Dissecting the Labor Market Since COVID-19

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Recently, real estate investors have been preoccupied, justifiably, with the level of interest rates and whether and when the Federal Reserve might reduce policy rates. But in the long term, the value of property is highly reliant on another aspect of the macroeconomy—the labor market. Real estate depends on workers being employed and filling office space (assuming they are working in the office), being able to afford to rent apartment units, buying goods that move through retail properties and logistics centers, and creating demand for all the other types of commercial property. The COVID-19 pandemic created upheaval of historic proportions in the job market, so this seems like a good time to review what happened and examine the state of the job market today.

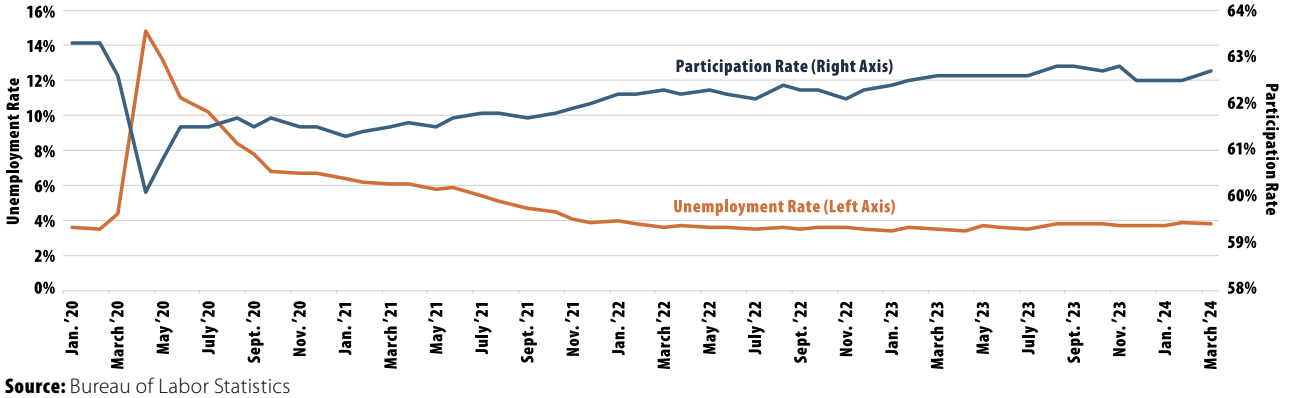
There has been no shortage of media reports over the past four years on the effect of COVID-19 on jobs—a huge increase in unemployment as the pandemic took hold and the economy shut down followed by, once the economy began to open again, stories of worker shortages and increasing wages. Exhibit 1 shows the overall path of the labor market. In February 2020, immediately preceding the outbreak of the pandemic in the US, unemployment stood at 3.5%, but by April of that year, it had surged to 14.8%. As the effects of COVID receded, unemployment fell, and most recently (March 2024), it has been reported at 3.8%, slightly above but not far from its pre-COVID level. Not discussed much in the media is a number just as important, if not more so—the labor force participation rate, the percentage of the working age population that is either employed or looking for work. The participation rate followed a pattern the reverse of the unemployment rate's, falling dramatically as the economy shut down with COVID but then gradually recovering. However, the participation rate has not yet come back to its pre-COVID level. In February 2020, the participation rate was 63.3%, but as of March 2024, it has risen to only 62.7%, indicating that a significant number of workers continue to stay out of the workforce compared with pre-COVID norms.

Which Workers Have Left the Workforce? The Role of Education and Age

The overall national labor statistics for the US do not tell the whole story. The level of education workers attain has a large effect on the job market they face. Exhibit 2 shows the unemployment rates for individuals age 25 and older with different levels of educational attainment both in February 2020, immediately prior to COVID, and in February 2024.

