ANTICIPATING A CHANGING LANDSCAPE IN THE WORKFORCE

A nationwide analysis of industries impacted by COVID-19.

CBRE Labor Analytics

CBRE

As the COVID-19 pandemic continues to change lives across the globe, many wonder what effects the pandemic will have on industries, jobs and workforce over the near and long term. Many of these effects will be predicated on the solutions, duration and continued government actions taken to handle the pandemic, but data can already signal which industries are being impacted most and how the pandemic is set to potentially change the labor landscape over the long term. Corporations should be mindful of these impacts and thoughtful about how the shifting labor landscape informs their location strategies.

CBRE Labor Analytics will outline some of the key short- and long-term changes to U.S. labor markets as well as the strategies corporations can take in response to these changes.

INDUSTRY IMPACT AND THE CHANGING LABOR LANDSCAPE

Heading into this crisis, the economy was strong, and unemployment was at a 50-year low. A broad competition for talent affected nearly every sector. Technology companies scrambled to hire artificial intelligence (AI) talent. Finance companies sought cybersecurity professionals. Healthcare employers struggled to find nurses and pharmacists and the industrial sector clamored for fork-lift operators, welders and maintenance technicians. Even the service industry faced upward wage pressure and heightening turnover rates for waiters, retail salesclerks and stockers.

Now, as a result of a near complete shutdown of the economy, entire swaths of workers have been laid off. **This may fundamentally change the dynamic of corporate location strategy from a focus on the availability of specific skills, to a focus on lowering cost, at least over the short and medium term.**

As companies shift their focus to cost, a strategic approach to market selection and consolidation in this new environment will increase corporate stability and longevity. Individual labor markets will be affected differently depending on their industry make-up. These differences present opportunities for businesses to reduce operating costs while improving talent attraction and employing workers in the communities most in need.

In addition to cost considerations, the disruption of talent in labor markets will also play into location strategy as employers evaluate consolidation scenarios and differing talent requirements amidst the short- and long-term effects of the pandemic. The extent to which a given market's job mix can be disrupted by COVID-19 will bring major changes for that market. While the pandemic is affecting all industries in one form or another, it has negatively affected certain industries more than others, such as food & beverage. This may result in certain markets experiencing notable shifts in available supply as displaced workers look for new jobs requiring similar skills, turn to alternative industries and/or upskill by undergoing more training or education while unemployed. This will also change the competitive landscape for labor in many markets.

To anticipate the potential impact of these disruptions, CBRE Labor Analytics has identified three categories of industries that could dramatically influence the trajectory of labor markets as a result of this pandemic:

FIRST-WAVE INDUSTRIES
Industries immediately affected due to the pandemic.

SECOND-WAVE INDUSTRIES
Industries likely to be affected due to the longer-term economic disruption as a result of the pandemic.

RESILIENT INDUSTRIES
Industries that are not immune to economic effects of the pandemic, but have a higher likelihood of stability and possibly growth.

THE FIRST WAVE

A key factor in the disruption of labor markets is the duration of social distancing and lock-down measures. In this first wave of layoffs, the most immediate and vulnerable industries are:

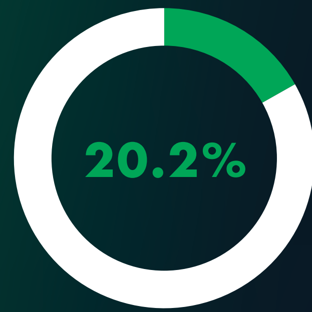
HOSPITALITY/TOURISM

FOOD & BEVERAGE

RETAIL TRADE

PASSENGER TRANSPORTATION

Note: Although the energy sector is, in many ways, a first-wave industry, there are other strong non-COVID-19 forces that are heavily affecting the trajectory of this industry and therefore, we have excluded it from this analysis. In addition, the government is in the process of developing aggressive stimulus packages to support the airline industry. As part of this package, airlines must commit to maintaining a high level of employment and this may lessen the initial impact in the Passenger Transportation industry. However, these provisions include some uncertainty, and most of the airlines have already made significant layoffs, so we believe this is still a first-wave industry.



Together, these **"FIRST-WAVE"** industries employ **20.2%** nationally.

