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Delta Tells the Economy, Not So Fast

By Mark Zandi,
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The American economy has come a long way. It was only 18 months ago when the coronavirus pandemic struck in full force, igniting a devastating recession. But as the recent wave of infections and hospitalizations from the highly contagious Delta variant of the virus makes clear, the pandemic is not over. Nor is the economic fallout.

This is clear in the performance of the nation's biggest cities, which were hit hardest by the pandemic. The health care system of New York City was overwhelmed early on as the virus ravaged its densely populated neighborhoods. To contain the virus, businesses were shut down, immediately idling one-fifth of workers in the city. Big cities that lost at least one-sixth of their jobs virtually overnight include Boston, Chicago, Detroit, Los Angeles, Miami, Philadelphia and San Francisco.

These cities have worked hard to piece their economies back together, and early this year as the vaccines were rolled out there was much optimism that like the rest of the nation, they would recover quickly. In New York, Broadway's lights are back on, restaurants and museums reopened, the Yankees played the Red Sox, and the city regained almost half the jobs it had lost. The mega-financial institutions, media companies and consulting firms that employ tens of thousands of workers in the city prepared to welcome them back to their skyscraper office towers. For a few shining weeks, it seemed as if the nation's big cities were going to make a fast comeback in early fall.

Unfortunately, that's not going to happen. The highly contagious Delta variant came on quickly this summer and is doing substantial economic damage. It has dashed many employers' plans to get workers back in the office. Instead of returning after Labor Day, businesses are now hoping for next month or the month after. Some are looking at early 2022. Many of the nation's downtowns will remain eerily quiet, dashing hope for restaurants, retailers and other small service businesses that cater to these commuters to hang on.

Tourists and business travelers who typically fill big-city hotel rooms and convention centers have suddenly turned more cautious, fearful of getting sick. The number of people going through T.S.A. checkpoints had been steadily recovering but is waning again. Hotel and rental car bookings have slumped in recent weeks. Online restaurant bookings also are off. Google, which tracks people's movements through their cellphones, says fewer of us are frequenting retail establishments and recreational activities.

Delta is causing even more havoc overseas, havoc that reverberates hard on U.S. cities closely linked to the rest of the world. There won't be many British, Brazilian or Chinese tourists until travel bans and quarantine restrictions are lifted, but that's unlikely to happen anytime soon. Scrambled global supply chains are now even more scrambled, particularly in the emerging world, where most supply chains begin. This is causing shortages and surging prices. (China recently shut down a terminal at a major seaport over discovery of the Delta variant among dock workers. The cost of shipping goods destined for New York City from Shanghai in anticipation of the Christmas buying season surged fourfold.)

Cities are also grappling with a dearth of foreign immigrants, who've been unable to make their way here during the pandemic. Without more immigration, businesses won't come close to filling the record number of open job positions. Endemic labor shortages were businesses' No. 1 problem before the pandemic. It is even more serious now as many baby boomers have stopped working. Until the pandemic winds down and immigration of both skilled and unskilled workers revives, businesses, especially in big cities, will be unable to get the help they need.

Most economically pernicious for big cities is the "work from anywhere" phenomenon. The pandemic has ignited an exit of workers from urban areas. They've been empowered to work wherever they like. Over three-quarters of a million more people have left big cities than have moved to them since the pandemic hit, according to Moody's Analytics calculations based on address changes on their credit files.

This is up threefold from a similar period just before the pandemic. New York City alone is responsible for over one-third of the increase in net outflows of people from urban areas to suburbs, exurbs, smaller cities and rural areas. Los Angeles and the Bay Area of California aren't far behind, followed by Chicago, Boston, Miami, Washington, Seattle and Philadelphia.

Some white-collar workers will give up the work-from-anywhere lifestyle when office buildings welcome back workers in earnest, but for most it is here to stay. Human resource departments will work out the niggling impediments. For example, if an employee moves from New York to Jacksonville, Fla., should she still be paid according to New York's higher wage structure and higher cost of living or more in line with those of Florida? Employers and employees will, naturally, have different views on this, which will slow down how quickly these negotiations shake out. For many, the shorter commutes, cheaper housing and living costs, lower taxes and easier-going lifestyle of many Southern and heartland states will be a huge draw.

The Delta variant is a reminder, if we needed one, that the pandemic is not over and that economic recovery is closely tethered to its ebbs and flows. It won't be a straight line back to full strength for the economy, particularly for the nation's biggest cities. They have some adjusting to do: finding ways to moderate real estate prices, rent and other living costs and bringing down tax rates. Cities have faced daunting economic challenges in the past yet always come through. When they do, and only then, will our economy truly get its groove back.

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