

COVID-19

Lives and livelihoods: Assessing the near-term impact of COVID-19 on US workers

Up to one-third of US jobs may be vulnerable—and more than 80 percent are held by low-income workers

by Susan Lund, Kweilin Ellingrud, Bryan Hancock, James Manyika, and André Dua



As the United States takes action to contain COVID-19 transmissions and “flatten the curve,” physical distancing measures are the first line of defense—and they have profoundly altered the rhythms of everyday life. Countless neighborhood businesses have been shuttered, trips to the grocery store have to be carefully planned, and many parents are working remotely from home with their kids in the background.

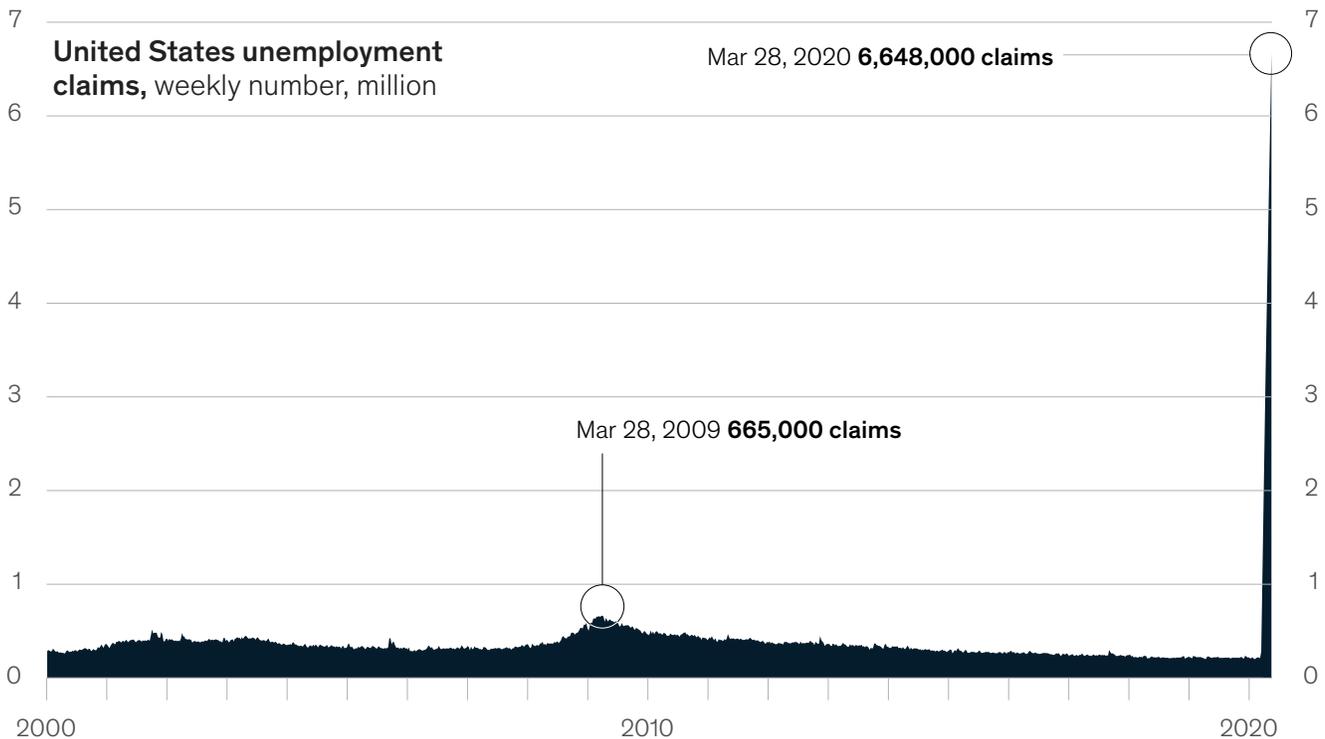
As of March 30, three-quarters of Americans were living under state or local stay-at-home mandates or advisories—and the economic fallout has been swift and dramatic. Discretionary spending has taken a hit, consumer confidence has been shaken, and small businesses are struggling. While there is great uncertainty about the depth and duration of this downturn, recent McKinsey research outlined multiple scenarios that vary depending on the spread of the virus and the public-health response as well as the effectiveness of policy in mitigating economic damage. These factors will determine

whether the downturn follows a U-shape with a prolonged trough, or a V-shape with a strong upward rebound. In most scenarios, the depth of the recession appears likely to exceed that of any experienced in the United States since World War II.