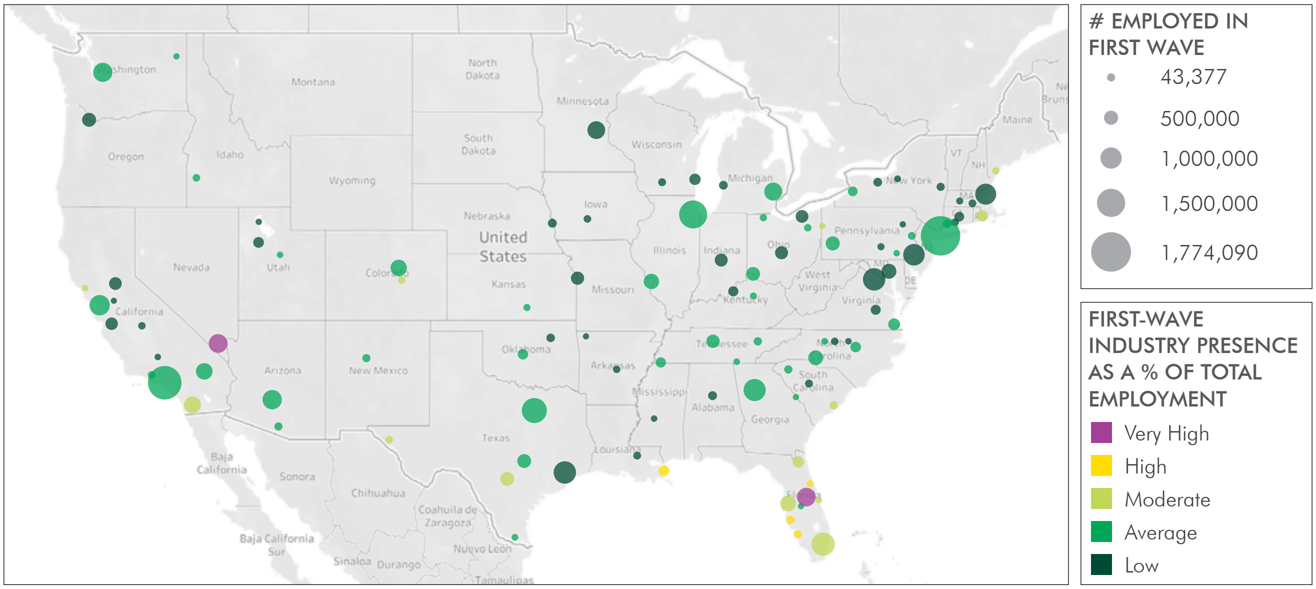
Labor Analytics has evaluated applicable occupations to more precisely define the potential impact on employment across these first-wave industries. Occupations chosen for inclusion were selected as a result of early announcements by industry employers of layoffs or furloughs and an examination of industries notably affected by stay-in-place and social distancing restrictions.

At 20%, these first-wave industries comprise a healthy portion of the overall labor force. These industries account for the majority of jobless claims that have occurred over the past several weeks, with total claims amounting to nearly 26 million since mid-April. These industries also have a steeper path to recovery due to unique vulnerabilities. For example, much of the food & beverage and retail industries is made up of small businesses that do not have the long-term savings required to weather an extensive downturn. The hospitality, tourism and passenger-travel sectors thrive when company and consumer spending habits are healthy and economic conditions are stable.

By aggregating the employment of these first-wave industries across U.S. markets, we can identify which labor markets will be most vulnerable to the downturn (Figure 1.1).

Figure 1.1: Market Industry Presence of First-Wave Industries

(Industries currently experiencing notable job losses due to social distancing/travel guidelines.)