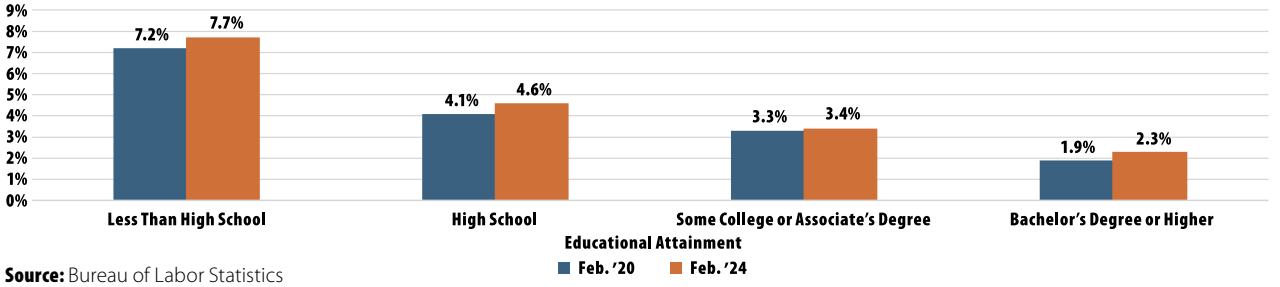
The exhibit shows the typical pattern of lower unemployment for higher levels of education both prior to COVID and in 2024. More important for this article, while

Exhibit 1: Unemployment and Labor Force Participation Rates



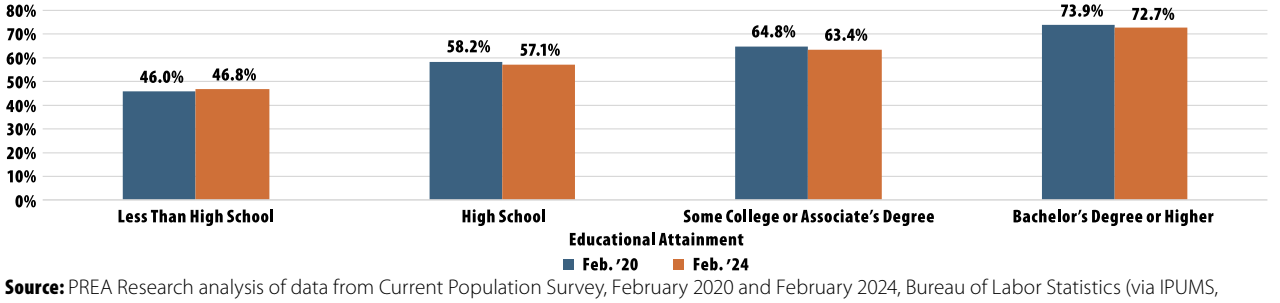
Source: Bureau of Labor Statistics
Note: For population 16 years and older.

Exhibit 2: Unemployment Rate by Education Level, Pre-COVID Versus 2024



Source: Bureau of Labor Statistics
Note: For population 25 years and older.

Exhibit 3: Participation Rate by Education Level, Pre-COVID Versus 2024



Source: PREA Research analysis of data from Current Population Survey, February 2020 and February 2024, Bureau of Labor Statistics (via IPUMS, University of Minnesota)
Note: For population 25 years and older.

the unemployment rates of none of the education categories have fully returned to pre-COVID levels, the increases in unemployment since before COVID have been greatest for people with lower levels of education. For both people who have only high school and those with less than high school, unemployment is 50 basis points (bps) higher than prior to COVID. Increases in unemployment rates have been more muted for those with higher levels of education.

Exhibit 3 provides the same comparison for the labor force participation rate. The patterns here are reversed: the participation rate of workers with less than a high school education has increased since pre-COVID, and the participation rate of groups with higher levels of education has decreased significantly. Some of the seeming strength in the labor market for people with higher education has been a supply rather than a demand issue—a significant number of workers with higher education have left the labor force altogether since COVID.