American workers are already feeling the pain. Initial unemployment claims for the week ending March 21 soared to 3,307,000, nearly 15 times higher than the 211,000 claims filed just two weeks before and shattering the previous high of 692,000, reached in 1982. Just a week later, the number for the week ending March 28 more than doubled again, to 6,648,000 (Exhibit 1). Our own analysis finds that the first phase of the battle to contain COVID-19 could leave 42 million to 54 million net jobs vulnerable to reductions in hours or pay, temporary furloughs, or permanent layoffs. Many Americans are simply unable to go to work for an uncertain period of time. (However, this is not a forecast of the unemployment rate; see here for more on methodology.)

Exhibit 1

Weekly initial unemployment claims in the United States reached an all-time high of 6.6 million for the week of March 21–28.



Source: Unemployment Insurance Weekly Claims, US Department of Labor

Looking beneath the aggregate number, where will the impact be felt? This article builds on the McKinsey Global Institute's (MGI) 2019 research on the US labor market and aims to identify the people and places most vulnerable to the first-wave effects of the pandemic. Our analysis finds that lockdowns disproportionately affect low-income workers. People who were living paycheck to paycheck do not have the financial cushion to absorb a shock of this magnitude. They need immediate assistance to pay the rent, keep the lights on, and put food on the table. In addition, many of the lowest-paid Americans who are still working may be risking exposure to the virus as they perform vital services in the economy.

Up to one-third of US jobs are vulnerable

To estimate the employment impact of the initial shutdown phase, we analyzed the vulnerability of more than 800 occupations based on whether or not they are typically deemed “essential” and whether they require close proximity to others. We then analyzed the sector-level effects of changes in demand related to physical distancing, such as the shift from restaurants to groceries, or from brick-and-mortar retail to e-commerce.

The findings are sobering. A nationwide shutdown could leave 44 million to 57 million jobs vulnerable to inactivity that could lead to reduced income, furloughs, or even layoffs, potentially affecting up to one-third of the entire US workforce (Exhibit 2).¹ To be clear, that number does not translate into an unemployment rate above 30 percent, however. A small portion is offset as some industries facing surging demand, such as groceries, pharmacies, and delivery services, hire two million to three million workers. In addition, “vulnerable jobs” covers a range of outcomes. When nonessential employers

shutter their businesses during stay-at-home mandates, some are continuing to pay furloughed employees; others are not. Many businesses will reopen and rehire, but others may not be able to stay afloat. Some workers have already been let go permanently. Many businesses that are staying open are cutting back hours in response to falling demand or redeploying workers to other tasks. It is impossible to gauge how many of these losses will be permanent. But millions of people are suddenly scrambling to pay their bills in the immediate term.

Some parts of the economy are particularly hard hit. Just two service industries—accommodation and food services, plus retail—account for 42 percent of vulnerable jobs. Although many restaurants are using takeout and delivery, they may need fewer people to do so, and some will struggle to pay rent in the coming months. Stores deemed “nonessential” have been closed in much of the country. Travel has also ground to a halt, canceling many flights and emptying out hotels and tourist attractions. By contrast, losses could be much more contained in primary sectors such as utilities, agriculture, and mining. White-collar industries like professional services, finance, insurance, information, and management account for only 5 percent of cuts in this first wave of impact.