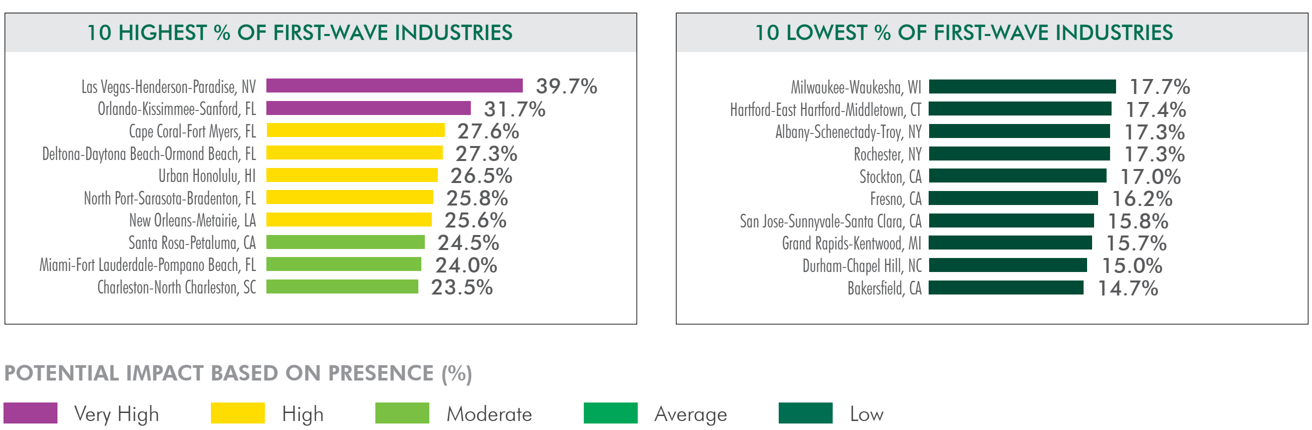


**Excludes markets with populations below 250,000.*

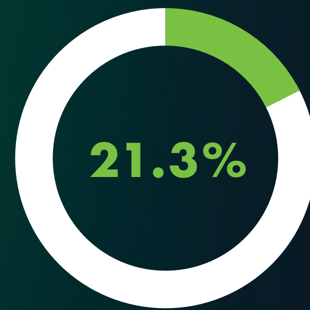
As illustrated in the map (Figure 1.1), areas like Las Vegas, NV, and Orlando, FL, are likely to recognize significant disruptions due to the presence of key industries heavily affected by local restrictions, mainly tourism. Other, less obvious markets like Sarasota, FL, and Youngstown, OH, also have higher concentrations of first-wave industries, resulting in unique labor market opportunities for companies seeking greater workforce availability at a lower cost.

Markets with economies that are not as heavily dependent on tourism & travel, food & beverage and retail, like Milwaukee, WI, and Hartford, CT, should prove more resilient during the first wave of layoffs. Their more-diversified economies should help prevent a sharp spike in local unemployment in the short-term compared to markets whose local economies are more reliant on these first-wave industries.

Figure 1.2: Most and Least Potentially Impacted Markets – First-Wave Industries



These industries are showing immediate impact on employment across the nation, but the economic disruption from this wave will play a part in which industries are affected in the second-wave.



Together, these **"SECOND-WAVE"** industries employ **21.3%** nationally.

THE SECOND WAVE

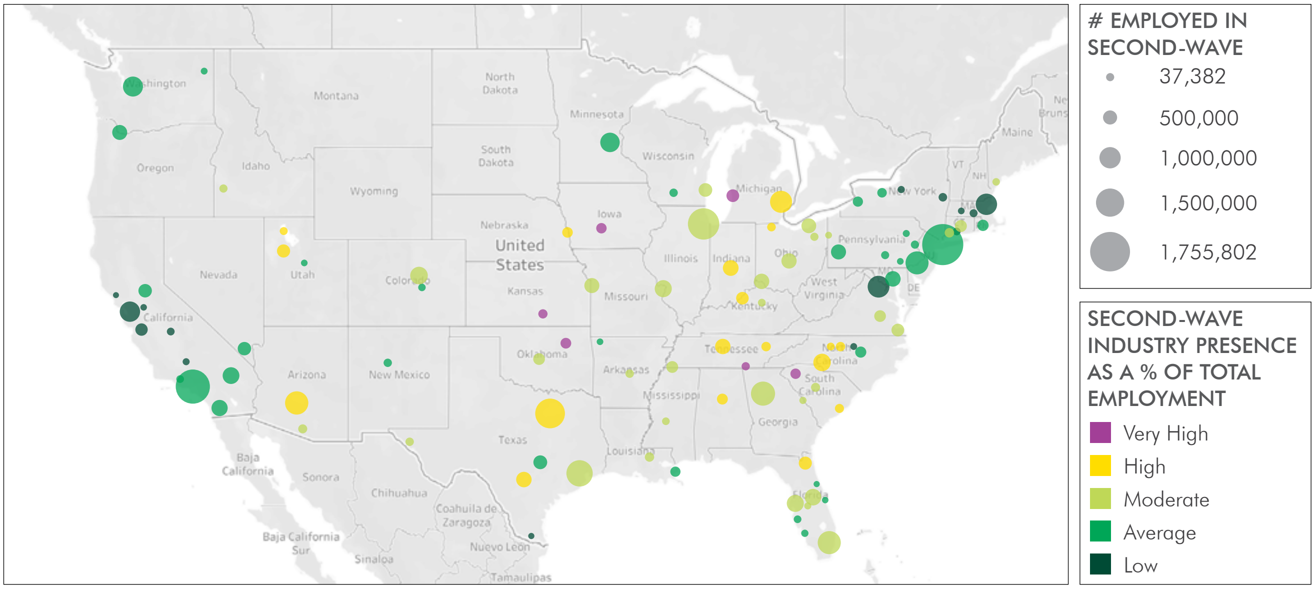
As the timeframe of social distancing measures extends and financial impact on consumers is felt through layoffs in first-wave industries, the adverse economic effects will bleed into a second-wave of industries beyond those most immediate and vulnerable. The unemployed from these first-wave sectors will struggle to pay their rent and mortgages. Those still employed, but fearful for their job and a falling stock market, will significantly restrict their spending, particularly on big-ticket items like housing and automobiles. Failing businesses will not re-supply store shelves or take out new loans to support expansion. The Second-Wave industries include:

