US: 3 things to watch for in the April jobs report

While we are tempted to say "ignore it" given its lack of timeliness, the markets will be focused on the jobs report for a guide as to how bad things could get for the US economy. There could also be one or two interesting surprises

The April jobs report is published on Friday and would normally be the major release to watch in any given month. However, the speed and aggressiveness of the economic downturn brought about by Covid-19 containment measures means it is already largely out of date, given that the data is collected in the week of the 12th. Since that point millions more Americans have filed unemployment claims as the economic pain spreads through the economy. Nonetheless, the report will give us clues as to how bad things could get and we highlight some data quirks that could through up a few surprises that may catch the market off guard.

1) How accurate is the read-across from initial claims?

Initial jobless claims have been the most timely US economic data point through the crisis. As lockdowns spread across the country millions have lost their jobs, primarily in industries that are consumer facing, such as physical non-grocery retail, hospitality and the travel industry. 30 million people have filed a new unemployment claim in the past six weeks, but as of the week of April 12th we were “only” at 22 million. This happens to be the consensus forecast for the plunge in payrolls, so we will be looking at how good a read-across it provides.

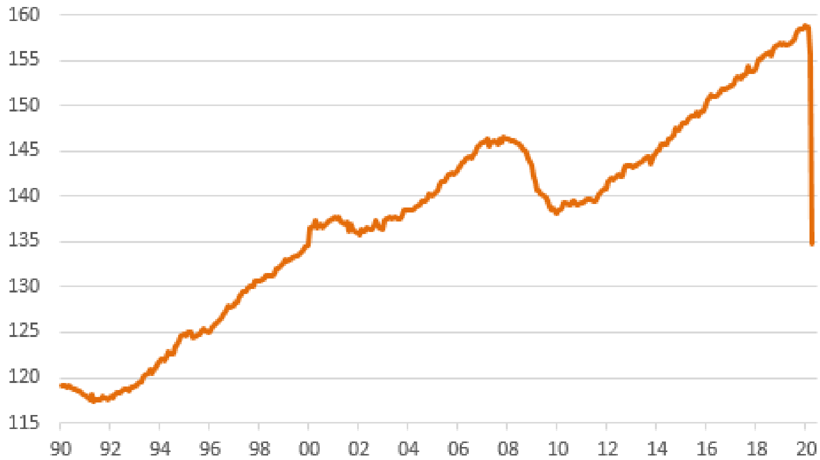
We have to remember that there is evidence to suggest there were delays for people registering, with discussion of jammed phone lines and websites crashing under the traffic. Offsetting this there may have been people who filed more than one claim in confusion while other people may have found work in the grocery and parcel delivery sectors. On balance we look for payrolls to fall by 21 million in April, which would take us down to employment of just under 130 million and would wipe out all the employment gains since the end of the Global Financial Crisis. For May we provisionally look for payrolls to fall a further 10 million, which would result in the lowest level of employment since the late 1990s.

2) How high is unemployment?

We have to remember this figure is calculated off a different survey – one of households themselves rather than employers. We assume that this survey will show less of a drop in employment as many people who have been impacted will have more than one job, given the nature of where the job losses have been concentrated.

For example, someone working in a retail store in the daytime and a bar in the evening may have lost both jobs as classified in the payrolls report, but unemployment has increased by only one person. Likewise a student who has lost a job in a restaurant may not classify themselves as unemployed, merely as a student once again. Given this approach we are sub-consensus here too at 15.8% versus 16.3% predicted by the market.

Employment levels (household survey) 1990-2020 with ING's forecast for April 2020



Source: Macrobond, ING

3) Could wage growth surge higher?

This may seem an odd question given that all the evidence points to wage growth collapsing as unemployment surges higher. However, we have to remember this figure is average *hourly* earnings. Given the majority of the 21 million or so who lost their jobs worked in retail and hospitality, they will likely be skewed towards the lower end of the hourly earnings distribution. With these people disappearing from the calculation we will likely see a surge in the figure for average hourly earnings of 1% MoM with the risk of an even higher number. This could cause a ripple of surprise and talk of inflation in financial markets given the consensus is only 0.4%, but it is a statistical anomaly.

Where next?

Unemployment is clearly broadening out to other sectors. The plunge in the ISM employment component to the lowest level since June 1949 warns of sharply fewer jobs in this sector while the carnage in the oil and gas industry makes that sector look vulnerable to job losses too. Business services will not be immune. Consequently, the May report, which will be published June 5th is likely to post a further 10 million unemployed, pushing the unemployment rate up to 22%

This is below the 24.9% peak experienced in 1933, but we have to remember that one third of Americans aged 18-65 are not classified as employed or unemployed – they are students, in early retirement, homemakers, carers or sick. Given this situation, fewer than half of working age Americans will be earning a wage this month. This is a sobering statistic that underlines the huge economic damage of Covid-19.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com