Economics

Special Commentary — March 2, 2021

She Means Business

A Larger Role for Women in the Post-COVID Recovery

Summary

We have recently revised higher our forecast for GDP growth this year. If realized, the U.S. economy could see some of the strongest growth in a generation. But, because the rosy outlook is predicated on a consumer spending boom fueled by fiscal stimulus that increases the deficit just as quickly, it is not sustainable. When the government support subsides, the economy will be in dire need of productivity gains and a source of real income growth that is not tied to transfer payments.

Yet, the uneven impact of COVID could jeopardize the economy's longer-term growth prospects. Potential economic growth can be boiled down to growth in hours worked and labor productivity. Both stand to be negatively affected by the unequal toll the COVID recession has taken on women in the workforce and women-owned businesses. Women have been disproportionately hit by the COVID recession in part due to the downturn's roots in a public healthcare crisis. However, prior impediments to women's labor force participation and business growth have been exacerbated by the pandemic. This is not just a setback for women, but for the entire economy.

Women were not on equal footing before the pandemic, but at least by many measures, things were moving in the right direction. That momentum reversed over the past year. Nearly one million more women have lost employment than men, and women in their prime working years (ages 25-54) have left the labor force at almost twice the rate as men. Part of the exodus is due to greater employment exposure to industries least compatible with social distancing, but part has also been due to the uneven shouldering of childcare. The pay penalty that comes with breaks in employment stands to aggravate the existing earnings gap and reduce the incentive to return to work, slowing labor force growth and hours worked in the years to come.

Productivity growth could also suffer from the uneven toll of COVID. Women account for just 20% of employer firms, but women-owned firms were growing faster than male-owned firms ahead of the pandemic. That likely reversed over the past year. Closures and challenges obtaining credit have been more frequent and highlight the uneven access to capital that has long impeded the formation and growth of women-owned businesses. This is not only a failure in terms of social equality, but a missed opportunity to bring new and diverse ideas to market that could boost productivity. The recovery will need every new business it can get, especially after so many have been destroyed by the pandemic.

Looking ahead, there are reasons to think the setbacks may not be permanent. First, the ongoing transition to a more knowledge-based economy should again support women's employment and business ownership once the virus is brought under control. Furthermore, women's labor force participation and entrepreneurship also stands to benefit from a more flexible work environment with remote work remaining more prevalent in the post-pandemic economy. Finally, the ample fiscal and monetary support to date puts the recovery on a faster track compared to the past downturn, which hit male-dominated fields harder. However, women were already starting from behind, and the broad, rather than targeted, support has done little to address existing challenges for working women and business owners. Growth prospects suffer for everyone as a result.

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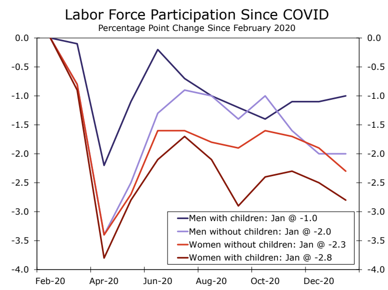
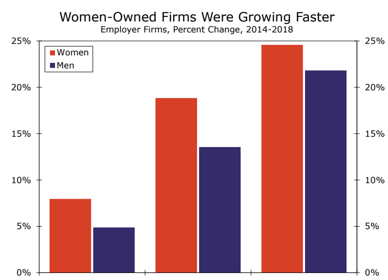