- **MANUFACTURING**
- **CONSTRUCTION**
- **BANKING & REAL ESTATE**

These second-wave industries are not as concentrated in select metros as first-wave industries and they have a greater chance of affecting a higher number of metros across the U.S. (Figure 2.1).

Figure 2.1: Market Industry Presence of Second-Wave Industries

(Industries expected to record notable job losses due to economic slowing.)

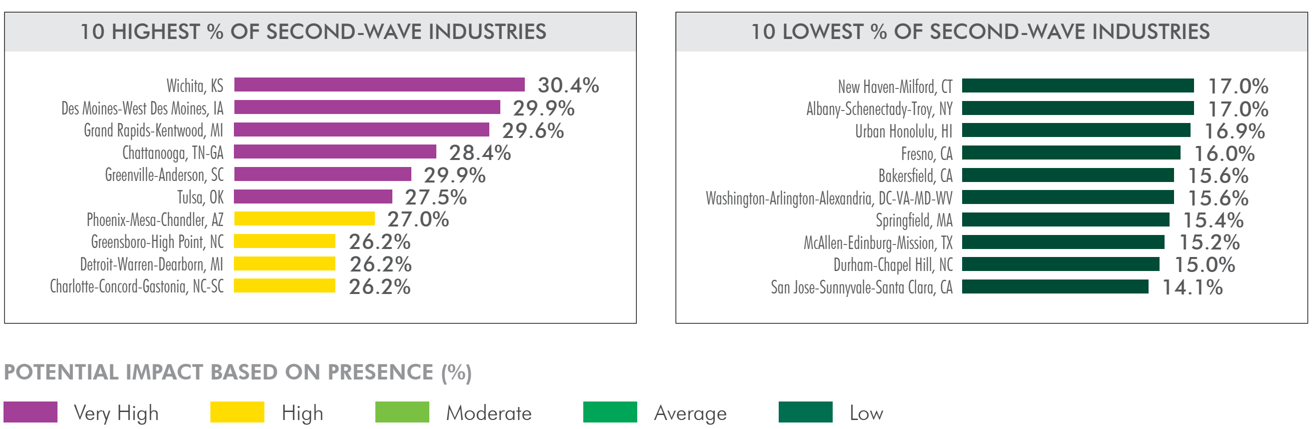


**Excludes markets with populations below 250,000.*

With a much broader reach across the U.S., these impacted industries will affect most regions. The Midwest may be more at risk due to the higher presence of manufacturing. Manufacturing is a significant portion of the local industry composition in Wichita, KS, and therefore the market may face significant disruptions in the second wave. Larger metros like Phoenix, AZ (high combination of banking and manufacturing), Charlotte (high financial/banking presence) and Detroit, MI (auto manufacturing capital of the U.S.), may be at higher risk as a slowing economy further restricts consumer buying patterns of big-ticket items like cars and houses. Smaller manufacturing towns are also highly vulnerable in the second wave. Chattanooga, TN, and Greenville, NC, are primary examples of deep manufacturing markets that could be greatly affected in this second wave.

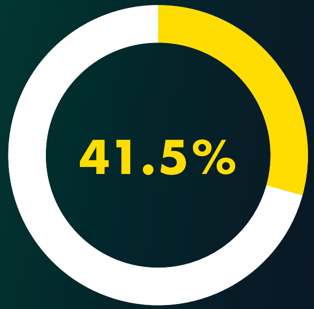
Markets with dominant industries outside the second wave like San Jose, CA (Tech), Durham, NC (Tech), and Washington, DC (Tech and Government), may be more insulated to this wave of disruption.

Figure 2.2: Most and Least Potentially Impacted Markets – Second-Wave Industries



Tulsa, OK, may also face a greater impact than represented as it has a high presence of second-wave industries combined with a heavy presence of the volatile energy industry that has the potential to be influenced by the economic downturn.