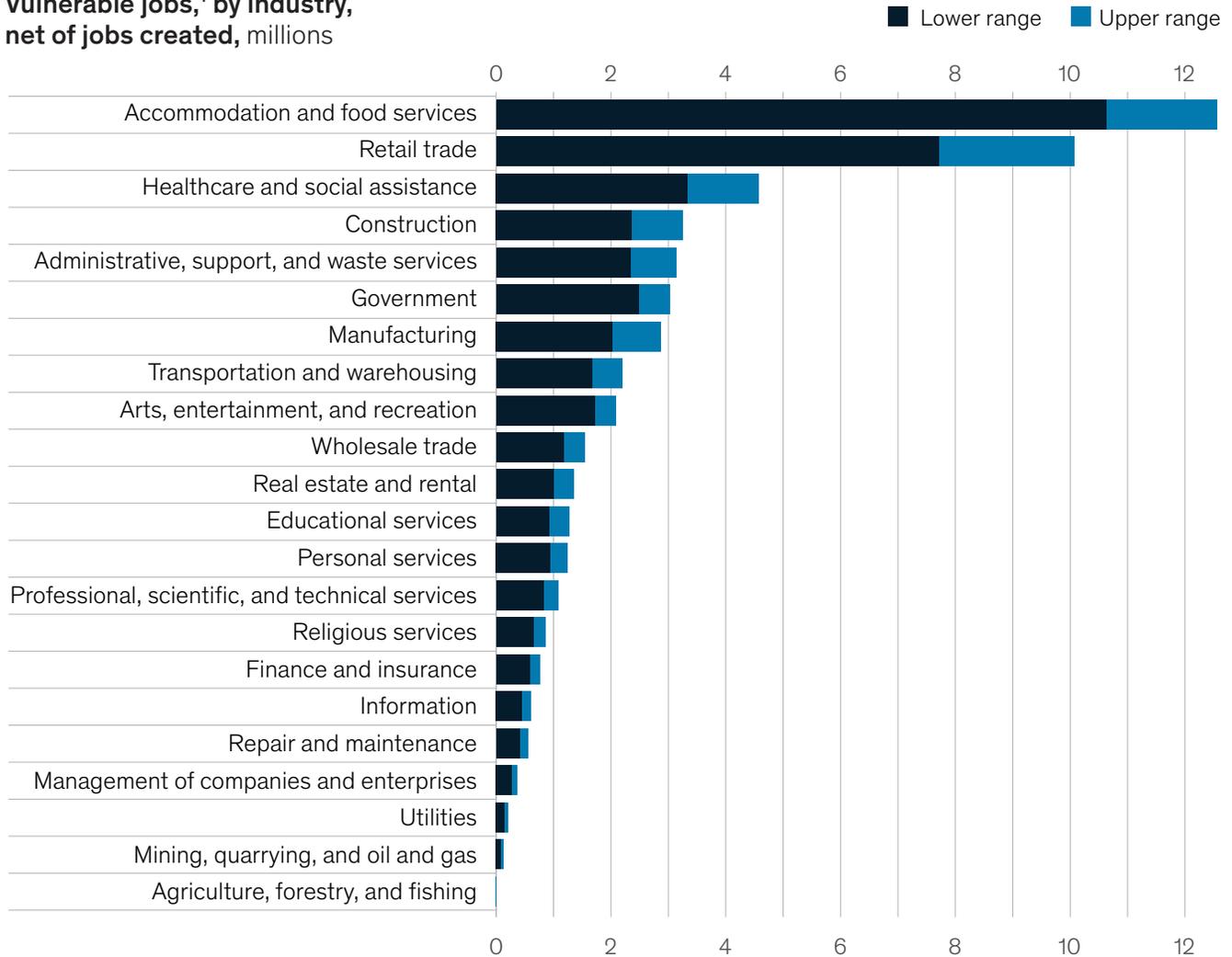
The knock-on effects of the shutdown that may be felt later in the year are beyond the scope of our analysis. But consumer spending drives some 70 percent of GDP growth in the US economy, and a plunge in consumption could have cascading effects. If self-reinforcing recessionary dynamics take hold, further job losses may be in store. Much is riding on how quickly the virus can be contained, when lockdowns can be safely lifted, and the extent to which policymakers can help the individuals and businesses cope.

¹ We do not attempt to forecast when or whether these jobs will be restored, nor do we look at longer-term ripple effects throughout the economy. The figures used throughout the rest of this article refer to the high end of the range and a full national shutdown scenario.

Exhibit 2

Forty-four million to 57 million jobs are vulnerable in the short term, offset slightly by two to three million new jobs.

Vulnerable jobs,¹ by industry, net of jobs created, millions



¹"Vulnerable" jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.

Source: LaborCube; McKinsey Global Institute analysis

Which occupations are at risk, and where are they located?

Among the estimated 13.4 million jobs that could be affected in the restaurant industry, 3.6 million involve food preparation and serving (a category that includes fast food). Another 2.6 million restaurant servers and 1.3 million restaurant cooks are vulnerable (Exhibit 3). Almost 11 million jobs