Here are some interesting questions: Why have workers with higher education left the workforce? Why has the participation rate for people who have a bachelor's degree or higher education decreased by 120 bps since before COVID and decreased 140 bps for those with some college or an associate's degree? What happened to these demographics?

Part of the decreased availability rate for workers with higher education can be explained by age. In Exhibit 4, I plot the participation rates for February of 2020 and 2024 by age from 16 years old to 80 or more years old. The typical pattern for labor force participation across ages holds in both time periods—labor force participation increases rapidly until people are in their mid-20s, stabilizes through their 30s and 40s, and starts to decline once people hit their early 50s. Comparing pre-COVID with the more recent time period, the two lines generally track each other fairly closely (sometimes the post-COVID line is higher and sometimes lower, but these numbers are based on samples of the population, so some variation is expected). The one age range in which a consistent difference appears is for workers 70 years of age and older; for older workers, participation has been consistently lower in 2024 than it was in 2020. Because many workers who choose to work into a later life stage are in nonphysical jobs that often require higher education, the reduced participation rate for older


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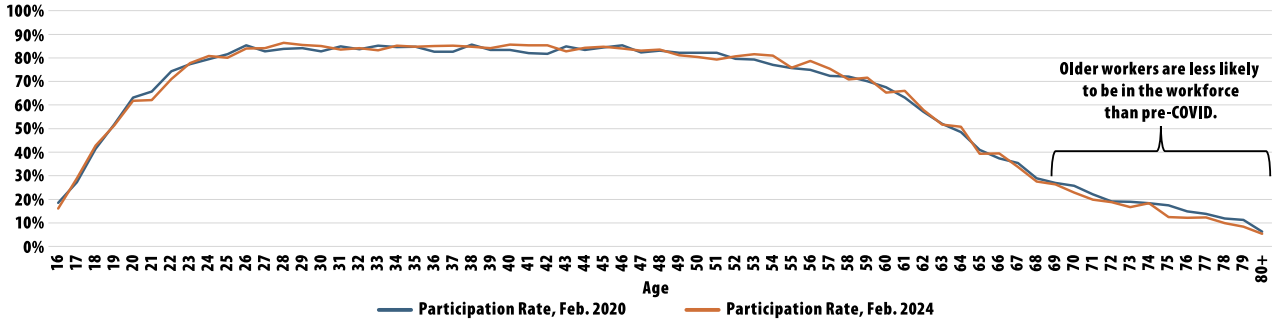
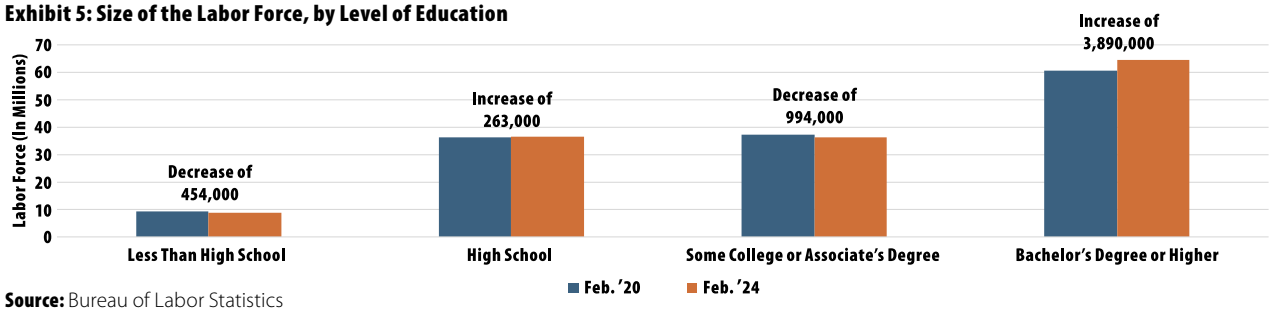
Exhibit 4: Participation Rate by Age, Pre-COVID Versus 2024



Source: PREA Research analysis of data from Current Population Survey, February 2020 and February 2024, Bureau of Labor Statistics (via IPUMS, University of Minnesota)

Exhibit 5: Size of the Labor Force, by Level of Education



Source: Bureau of Labor Statistics
Note: For population 25 years and older and includes those working and those looking for work.

workers may partially explain the reduced rate for those with higher education.