This begs the question: Which markets are showing a stronger presence of industries listed in both waves and therefore may experience a prolonged and potentially deeper disruption in labor conditions?



Together, these **"COMBINED-WAVE"** industries employ **41.5%** nationally.

COMBINED IMPACT: FIRST & SECOND WAVE

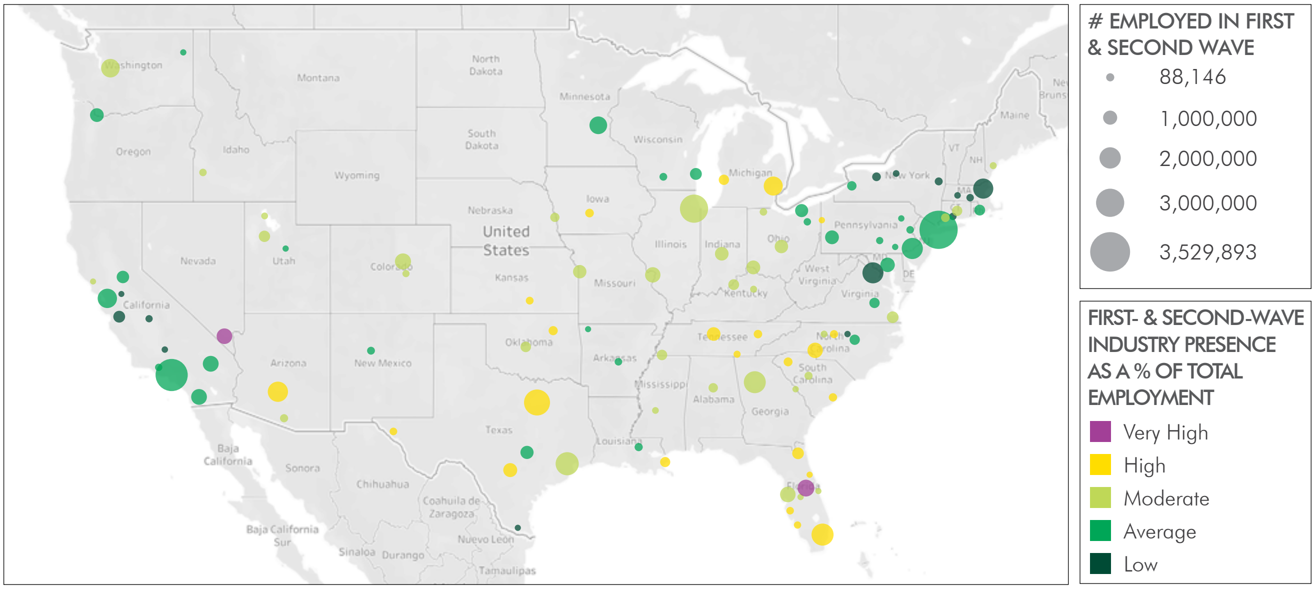
- HOSPITALITY & TOURISM
- FOOD & BEVERAGE
- RETAIL TRADE
- PASSENGER TRANSPORTATION
- MANUFACTURING
- CONSTRUCTION
- BANKING & REAL ESTATE

COMBINED IMPACT: FIRST & SECOND WAVE

Combining industries from both the first and second wave presents a picture of which markets could experience disruption in both the near and longer term (Figure 3.1).

Figure 3.1: Market Industry Presence of First- and Second-Wave Industries

(Combination of industries expected to record notable job losses due to the pandemic.)