Source: U.S. Department of Labor and Wells Fargo Securities

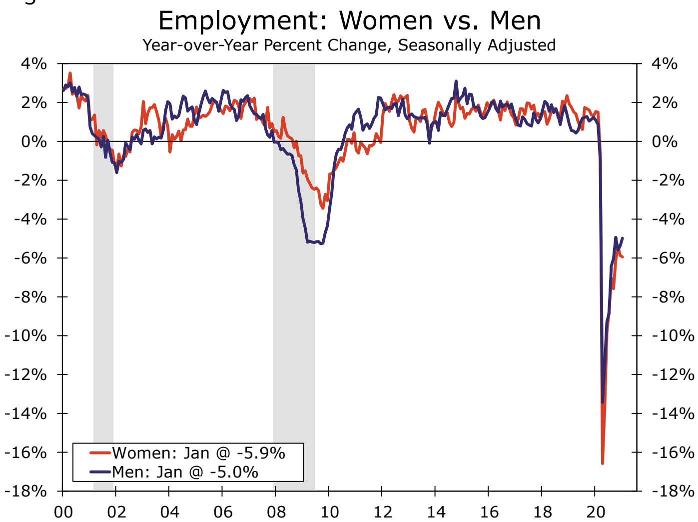


Source: U.S. Department of Commerce and Wells Fargo Securities

Pandemic Delivers a One-Two Punch to Working Women

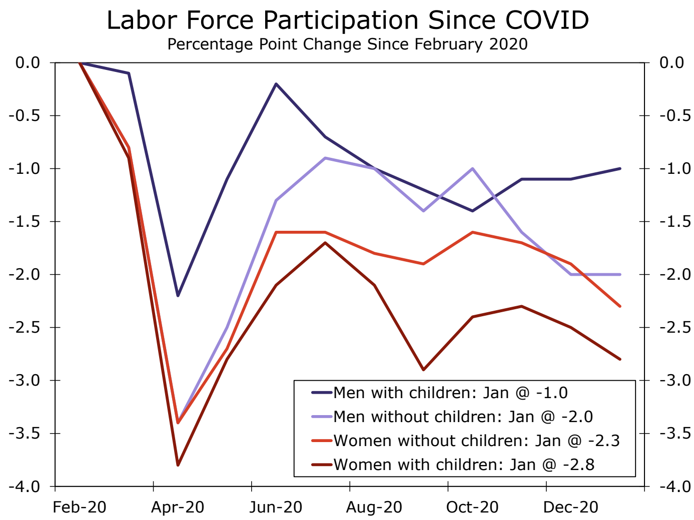
Women were not on equal footing in the jobs market before the pandemic, but at least it was true that by many measures things were moving in the right direction. Women held just over half of all jobs, and the labor force participation gap with men had fallen to a record low. Yet, that momentum reversed over the past year. In contrast to prior recessions, women have experienced particularly steep job losses during the COVID downturn (Figure 1). Nearly one million more women have lost employment over the past year than men, and women have left the labor market in droves. Since last February, more than 2.5 million women have left the labor force compared to 1.8 million men.

Figure 1



Source: U.S. Department of Labor and Wells Fargo Securities

Figure 2



Source: U.S. Department of Labor and Wells Fargo Securities

The greater exodus among women has been due in part to unequal responsibilities when it comes to unpaid work and that childcare falls disproportionately on women. Even in households where both parents work full-time, mothers spend on average four hours more per week on childcare[1]. The unequal burden of childcare has only been exacerbated during the pandemic by remote learning, daycare closures and after-school program cancellations. While labor force participation has declined more steeply for women overall when compared to men, the gap has widened more markedly between mothers and fathers than between men and women without children (Figure 2).

Unequal responsibilities when it comes to unpaid work disproportionately falls on women.

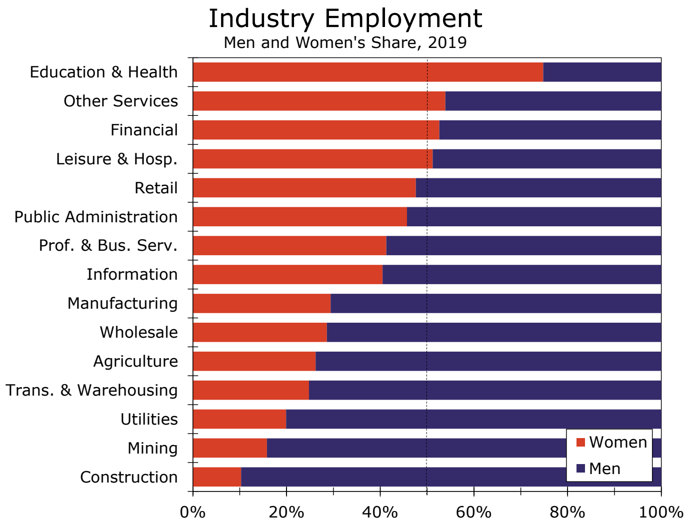
It's not just childcare issues that have driven women out of the labor force in greater numbers this past year. Women account for more than half of employment in industries that provide many discretionary services that are least compatible with social distancing, such as leisure & hospitality and personal services (Figure 3). Steep job losses in these fields have left women with fewer job opportunities. Yet, women also account for an especially large share in frontline industries like healthcare (77%), forcing them to make tough decisions between work and potential exposure to COVID.

