File:ED Section 6, equation 3 6.2.1.png

The more complicated adjustment above is the calculation and use of the labor coefficient adjustment factor (LabCoeffAdjFac). Fundamentally, it is a recognition that while the cross-sectionally estimated functions for the coefficients should quite well represent long-term changes in the labor coefficients with GDPPCP, shorter-term shocks to GDPPCP like those in the COVID period might not affect labor demand in the same way and could quite possibly have less impact on the labor demand; for instance in the long-term, GDPPCP change carries with it technological change that is much less likely in the short-run. Rather than setting up early forecast period disconnect between the two variables, particularly when the exogenous use of GDP series in early model years can create bumpy exogenous GDP growth rate specification, the adjustment factor is computed in year 2 as a function of the relationship between the corrected longer-term economic growth rate (igdprcor), the change in labor force size (LAB), and the change in the estimated labor coefficients. The adjustment factor convergences to 0 over 10 years after the model has completed its passage through the period of those early-year exogenous economic growth rate changes, including irregular patterns associated with factors such as the COVID-19 epidemic. Overall, this smooths the pattern of labor force demand because that pattern seldom changes as rapidly as does the economic growth rate.