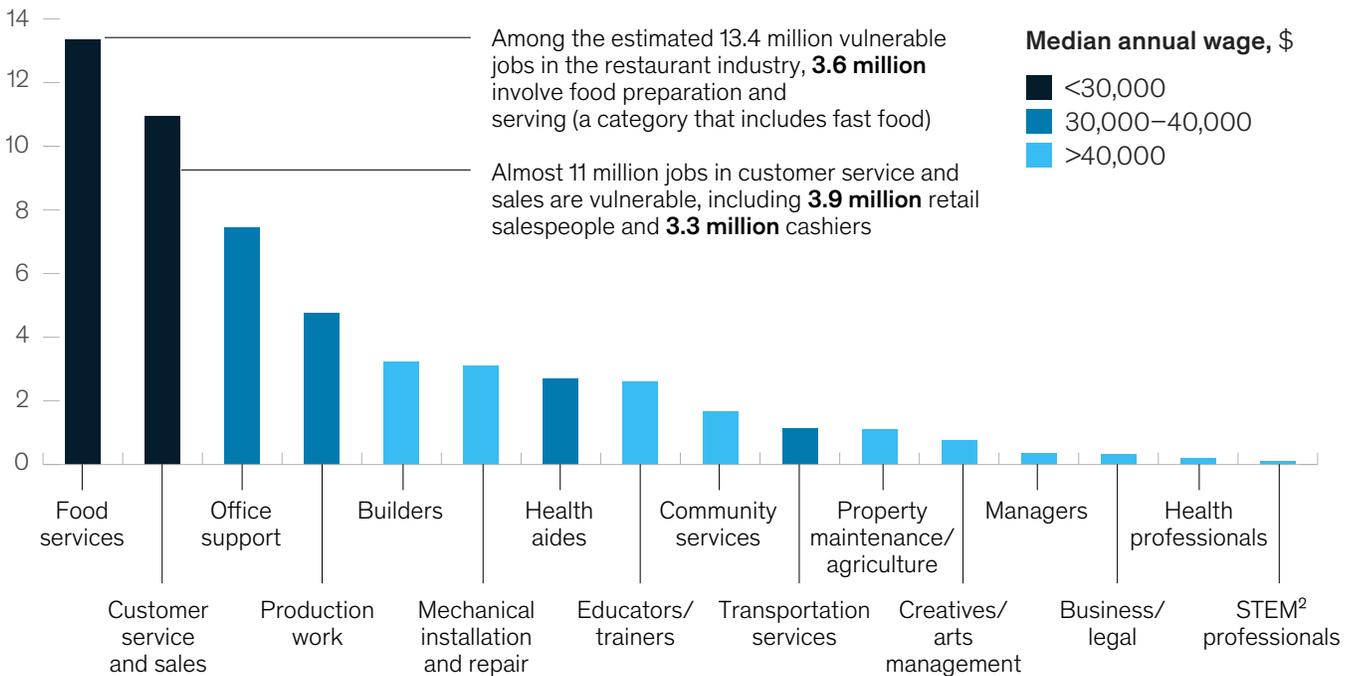
in customer service and sales could be affected, including 3.9 million retail salespeople and 3.3 million cashiers. The majority of these occupations employ people on a less than full-time basis.² In some cases, people who were juggling multiple part-time jobs may retain some income; others could see their hours cut back. In all cases, their finances would take a hit.

² The average hours worked in many of these occupations is less than 40 hours, although a more detailed breakdown is not available.

Exhibit 3

Forty-six percent of vulnerable jobs are in food service, customer service, and sales.

Vulnerable jobs,¹ by occupation, millions



¹"Vulnerable" jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.

²Science, technology, engineering, and mathematics.

Source: LaborCube; McKinsey Global Institute analysis

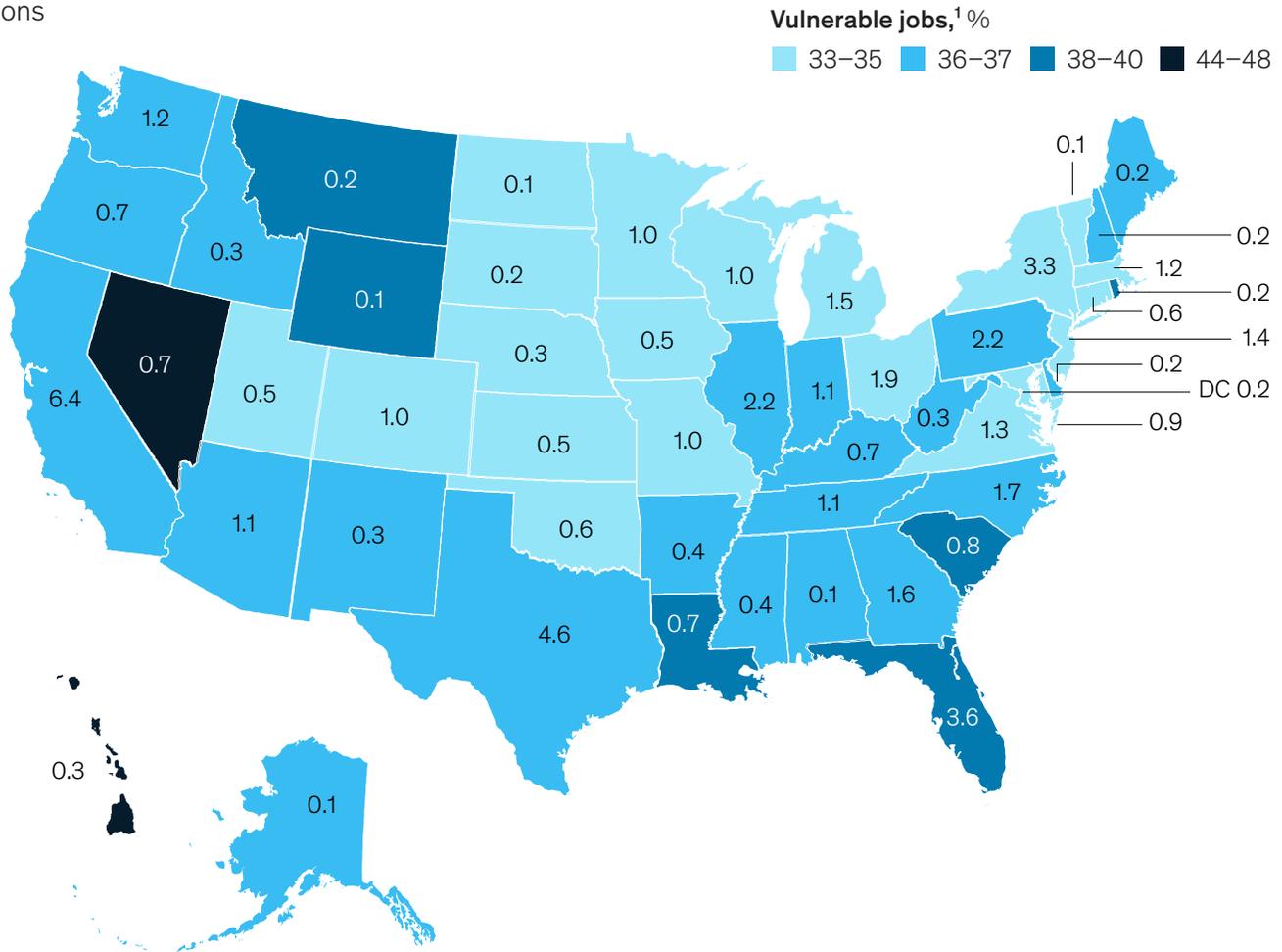
Looking at the impact across geographies, tourism-reliant states like Nevada, Hawaii, Montana, Florida, Wyoming, South Carolina, and Louisiana are likely to be the hardest hit in percentage terms (Exhibit 4). In Clark County (Las Vegas), more than half of jobs are vulnerable. The Strip has gone dark, sidelining the workers employed by its casino hotels, restaurants, bars, and shows. In the two-week period ending March 28, almost 164,000 Nevadans filed initial unemployment claims—roughly 11 percent of the state's employed workforce.