Gaps in employment are not just hard on current finances, but carry a longer-term wage penalty[2]. The breaks in experience also make it more difficult to climb the corporate ladder and add to women's underrepresentation in upper-echelons of management, reducing thediversity of ideas that could foster innovation[3]. Full-time working women earned only 82% of men's earnings prior to the pandemic, but COVID stands to aggravate the wage gap and reduces the financial incentive to return to the jobs market.

The exit of so many women from the labor force can weigh on the economy's potential output.

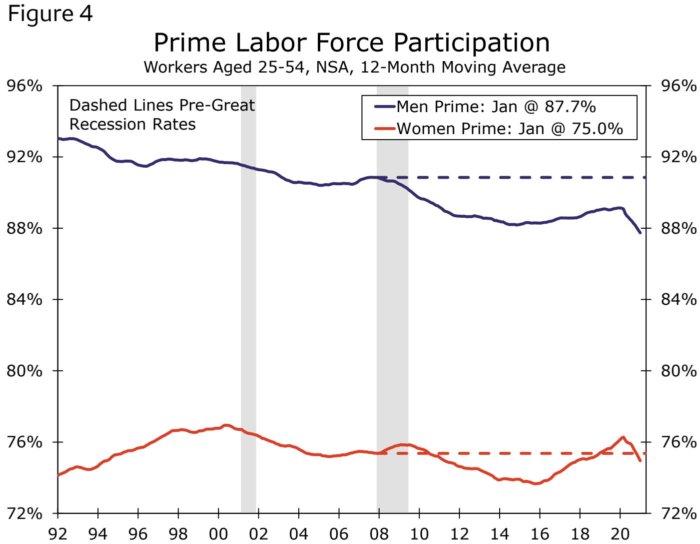
The exit of so many women from the labor force is not just a problem for those individuals, but for their families and the broader economy. Labor force participation is a key factor in an economy's potential output; an economy can produce more the greater amount of labor at its disposal, all else equal, which in turn raises living standards. Rising participation and employment among women has accounted for more than 90% of middle-class household income growth over the past four decades[4]. Women played a pivotal role in the rebound in labor force participation during the past cycle, with participation among prime age (25-54 years old) women climbing to the highest level since the early 2000s, while participation among men continued to flounder (Figure 4). But the reduced availability of childcare[5], derailment of careers and the relatively weaker pay prospects upon returning to work stand to impede the rebound in labor force participation among women and limit labor force growth for years ahead.