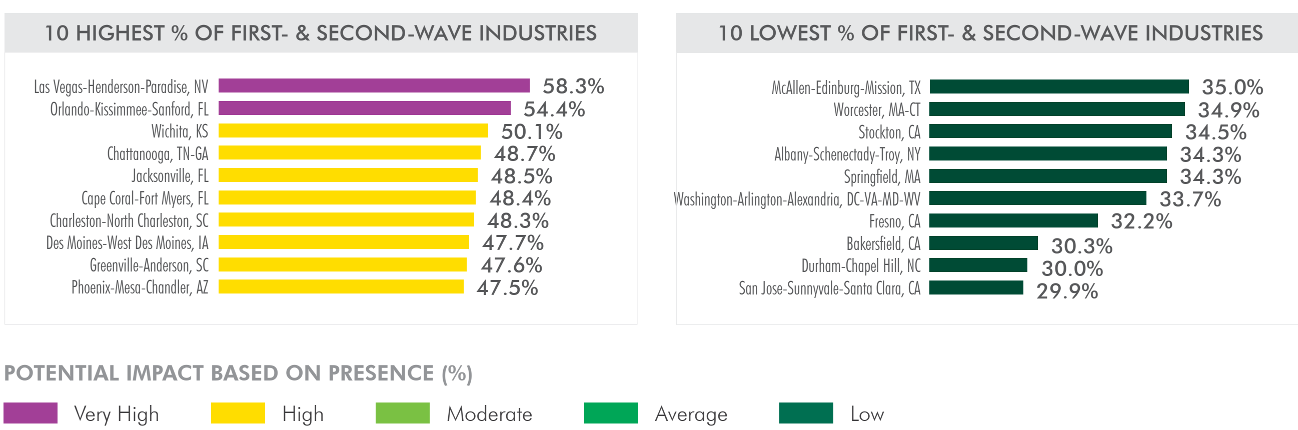


**Excludes markets with populations below 250,000.*

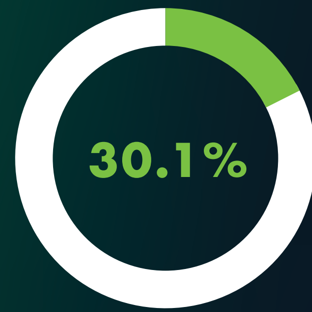
The top two impacted markets when combining both waves of industry presence are the same as the top two for the first wave, Las Vegas, NV, and Orlando, FL. However, while Las Vegas's tourism industry is without a doubt the backbone of the local economy, Orlando, FL, has made great efforts to diversify its industry base over the past several years. While Orlando is still likely to be significantly impacted by this crisis, these efforts to diversify the economy should help it recover more quickly than it otherwise would have.

Chattanooga is a smaller market that is likely to be influenced by both waves as it has a healthy manufacturing presence and a strong regional tourism industry presence.

Figure 3.2: Most and Least Potentially Impacted Markets – Combined First- and Second-Wave Industries



While the presence of the first- and second-wave industries suggests potential for greater disruption in certain labor markets, other industries are much better positioned against the conditions caused by the pandemic. Next, we analyze markets with higher concentrations of these industries to identify which markets may be the most resilient through the economic downturn.



Together, these **"RESILIENT"** industries employ **30.1%** nationally.

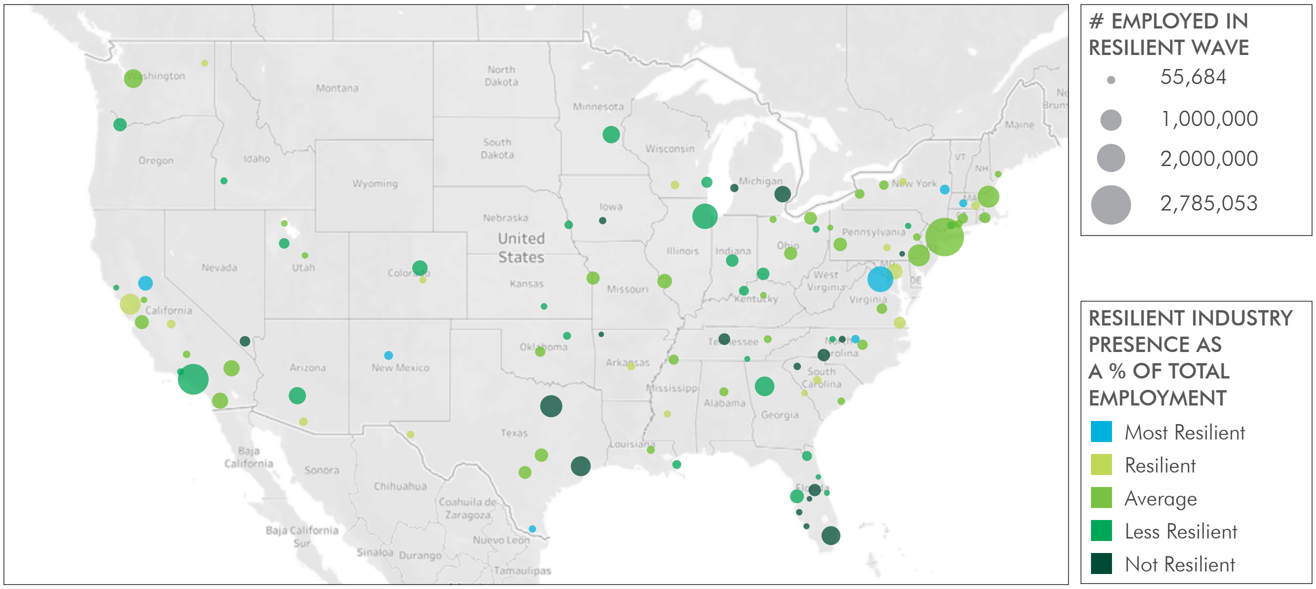
MOST RESILIENT INDUSTRIES

Some sectors will be less adversely affected by the pandemic, hold ground with minimal disruption to the employment base or may even thrive. They include:

