

- **Uncertainty shocks drive recessions through wait-and-see**

└ Bloom '09 ┐

- An uncertainty shock is a **mean-preserving spread** → wider bands, not worse news

- Firms postpone investment and hiring

└ Martínez-Matute-Urtasun '22 · Kumar et al. '23 ┐

- The **investment** side is well understood

- **This talk: the hiring side**

- Search-and-matching models **cannot match the magnitude** of the hiring freeze

└ Leduc-Liu '16 · Den Haan et al. '21 ┐

What are we missing when we model labor markets under uncertainty?

Replacement hiring

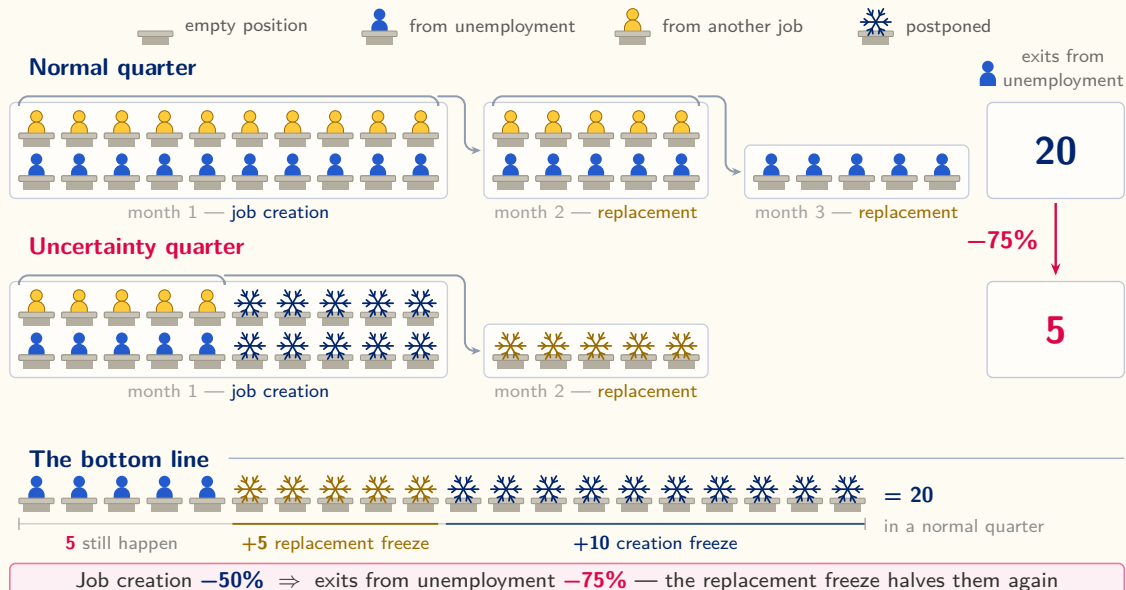
- While firms wait, capital and employment stocks **depreciate**
- *Your excavator won't tell you it found a better employer. Your worker will.*
- Under the hood of a stable employment stock, lots of job-to-job transitions happen
- **Half of all US hires** are quit replacements

How does replacement hiring respond to uncertainty,
and does it matter for unemployment?

DATA It **freezes**.

MODEL Only **durable empty positions** make it freeze, amplifying the spike in unemployment.

Mechanism in a nutshell: two freezes, not one



Measuring the replacement response

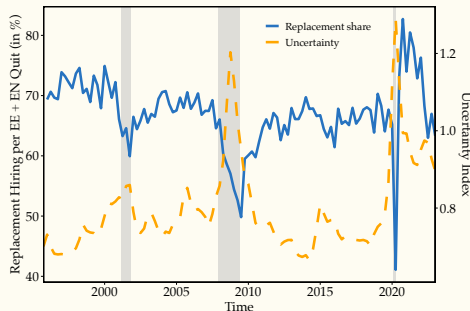
$$\text{Replacement share}_t = \frac{h_t^{RP}}{q_t^{EE} + q_t^{EN}}$$