Figure 3



Source: U.S. Department of Labor and Wells Fargo Securities

Figure 4



Source: U.S. Department of Labor and Wells Fargo Securities

How Are Women Doing: It's Everyone's Business

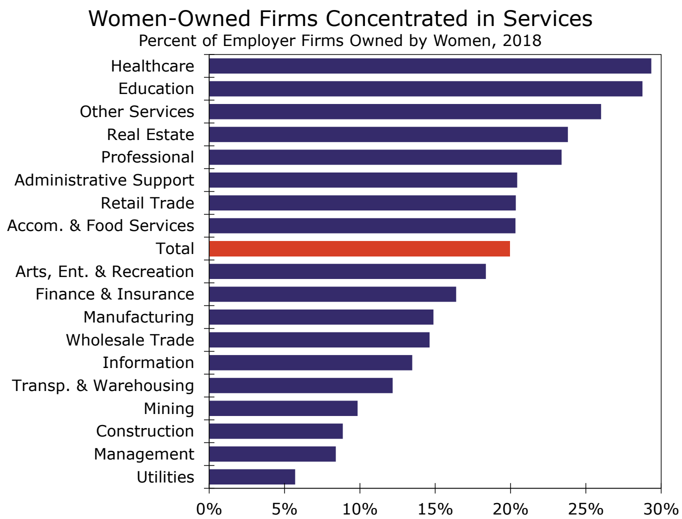
The setback to labor force growth isn't the only way the pandemic's uneven toll on women could weigh on the economy's longer-term growth. Disproportionate effects from the pandemic can exacerbate disparities in access to capital and cause a significant headwind to business formation and innovation post-pandemic.

Women account for just 20% of employer firms.

Women account for just 20% of all employer firms (those with paid employees), but the share of women-owned firms skews toward service industries (Figure 5). The same industries that heavily employ women have a higher share of women-owned businesses due to industry expertise being positively associated with ownership and survival rates. Pre-pandemic, the service-sector concentration proved advantageous. Women were forming businesses at a faster rate than men and creating jobs more quickly (Figure 6). In other words, women-owned businesses were becoming an increasingly important source of growth in the U.S. economy.

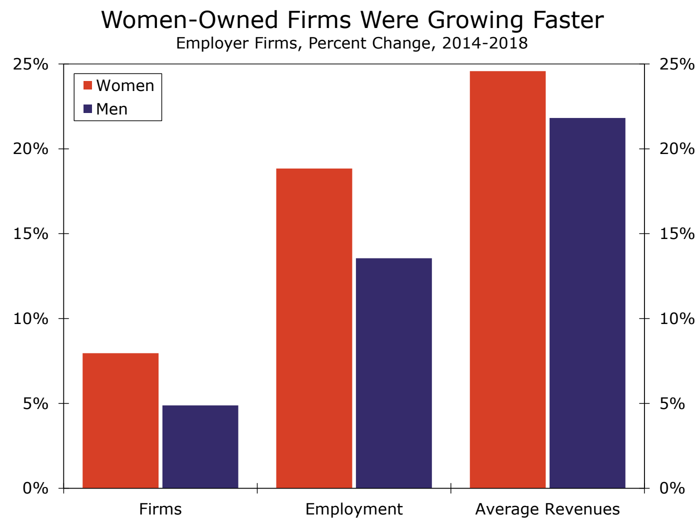
But, the pandemic has disproportionately hit the service sector, and thereby women-owned businesses. There is limited high-frequency data on small business owner demographics, but estimates from the onset of the pandemic suggest the number of women-owned businesses dropped by 25% from February to April, compared to about a 20% decline in men-owned businesses[6]. Although it remains to be seen if small business closures are temporary or permanent, they run the risk of reversing some of the progress made pre-pandemic.

Figure 5



Source: U.S. Department of Commerce and Wells Fargo Securities

Figure 6



Source: U.S. Department of Commerce and Wells Fargo Securities

Finding the initial capital to start a business can be daunting for all entrepreneurs. But partly because it is a particularly steep hurdle and often more costly for women, it is no small wonder why there are fewer female business owners. Even before the pandemic, women-owned firms were more likely to face financial challenges due to under-capitalization and the use of more expensive credit, such as credit cards[7]. These long-standing structural issues existed prior to the pandemic but made it even more challenging for women-business owners to tap credit as borrowing conditions have tightened.

Survey results from the Federal Reserve's 2021 Small Business Credit Survey showed women-owned businesses reported worse financial conditions than men-owned businesses, and more women-owned businesses reported a decrease in revenue. Tapping funds to survive during the COVID crisis has been true of many small businesses, but women-business owners have received less in funding. Despite articulating the same need for financing over the past 12 months, women-owned firms sought less in financing and were also less likely to receive all financing sought compared to men-owned firms.

The pandemic shined a light on structural disparities in access to capital.