- **HEALTHCARE**
- **GOVERNMENT**
- **TECHNOLOGY**
  (specific occupations, please refer to the methodology)

Note: Technology is a unique industry in that it is expected to spawn demand in but may also be susceptible to disruption for select sub-industries within tech (like travel/tourism). As a result, only specific services within the tech industry that are likely to still hold healthy demand during and after pandemic were included. Additionally, many start-up companies in the technology sector are highly vulnerable right now. We will be evaluating those in a subsequent article.

Figure 4.1: Market Industry Presence of Resilient Industries

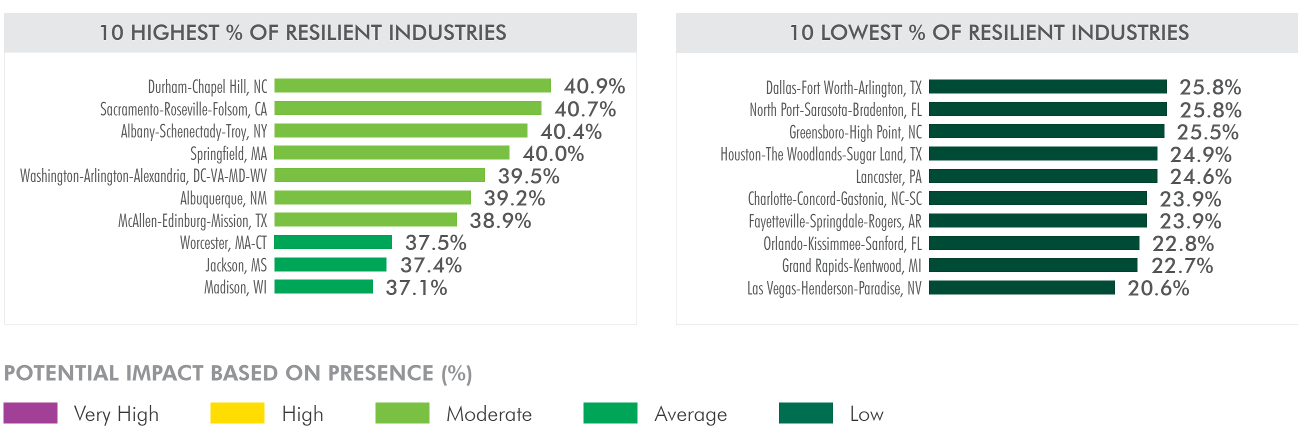


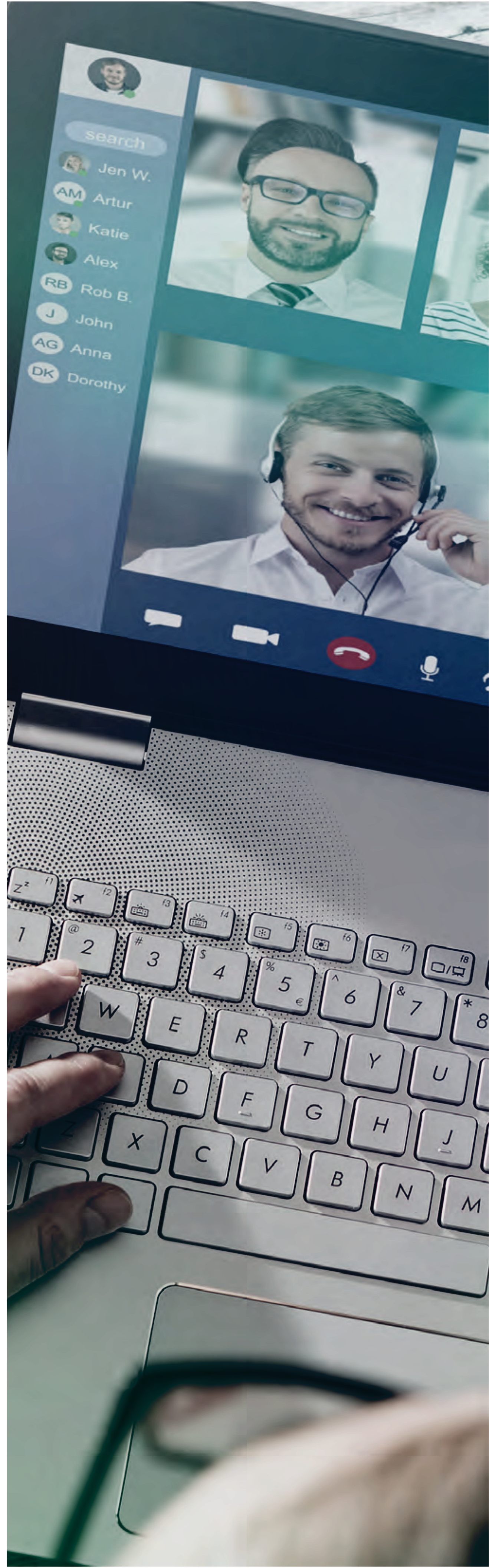
**Excludes markets with populations below 250,000.*

