COVID-19 Is a Persistent Reallocation Shock

Jose Maria Barrero, Assistant Professor of Finance, Instituto Tecnologico Autonomo de Mexico; Nicholas Bloom, Professor of Economics, Stanford University; Steven J. Davis, William H. Abbott Distinguished Service Professor of International Business and Economics, Chicago Booth; Brent Meyer, Policy Adviser and Economist, Federal Reserve Bank of Atlanta

Recent data from the firm-level Survey of Business Uncertainty reveal three pieces of evidence that COVID-19 is a persistent reallocation shock.

COVID-19 and policy responses to the pandemic have generated massive shifts in demand across businesses and industries. The authors draw on firm-level data in the Atlanta Fed/Chicago Booth/Stanford Survey of Business Uncertainty (SBU) to quantify the pace of reallocation across firms before and after the pandemic struck, to investigate what firm-level forecasts in December 2020 say about expected future sales, and to examine how industry-level employment trends relate to the capacity of employees to work from home.

The authors report three pieces of evidence on the persistent re-allocative effects of the COVID-19 shock:

- First, rates of excess job and sales reallocation over 24-month periods have risen sharply since the pandemic struck, especially for sales. The authors focus on rates of “excess” reallocation, which adjust for net changes in aggregate activity.

**Figure 1** Excess Reallocation Rates Computed from Realized and Forecasted Firm-Level Growth Rates with One-Year Look-Back and Look-Ahead

![Graph showing excess reallocation rates](image-url)

Source: Authors’ calculations using data from the Survey of Business Uncertainty.

Notes: Data are monthly, and the sample period runs from January 2017 to December 2020, inclusive. See the text for an explanation of how we compute excess reallocation rates from firm-level outcomes and forecasts.
Second, as of December 2020, firm-level forecasts of sales revenue growth over the next year imply a continuation of recent changes, not a reversal. Firms hit most negatively during the pandemic expect (on average) to continue shrinking in 2021, and firms hit positively expect to continue growing.

Third, COVID-19 shifted relative employment growth trends in favor of industries with a high capacity of employees to work from home, and against industries with a low capacity.

1 The SBU is a monthly panel survey of U.S. business executives that collects data on own-firm past, current, and expected future sales and employment. The Atlanta Fed recruits high-level executives to join the panel and sends them the survey via email, obtaining about 450 responses per month. The survey yields data on realized firm-level employment and sales growth rates over the preceding twelve months and subjective forecast distributions over own-firm growth rates at a one-year look-ahead horizon.