California has far and away the highest total number of affected jobs given its size of workforce. Some 6.4 million of the state's workers may be vulnerable, including 1.7 million in Los Angeles County alone. Piling onto losses in the service sector, L.A.'s entertainment industry has also put production on hold. New York and Texas each stand to lose more than 3 million jobs, at least temporarily. In New York City, the current epicenter of the crisis, the impact could exceed 1.5 million jobs.

Exhibit 4

The impact could be biggest in states with large tourism industries and more muted in agricultural and knowledge-economy states.

Vulnerable jobs,¹ net of jobs created, millions



¹“Vulnerable” jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.
Source: LaborCube; McKinsey Global Institute analysis

Low-income workers and small businesses are the most vulnerable

The workers bearing the brunt of the initial shock are the very people least equipped to weather it. Up to 86 percent of the initial impact affects jobs that were paying less than \$40,000 per year (Exhibit 5). Almost all (98 percent) of the affected jobs paid

less than the national living wage of \$68,808 for a family of four.³ Even before the pandemic, some 40 percent of Americans reported that they could not cover an unexpected \$400 expense without borrowing or selling assets.⁴ Finances were already precarious for many of the people who are now without work.

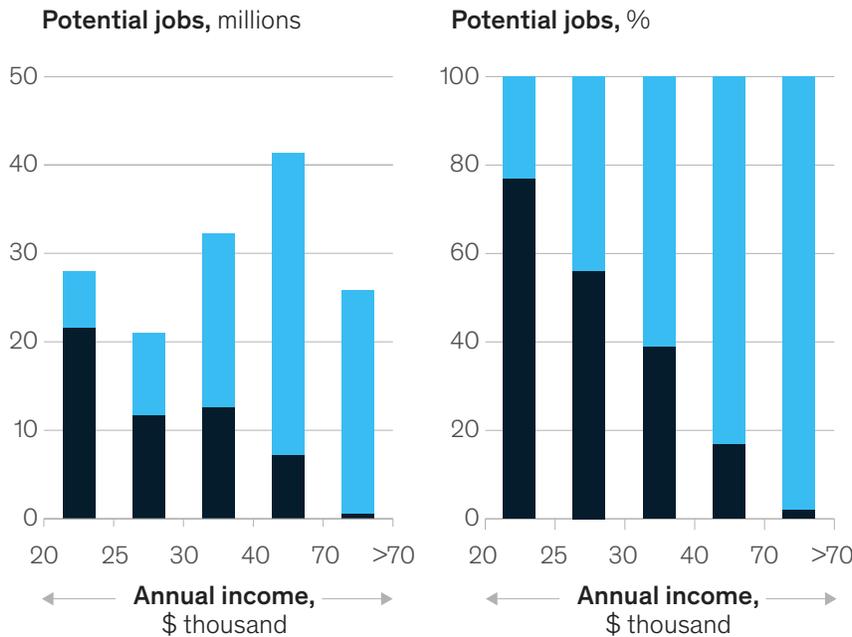
³ The US median wage is \$38,640. Based on MIT’s Living Wage Calculator, the national median living wage is \$68,808 for a worker in a two-worker, two-child household, livingwage.mit.edu.