While I can point to no specific evidence about why older workers are less likely to stay in the workforce than they were before COVID, an intuitive explanation seems fairly obvious. Prior to COVID, many older workers planned to work a few more years before retiring, but the upheaval caused by COVID—in the economy, in the workplace, and in health protocols—caused many to decide to leave the workforce earlier than planned. As well, many people were displaced from jobs during the pandemic-induced shutdown, and for older workers, switching careers or moving to another location for a new job was less likely, meaning that many simply exited the labor force.

What of the other end of the educational spectrum? The participation rate of people with less than high school has actually increased since COVID, and those with high school have seen a relatively small drop. Many media stories over the past few years cited a worker shortage and demand for workers that was drawing individuals off the sidelines and into the workforce. While there is truth in that, it masks the continued weakness in the job market for those lacking higher education. Exhibit 5 shows the size of the labor force—people employed plus those looking for work—by level of education. The only significant growth in the labor force has been among those with a bachelor's degree or higher. The number of workers in the labor force with less than high school has been lower, despite the higher participation rate, indicating that this is simply a shrinking demographic in the US. Workers in the labor force with high school have had a minor increase in numbers, while numbers of those with some college or an associate's degree have dropped. Irrespective of labor force participation rates, there are simply fewer workers at lower education levels. The oft-mentioned worker shortage is not because demand for workers is up but because supply is lower. The lower supply of workers hides an underlying weakness in the job market for workers with lower levels of education.

Who Are Getting Jobs? And Where?

The underlying weakness of demand for workers with less than a bachelor's degree can be seen in the change

Exhibit 6: Change in Number of Employed, Pre-COVID Versus 2024

	Total	Less Than High School	High School	Some College or Associate's Degree	Bachelor's Degree or Higher
Change in Employment, Feb. 2020 to Feb. 2024	+2,249,345	(422,594) (–4.9%)	+83,510 (+0.2%)	(1,027,354) (–2.8%)	+3,615,784 (+6.1%)

Source: PREA Research analysis of data from Current Population Survey, February 2020 and February 2024, Bureau of Labor Statistics (via IPUMS, University of Minnesota)

in the number of employed individuals since COVID, broken up by level of education, as shown in Exhibit 6. In total, more than 2.2 million more people are employed in 2024 than pre-COVID. However, more than 100% of that is because of an increase in employment of those with at least a bachelor's degree. In aggregate, more than 1.3 million fewer people with less than a bachelor's degree are employed in 2024 compared with pre-COVID. Employment opportunities have moved even further toward workers with higher education since the pandemic.

Ultimately, because real estate is a location-dependent asset class, the effect of employment on property values is based not on the national labor market but on more local conditions. For a closer look at how employment has changed since the pandemic on a local level, Exhibit 7 breaks down the numbers by state and lists the top 15 states and the bottom ten for overall employment growth from 2020 to 2024. The results show that the national numbers mask the unique story each state has in terms of how its job market has developed.

Not surprisingly, four of the top five states for employment gains are in the Sunbelt—Texas, Georgia, Florida, and Tennessee. Texas, Georgia, and Tennessee have had employment gains across (almost) all levels of educational attainment (with the exception of less than high school in Texas). Employment gains in those states have been widespread and cover a range of skill and education levels. Florida's story is somewhat different, however; it has gained employment among workers with the highest levels of education and among those with a high school education, but the state has had a decrease in employment for other categories.