Unequal access to credit was also evident when it came time to divvy up stimulus money from the government through the Paycheck Protection Program (PPP). Despite comparable numbers of submitted applications for PPP, the share of men-owned firms that received all of the PPP funding they sought was 78%, versus only 73% for women-owned businesses. The second round of PPP that began in January is attempting to correct some of the previous round's disparities as it aims to target businesses left out of the earlier round of public funding.

Given the different experiences of the past year, perhaps it comes as no surprise that women-owned businesses are also less optimistic. More women-owned businesses are expecting revenues to decrease in the next 12 months, and fewer are expecting to increase employment. Our own forecast for a rebound in services consumption later this year should provide support for women-owned firms. Specifically, healthcare, other services and accommodation will help propel the recovery and not only support existing businesses, but likely spur the birth of new firms.

Knocked Down, but Not Out

While the pandemic has derailed some notable economic gains among women, are there reasons the outlook may be more promising? Concentration in the service sector has hurt women through the pandemic, but longer term, we expect exposure to services to be a benefit. Once the virus is brought under control, we expect the U.S. economy to continue the transition to a more knowledge-based economy, which should benefit women's career and business prospects, particularly given women's higher educational attainment.

A continued transition to a knowledge-based U.S. economy and work-from-home environment will benefit women's participation.

Women's employment may also be set to benefit from the work-from-home environment. The pandemic has made employers more comfortable with remote work. The extent to which the shift to work-from-home persists in a post-pandemic economy remains to be seen, but it stands to reason that it can boost labor force participation. With women more responsible for unpaid at-home work and childcare, the more flexible working-from-home environment could pull more women into the labor force and boost the productive capacity of the economy more generally.

Finally, the more robust fiscal response to date leaves the U.S. economy, and specifically the hard-hit services sector, in a better position coming out of the crisis than in the aftermath of the Great Recession. That said, monetary and fiscal support has been broad and not well targeted in addressing many of the structural impediments like childcare and access to credit that hindered women from being on an equal footing with men prior to the pandemic and disproportionately affected women during the crisis. So, while more support today suggests the broad recovery will be relatively quick, the COVID recession still stands to further entrench existing economic inequalities between men and women. Growth prospects suffer for everyone as a result.

A surge in consumer spending should propel the U.S. economy in the year ahead, but it comes with a price. Mounting government debt means the fiscal support likely will eventually fade away, and when it does, the economy will be in dire need of productivity gains and a source of real income growth that is not tied to transfer payments. Making sure that women are able to fully participate in the labor force and business ownership are vital to sustaining the expansion and lifting the potential growth rate for the broader economy.

Endnotes

[1] American Time Use Survey. Table A7-A. Time spent in primary activities by married mothers and fathers by employment status of self and spouse, average for combined years 2015-19. U.S. Department of Labor. (Return to Section)

[2] Nichols, A., Mitchell, J. and Linder, S. "Consequences of Long-Term Unemployment." The Urban Institute. July 2013. (Return to Section)

[3] McKinsey & Company. "Women in the Workplace 2020". (Return to Section)

[4] Sawhill, I. and Guyot, K. "Women's work boosts middle-class incomes but creates a family time squeeze that needs to be eased." The Brookings Institution. May 2020. (Return to Section)

[5] With employment at childcare centers down 17% over the past year as facilities have closed, affordable childcare options therefore look likely to be even more limited post-pandemic, making it difficult for primary care givers to rejoin the workforce or transition back to full-time work. (Return to Section)

[6] Fairlie, R. "The Impact of COVID-19 On Small Business Owners: Evidence of Early-Stage Losses From the April 2020 Current Population Survey." National Bureau of Economic Research. June 2020. (Return to Section)

[7]Premier Quantitative Consulting. "Research on Undercapitalization as a Contributor to Business Failure for Women Entrepreneurs," 2014. (Return to Section)

Additional Analysis

"To Boost Growth & Shrink the Deficit, Fix the Retirement Gap." Wells Fargo Economics. December 2018.

"The Girl with the Draggin' W-2." Wells Fargo Economics. February 2017.

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