



Research Working Papers

Mismatch Unemployment During COVID-19 and the Post-Pandemic Labor Shortages

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During the post-pandemic recovery, sectors with larger mismatch unemployment saw higher growth in labor costs.

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We examine the extent to which mismatch unemployment—excess unemployment from a mismatch between sectors where job seekers search for work and sectors where jobs are available—shaped labor market dynamics during the COVID-19 pandemic and the subsequent recovery. We find that the mismatch index turned negative at the onset of the pandemic for the first time since 2000, suggesting that the efficient allocation of job seekers would involve reallocating workers toward longer-tenure and more productive jobs, even at the expense of fewer hires. We show that sectoral differences in job separations were the main driver of this result, while differences in vacancies led to a positive mismatch unemployment index during the pandemic recovery. We also establish an empirical link between mismatch unemployment and the surge in labor costs during the recovery, documenting that sectors with larger mismatch unemployment experienced higher growth in labor costs.

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