⁴ Report on the economic well-being of US households in 2018, Federal Reserve, May 2019, federalreserve.gov.

Eighty-six percent of vulnerable jobs paid less than \$40,000 a year.

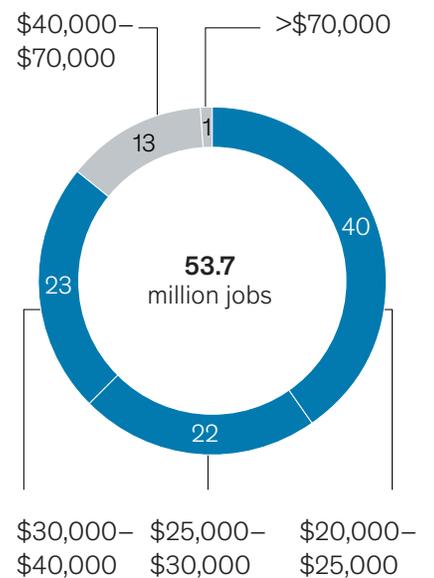
Level of job vulnerability,¹ by income band

■ Vulnerable jobs ■ Stable jobs



Vulnerable jobs by annual income band¹ %

■ <\$40,000 ■ >\$40,000



Note: Data may not sum to 100, because of rounding.

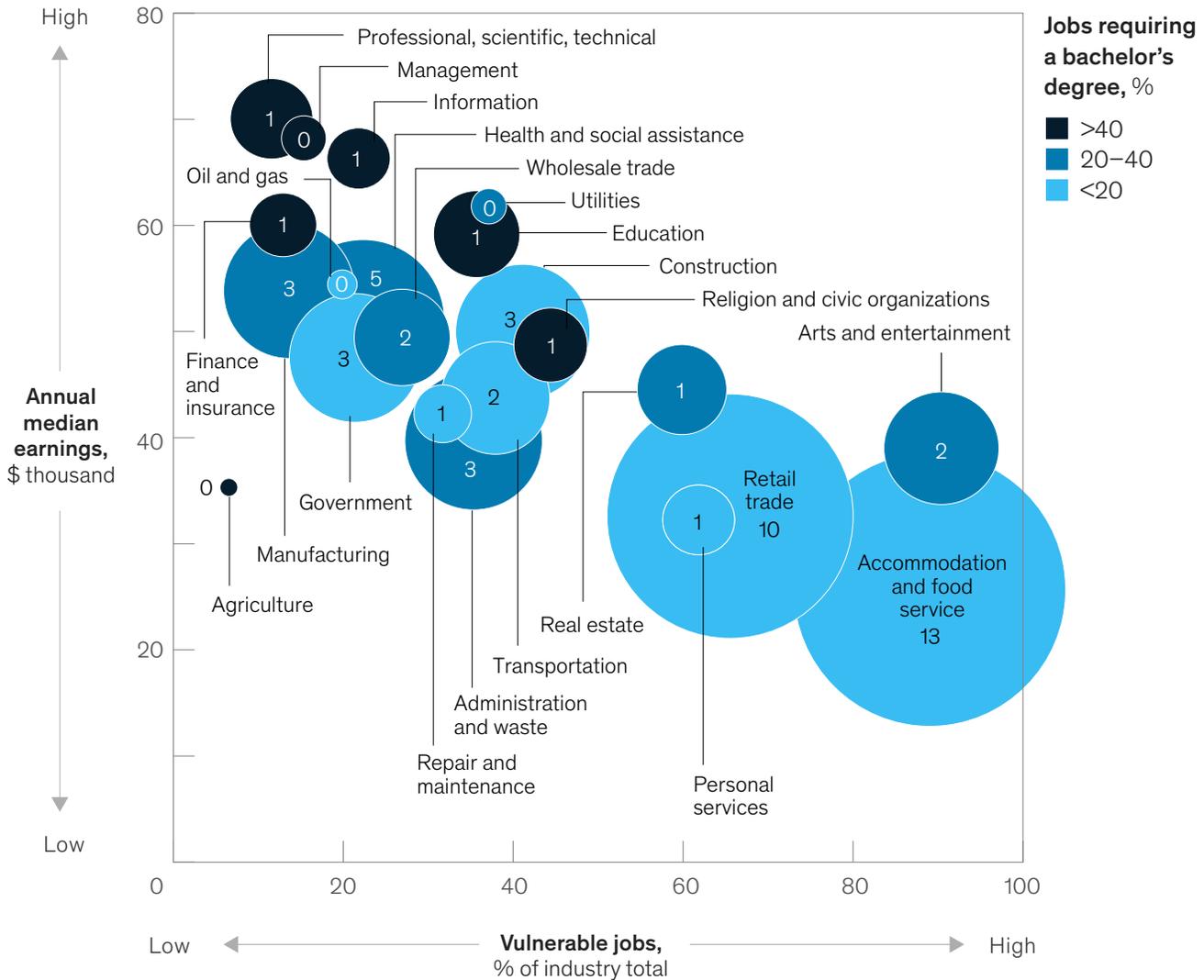
¹"Vulnerable" jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.