Many of the markets with a combination of average or above average concentrations and higher volumes of resilient industries were some of the strongest local economies going into the COVID-19 crisis. This may help them be more resilient over the long term. However, competing factors in many of these markets significantly cloud the outcomes. For example, the deep technology sectors in markets like San Francisco, Seattle and New York may provide some cushion, but these markets are also three of the earliest and most heavily impacted by the COVID-19 outbreak. What are the medium- and long-term psychological and behavioral effects this will have on these markets? Boston and Austin have been beacons of technology growth over the last 10 years, but they are also saturated with start-up companies that are some of the most vulnerable.

State capital (government) markets with their high government jobs volume like Sacramento, CA, and Albany, NY, may also have a more stable base of employment compared to other markets. However, while some government jobs may be safe havens during the pandemic and potentially in the near term, this industry is expected to see a potential reverse over the long term as states consider trimming their budgets.

Figure 4.2: Highest and Lowest Presence of Resilient Industries Markets





The different industry sectors reviewed provide an outlook to potential disruptions driven by the pandemic. Certain regions and markets face higher risks now and looking ahead. However, how will this influence employers' strategies as they look to possibly modify their portfolio footprints in view of the new risks revealed by the COVID-19 pandemic?

- Will certain markets have more appeal based on current and evolving conditions for employers' strategies?
- Will corporations re-think past strategies to consolidate into as few locations as possible?
- What may be top labor considerations with regards to locations as employers review their human capital and operations/space strategy moving forward?

Labor Analytics will review these topics in another report in this series:

NEW LOCATION CONSIDERATIONS IN A DISRUPTED ECONOMY

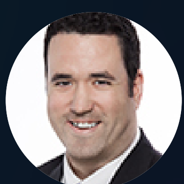
METHODOLOGY

Labor Analytics has defined first-wave industries through selecting industries already experiencing a high volume of layoffs. These industries were further narrowed to include only those occupations that are at higher risk or deemed less essential at the moment. Second-wave industries were identified as general industries including all occupations within these industries as it is too early to identify which specific occupations will be affected. Resilient industries include broader industry sectors with the exception of the tech industry. Specific tech occupations were identified as resilient due to the forecast that the skills for these occupations are more likely to be needed even with the volatility in labor markets.

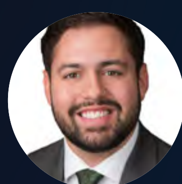
Note: The depth of anticipated industry impact will be reliant upon the length and scope of the pandemic along with external factors such as employer and consumer confidence upon the start of an economic recovery. This is also the case for each market as each will likely have different recovery timelines and local factors that influence industry impact depth and duration.

Sources: CBRE Labor Analytics Primary Research; Emsi-economicmodeling.com

AUTHORS



Kevin Major
Senior Director | Client Strategy
+1 602 735 5317
kevin.major@cbre.com



Vince Giovannini
Data Scientist
+1 602 735 5659
vince.giovannini@cbre.com

Mark Seeley
Executive Vice President
+1 602 735 5230
mark.seeley.@cbre.com

Kristin Sexton
Senior Vice President
+1 602 735 5247
kristin.sexton@cbre.com

CONTACTS

Jim Trobaugh
Executive Vice President
+1 602 735 5599
jim.trobaugh@cbre.com

Taylor Hick
Associate
+1 602 735 1954
taylor.hick@cbre.com

CBRE