wait-and-see → share falls ↓

waiting extends to refilling desks

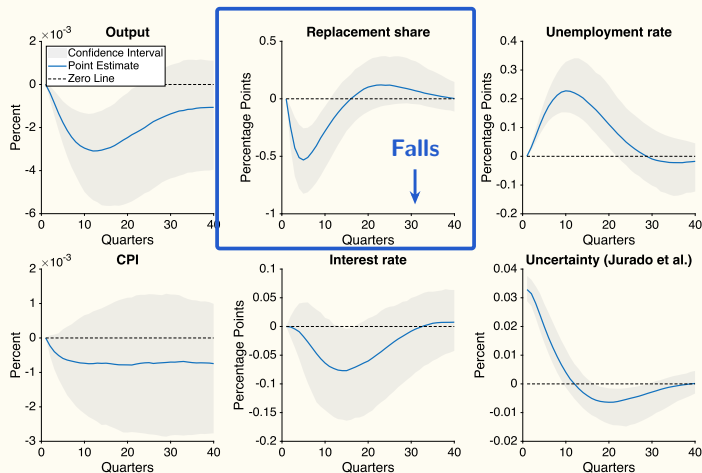
congestion relief → share rises ↑

fewer rivals hiring, cheaper refills



Negative comovement — let's check for causality.

An uncertainty shock freezes replacement hiring



SAMPLE	LAGS	PRIOR	IDENTIFICATION	BANDS	UNCERTAINTY
1995Q4–2019Q4	4	normal-diffuse	Cholesky, uncertainty last	90%	unforecastable macro volatility [Jurado et al. '15]

Rationalizing a replacement-hiring freeze in DMP models

DMP — free entry $\Rightarrow$ no waiting, no replacement margin

+ wait-and-see — depart from free entry $\Rightarrow$ a finite pool of entrepreneurs

[Den Haan et al. '21]

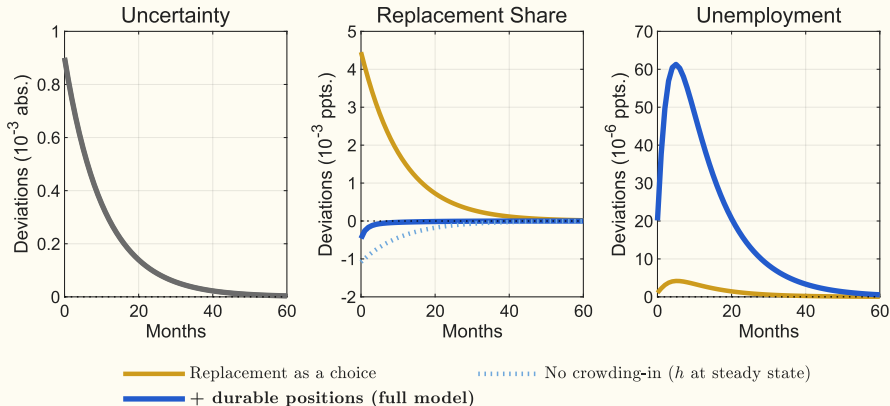
+ replacement hiring — quits leave vacancies; refill hard-wired

[Mercan-Schoefer '20]

+ this paper replacement becomes a decision

+ empty positions survive waiting

= flips the sign to a freeze



Conclusion

What I do

- Add **replacement hiring** to a search-and-matching model of uncertainty shocks, with **viable empty positions**.

What I find

1. Replacement hiring **freezes** under uncertainty, in the data *and* in the model.
2. Viable empty positions are what give replacement hiring an option value of waiting; they **flip the sign** of its response.
3. The replacement freeze **amplifies** the recessionary impact of uncertainty shocks.

Outlook

- A frozen labor market pushes job seekers into **worse matches**
↪ mismatch that outlasts the uncertainty itself