Source: LaborCube; McKinsey Global Institute analysis

The workers bearing the brunt of the initial shock are the very people least equipped to weather it. Up to 86 percent of the initial impact affects jobs that were paying less than \$40,000 per year.

Industries with the lowest wages and the lowest educational attainment are being hit hardest.

Vulnerable jobs,¹ by industry, earnings, and education, millions of people (circle size)



¹"Vulnerable" jobs are subject to furloughs, layoffs, or being rendered unproductive (eg, kept on payroll but not working) during periods of high physical distancing.

Looking across industries, those experiencing the biggest negative impact typically pay low wages and employ workforces with low educational attainment (Exhibit 6). Previous research from MGI found that these jobs have disproportionate concentrations of African-Americans, Hispanics, and people with a high-school education or less.

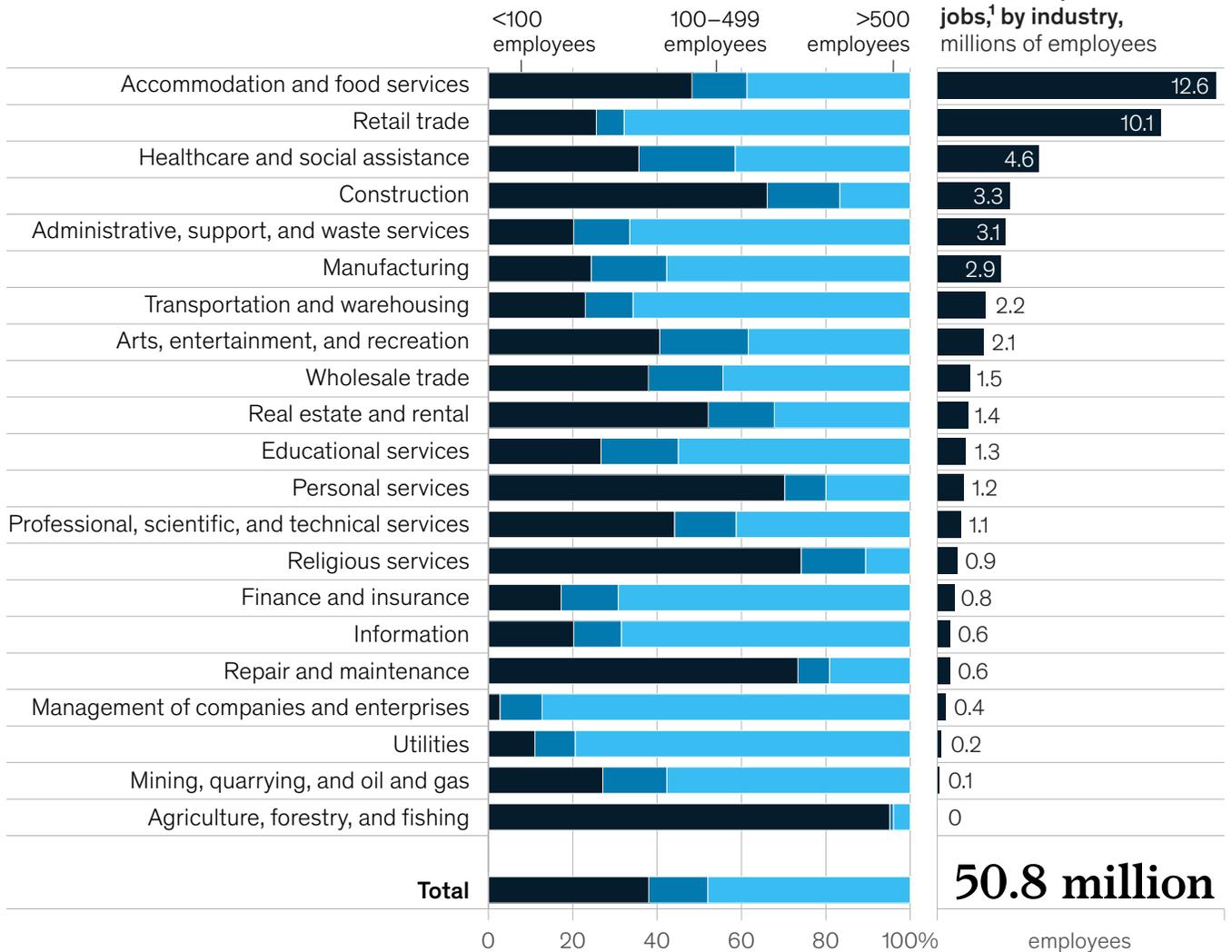
More than half of the vulnerable jobs in the private sector were in firms with fewer than

