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## What Explains the 2007-2009 Drop in Employment?

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**Abstract:**

We show that deterioration in household balance sheets, what we refer to as the housing net worth channel, played a significant role in the sharp decline in U.S. employment between 2007 and 2009. Using geographical variation across U.S. counties, we show that counties with a larger decline in housing net worth experience a larger decline in non-tradable employment. This result is not driven by industry-specific supply-side shocks, exposure to the construction sector, policy-induced business uncertainty, or contemporaneous credit supply tightening. We find little evidence of labor market adjustment in response to the housing net worth shock. There is no expansion in the tradable sector in affected counties, and the correlation between the housing net worth decline and job losses in the tradable sector is zero. There is no evidence of wage adjustment, or of net labor emigration out of affected counties either.

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