Rounding out the top five is Pennsylvania, which has had large gains in employment for people with higher education but losses for those with lower levels of education. In Pennsylvania, growth at the top end is not "trickling down" to create more employment opportunities at the lower rungs of the educational ladder. Further down the list, New York has a similar story but even more extreme than Pennsylvania. From pre-COVID to today, New York State has had an increase in employment of more than 360,000 people with a bachelor's degree or higher. However, it has lost employment in all other categories of education.

California is the state with the worst record of employment changes from 2020 to 2024, with a decrease of more than 247,000 employed workers over the period. Despite this, California has made significant gains in employment for those with a bachelor's degree. However, mass losses of employment for people in California with some college education account for almost half of all the losses nationwide in the four years since COVID. California is a prime example of how workers with different levels of education experience the labor markets differently. For real estate investors, it is also important to remember that property values in the long term may be related to employment growth, but demand for many types of properties depends on employment growth in particular categories or certain levels of education—an overall poor job market may still experience growth in the types of jobs that drive demand for a specific property or vice versa.

The Midwestern states of Michigan, Minnesota, and Illinois have had essentially the reverse issue found in California and New York. Losses of employment at the highest education levels in those states have more than offset gains for people at the lowest educational categories. However, gains at the low end without gains at the higher end may not be sustainable, given the more technology-focused nature of the economy across all industries and job categories.

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Exhibit 7: Change in Employment Since Pre-COVID, by Education and State

	State	Total Change in Employment, Feb. 2020–Feb. 2024	Less Than High School	High School	Some College or Associate's Degree	Bachelor's Degree or Higher
Best States for Employment Gains	Texas	828,605	–183,195	170,284	48,699	792,817
	Georgia	532,742	9,625	65,450	229,485	228,182
	Pennsylvania	300,832	–21,617	–249,344	102,235	469,558
	Florida	271,642	–34,644	234,675	–80,153	151,763
	Tennessee	157,105	41,646	8,010	8,724	98,726
	Utah	148,097	–24,894	26,280	–1,532	148,243
	Missouri	129,046	47,671	–25,745	9,794	97,327
	New Jersey	112,768	–79,732	113,070	96,195	–16,764
	Oklahoma	112,580	–26,445	–6,586	44,829	100,783
	North Carolina	105,197	110,945	–79,199	–102,858	176,309
	South Carolina	91,699	35,054	63,058	83,055	–89,468
	New York	84,708	–92,280	–112,729	–70,847	360,563
	Arizona	73,718	–65,172	48,004	–49,565	140,451
	Idaho	59,967	14,492	25,567	–19,655	39,562
	Alabama	59,184	–38,947	46,779	37,646	13,706
Worst States for Employment Gains	Iowa	–60,042	9,478	–15,025	–56,529	2,034
	Indiana	–63,014	37,311	–2,624	–111,643	13,941
	West Virginia	–68,314	–8,697	–23,421	–28,844	–7,351
	Michigan	–96,588	31,733	17,319	–42,977	–102,663
	Minnesota	–99,018	–26,716	23,419	–22,483	–73,238
	Illinois	–104,777	112,259	95,283	–29,929	–282,390
	Kentucky	–107,932	3,720	–65,333	752	–47,071
	Virginia	–130,605	–9,638	–45,514	35,372	–110,825
	Louisiana	–212,202	–32,457	–25,942	–81,099	–72,705
	California	–247,267	–186,905	67,996	–508,107	379,749

Source: PREA Research analysis of data from Current Population Survey, February 2020 and February 2024, Bureau of Labor Statistics (via IPUMS, University of Minnesota)

Look Beyond the Headlines

Employment is a key macroeconomic variable that is crucial to the long-term viability of real estate investment strategies, and investors should keep an eye on trends in the labor market. But more important is looking under the hood and considering how employment is changing in specific locations or for the particular demographics that are important for a certain property or sector. Sometimes headline numbers can mask a lot of variation—while the labor market as a whole has had great gains since the jolt of COVID-19, the gains are certainly not universal. ■

Greg MacKinnon is PREA's Director of Research.