500 employees—and almost 40 percent from businesses with fewer than 100 people (Exhibit 7). Small businesses have less of a capital cushion to continue paying furloughed employees, and they may have fewer opportunities to redeploy workers to other functions. In addition, 16 million self-employed workers are not captured in our analysis due to lack of available data. But many of them are either unable to do business as usual or facing a sudden drop in demand.

Exhibit 7

More than a third of vulnerable private-sector jobs are in small firms with fewer than 100 workers.

Vulnerable private-sector jobs,¹ by industry and company size, %



¹"Vulnerable" jobs are subject to furloughs, layoffs, or being rendered unproductive (eg, workers kept on payroll but not working) during periods of high social distancing.

Source: BLS Occupational Employment Statistics, US Bureau of Labor Statistics; LaborCube; Moody's Analytics; McKinsey Global Institute analysis

At the same time, America has work that urgently needs to be done

While physical distancing and shutdowns are freezing some businesses, others are seeing spikes in demand. Some of the nation's largest retailers are hiring tens of thousands of workers to meet demand for groceries and other necessities. Grocery stores, pharmacies, convenience stores, and pizza chains are all ramping up hiring. Hospitals and health

providers putting medical students immediately to work, and healthcare professionals who are retired or out of the workforce are streaming back.

We estimate that up to 3 million workers could find short-term employment as community health workers, warehouse staff, delivery drivers, and other critical roles. This number can be augmented if the private sector finds additional ways to keep workers

productive. Even when large-scale repurposing is not possible, business can creatively redeploy staff who would otherwise be idle (shifting waiters into delivery-driver roles, for example) or offer voluntary reductions in hours to avoid layoffs. They can also partner with or participate in job platforms to help furloughed or laid-off workers immediately connect with temporary opportunities in other parts of the economy where demand is spiking.

The nation has an acute need for medical supplies and protective equipment to fight the pandemic, presenting an opportunity for manufacturers to repurpose factories to keep workers employed. Some are shifting production to turn out hand sanitizer; others are making protective masks, gowns, and scrubs. Multiple companies specializing in advanced manufacturing are gearing up to produce ventilators. This requires public-private coordination to ensure that technical standards are being followed and supplies get to the regions and facilities with the greatest need.

Many white-collar professionals are able to work from home during shutdowns. But in addition to the healthcare workers and first responders on the front lines of the pandemic, many blue-collar workers have to be physically present to do their work. They are stocking grocery shelves, cleaning hospitals, caring for the elderly, filling prescriptions, making and delivering food, delivering mail and packages, staffing warehouses and production lines, driving trucks, and collecting trash. These roles are often taken for granted in good times, but it is now apparent just how much society depends on them. The workers who are keeping these essential services going are doing so at the risk of exposing themselves to the virus—and they deserve equitable pay, sick leave, and adequate safety protections.

Vulnerable workers need a lifeline

The public and private sectors will need to respond decisively to help families meet their basic needs, create liquidity for businesses, and mitigate the potential long-term damage to the US economy. The \$2.2 trillion federal CARES Act passed in late March is a good start, but it will need to be operationalized quickly to get cash payments into the hands of individuals in need. Getting Small Business Administration loans to struggling small enterprises can help them bounce back, preventing millions of temporary layoffs from becoming permanent.

When the emphasis eventually shifts from fighting the virus to re-opening the economy, many of the jobs on pause today will come back. But others will not. Companies that have laid off workers may wait to see how the recovery takes hold before rehiring. Past crises have led to structural shifts in the economy and new ways of working; this one could do the same. Some trends already under way, such as the shift to independent work and the gig economy, or adoption of automation and artificial intelligence, may accelerate as companies seek to make their operations more resilient to future pandemics.

Now the “future of work” may have arrived even sooner than anyone anticipated. The need to create better opportunities for all Americans once seemed like a long-term project, but the crisis puts that imperative into the present tense. The United States has been through many challenges in the past, from wars and the Great Depression to the influenza pandemic of 1918—and it has always emerged stronger. The current crisis may similarly turn out to be a moment in history that forces us to build a more inclusive and resilient future.

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