussions were part of a series of Fed Listens gatherings held across the Federal Reserve System to better understand the economic impact of the pandemic. These listening sessions, modeled on the original Fed Listens events in 2019 that informed the Fed's review of its monetary policy framework, have yielded important insights into the costs of the pandemic and the shape of the recovery. For its part of the 2021 Fed Listens initiative, the Cleveland Fed collected a wide range of anecdotal snapshots of the pandemic's impacts at a series of Bank-led events that included the following:

- Three small-group discussions, totaling more than 40 participants, during [Policy Summit 2021](#), the Cleveland Fed's biennial conference on community development issues. The summit was held virtually on June 23–25. Cleveland Fed President and CEO Loretta J. Mester participated in all three sessions, as did a member of the Federal Reserve Board of Governors (BOG) staff.
- Meetings of the Bank's advisory councils during September and October that focused specifically on the pandemic, including a special joint meeting of the Business Advisory Council and the Community Advisory Council on October 21. President Mester participated in the October 21 meeting along with a BOG representative.

Discussions focused on four topic areas:*

1. Labor/workforce developments amid the pandemic
2. Assessing the pandemic's disproportionate economic impacts
3. Gauging progress in economic recovery
4. Anticipating the new normal

1. Labor/workforce development key takeaways

- Employers continued to struggle to find workers amid a changed demographic landscape.
 - Workers who retired in the early days of the pandemic haven't returned to the labor market.
 - Women have been slow to return to the labor force, due in part to concerns about childcare.
 - Some employers noted a trend of newly hired workers quitting very suddenly. One retailer said it wasn't uncommon for new employees to walk out in the middle of their shift.
 - A manufacturing executive noted that the biggest labor shortages tend to be on the lower end of the wage scale: production workers, warehouse workers, truck drivers. He related this to a desire for immigration policy to change.
- The pandemic confronted workers with novel challenges and uncertainties that caused them to recalibrate costs and benefits of work.

- Employees often cite lack of childcare as a hindrance to returning full-time to the labor force. The capacity at some childcare facilities has been substantially reduced, in part because of physical distancing requirements and because the facilities themselves can't find workers.
- Ever-changing COVID-19 rules within schools create uncertainty for working parents, making it difficult to predict when their children may be allowed to be on campus.
- Concerns about workplace health and safety continue to drive a fair amount of worker reluctance to return to the labor market. Notably, a commercial banker reported that among the bank's clients, firms with high vaccination rates are observing more positive outlooks than those with lower vaccination rates.
- Quality of health insurance was cited as a major issue for workers in rural Appalachia, where workers may not yet be seeing wages of \$15–\$18 per hour. This, combined with costs of obtaining a job, transit time, and childcare reduce the incentive to work.
- To attract and retain workers, firms are raising wages, tapping federal assistance, and increasing training programs—with mixed results.
 - Even as many firms are raising wages (sometimes several times over the past year) and adding on-site amenities to attract workers, a sizable share of people who left the labor market in the early part of the pandemic haven't returned to their old jobs. Those who remain in the labor market change jobs in pursuit of higher wages.
 - Many of those who have returned to the workforce are getting more frequent wage increases. One grocery store chain has started giving workers pay increases after 90-day trial periods and 6-month performance reviews. Managers also assess workers monthly thereafter, awarding pay increases as needed to retain the most reliable workers.
 - The head of a workforce development center is seeing a lot of people, including a notable number from the restaurant and hospitality industry, looking for training to change their careers. IT, healthcare, manufacturing, and transportation are popular options.
 - The expiration of pandemic-related unemployment benefits hasn't resulted in a mass return to work, many participants noted.
 - Employees who accepted positions two years ago at \$12 per hour are now refusing the same job at \$16 per hour, according to a District staffing firm.
 - A manufacturing executive noted that his ability to raise wages was limited due to rising freight costs.

2. Disproportionate impacts key takeaways

- Some economic sectors have fared worse than others.
 - Businesses and workers that rely on in-person, face-to-face contact with customers—especially leisure and hospitality sector—have fared worse than those that could go to fully remote operations.
 - For many small firms, Paycheck Protection Program loans were important as a stopgap but it's not clear what will happen when the money runs out.
 - A community development practitioner who works with immigrant groups said that many small retailers owned and operated by immigrants have struggled to reopen during the pandemic, hurting not only their livelihoods but also their customers who relied on these stores for certain goods and services that are hard to find in the United States.
- Even with significant raises, some workers are having trouble keeping up with inflation.
 - One manufacturing executive said that some factory-floor jobs pay about \$19 per hour, and even with plans for above-historical-average wage increases of 5 percent, that's not enough for some workers to absorb increased rent and gasoline prices. "It's not possible for me to pass on the level of price increases I'd need to pass on to customers to make my employees whole," the executive

said.

- Both single-family housing prices and rental rates are growing faster than incomes.
 - Some households whose members lost their jobs during the pandemic faced large rent hikes or eviction.
 - A nonprofit leader said that evictions were heaviest in lower-income neighborhoods in her region. Because housing courts were primarily using virtual means to conduct hearings, residents who lacked broadband service were facing an extra hurdle to remain in their homes. Meanwhile, some renters are several months behind in payments and perhaps unaware of rental-assistance programs that could help.
- Rural workers aren't seeing the same wage gains as those in more urban areas.
 - Rural workers don't feel they have bargaining power.
 - Rising costs of private transportation—a necessity in these areas where populations are dispersed—are making commuting to work unaffordable.
 - Some low-income rural workers who can't afford co-payments on health insurance have experienced health declines so significant that coming into a workplace daily is impractical. As a result, many are opting out of a return to the labor market, relying instead on public benefits.
 - A rural economic development consultant said this: For many, the benefits of working do not exceed the costs of returning to work.

3. Economic recovery key takeaways

- Firms most often cite supply chain disruptions as a challenge they face in this recovery.
 - Almost across the board—from the industrial to professional services sectors—firms are facing delays in receiving orders. In one extreme case, a steel manufacturer addressed the supply bottleneck by purchasing a one-year supply of steel, requiring the need for a new warehouse.
 - A freight-hauling firm executive said that labor shortages were secondary in importance to the truck shortage: even if he had drivers, he wouldn't have enough trucks.
 - A repair service company noted that time to sell hasn't changed, but he can't get the parts he needs.
 - Many participants reported significant cost pressures and extended lead times, prompting them to raise prices.
 - One manufacturer has been able to pass-through cost increases to its customers because these customers appear to be less price sensitive than they were previously and are more concerned about getting the products and materials they need.
 - Others find they cannot raise prices: a skincare product maker is unable to pass cost increases to the retailers carrying its products because they are unwilling to accept any price hikes, resulting in shrinking profit margins for the manufacturer.
 - Wage increases at some firms are having ripple effects for others: a nonprofit leader said that he can't retain workers because they can now earn more than \$15 per hour at fast-food restaurants.
 - Supply chain disruptions are working both ways: one tool maker said that finished products going to China and India are backed up in Chicago, waiting to be shipped out.
- Small business survival and access to capital is a concern.
 - Helping small businesses access capital is very important, and commercial banks need government and private partners to achieve that, several financial services executives said.

4. New normal key takeaways

- Employees have more leverage and are re-evaluating their relationship with work.

- An economic development consultant observed a “fundamental re-evaluation of the relationship between work and money and life goals...We have workers not going back [to their jobs] because they discovered they can have a healthier lifestyle if they use Medicaid benefits instead of a high-deductible health insurance program.”
- Robots may replace more workers as firms turn to automation.
 - Faced with increasing labor shortages, some manufacturers have invested in automation and equipment.
 - Although workers will be needed to maintain and install equipment, and many of those jobs will be high-paying, there will be fewer on-site workers needed than in the past.
- A permanent shift to remote and hybrid work.
 - Real estate industry professionals have seen demand for downtown office space plunge since 2019.
 - The shift spans employers of all shapes and sizes. For example, in a semiannual small-business survey conducted by a financial services provider, one in four small firms said they plan to adopt a hybrid work environment, and one in 10 will allow employees to choose where they work.
 - Younger workers, in particular, have already come to expect flexible work arrangements and more work–life balance.
 - A bank in the District recently tried to fill 15 positions, and every applicant wanted the ability to work from home.
 - One consequence of remote work is that many local governments could see a reduction in tax revenue and will be unable to afford the same level of services and community programs.
 - Commercial developers worry that firms will reduce their physical footprints, leading to an increase in office vacancies.
 - One professional-services executive commented: “I don’t know if we’ll ever again see the traditional 40-hour work week with people coming into the office at 9 am every Monday.”

***Questions asked during FRBC’s 2021 Fed Listens Program**

Labor/workforce

1. What pandemic-related factors are currently affecting conditions in the labor market? Which of these factors do you see as temporary, and which will be longer lasting?
2. Has the economic recovery affected the ability of workers to bargain for wages or benefits?
3. What challenges do educators at universities, community colleges, or vocational institutions need to address to prepare individuals for jobs in the post-pandemic economy?

Disproportionate impacts

1. How are businesses and households/communities responding to the higher prices of some items, such as gasoline and groceries?
2. Do you see areas where the economic recovery has been uneven? What risks do these disparities pose for our economic performance?
3. How are renters and homeowners faring with rent and mortgage payments?

Economic recovery

1. To what extent are businesses’ operations still being affected by COVID-19? How are business owners responding?
2. To what extent are businesses facing ongoing supply pressures? If so, when do you expect these pressures to abate?

3. How do you assess the level of confidence in the business or community you represent? How has this level of confidence changed since the onset of the COVID-19 pandemic?

New normal

1. How has the pandemic changed how and where people live and work? What changes are likely to be permanent? Is working together in the office and in multi-story office buildings a thing of the past?
2. In what ways will individuals and businesses need to adjust to the new normal?