

US: The big, bad number of the week

The economic pain caused by the Covid-19 outbreak is evident in mass lay-offs across the country. This reinforces the urgent need for fiscal support for those most heavily impacted.



2 million

The ballpark number for initial jobless claims

Next week

The intensifying economic pain from Covid-19

For what it is worth, the economic data for January and February keeps on coming and it's been great.

Based on the numbers released so far the US [was on course to record](#) annualised growth of around 3% for the first quarter. That is now ancient history. The fear surrounding the Covid-19 outbreak and the measures to try to limit its spread have resulted in broad swathes of the US economy grinding to a halt. Recession is now unavoidable.

For what it is worth, the economic data for January and February keeps on coming and it's been great. But that is now ancient history

There has been particular pain felt in the leisure, hospitality and consumer service sectors. Restaurants and bars have closed across the country while the travel industry has been decimated as orders to keep movements to a minimum are heeded. Our current best guess is for the economy to contract by around 10% in the second quarter although even this figure is looking increasingly too optimistic.

Those people that can are increasingly working from home. However, not every job can be configured to be able to work remotely. Consequently, we are seeing worker lay-offs surge higher across the country as businesses are squeezed between a collapse in demand and tighter financial conditions.

US initial jobless claims



Source: Bloomberg, ING

Unemployment is surging

Yesterday's weekly initial jobless claims spiked 70,000 or 33% to 281,000, but a much bigger surge is likely next week. Individual states have been publishing data that suggest there has been between a four and ten-fold increase in jobless claims in recent days. California, for example, has recorded 190,000 claims versus 58,000 last week while in Ohio they have jumped from 7000 to 78,000. These are not seasonally adjusted figures, but with anecdotal evidence that states have not been able to fully log all applications due to jammed phone lines and website crashes, we should be braced for a truly awful figure next Thursday.

Assuming we average out at a seven-fold increase in claims versus last week this would translate into a 2 million rise in jobless claims. By way of comparison, the record high was 695,000 in early October 1982 with the Global Financial Crisis peak being 665,000 in late March 2009. Over the following couple of weeks, the numbers will drop back from this initial surge but will remain elevated at around the million mark.

With firms simply not hiring – apart from grocery and logistic companies – we are likely to see the unemployment rate rocket although it may not reach the 10% highs seen in the global financial crisis. After all, we are unlikely to be alone in hoping conditions improve and containment measures will be relaxed at some point in late 2Q. This could lead to a sense we might be on the path to normality in 2H20, which would presumably deter many companies from mass lay-offs. If we are wrong on this then 10%+ unemployment would be realistic.

Initial claims forecast for next week



Source: Bloomberg, ING

The need for a fiscal plan

The spike in jobless claims and a much higher unemployment rate reinforce the need for swift and aggressive fiscal support for those most impacted. We are getting more details on the stimulus plan, which Treasury Secretary Steven Mnuchin is looking to get passed in Congress Monday.

Rather than a blanket \$1000 for everyone it is now being focused towards the people who most need it with a tax rebate of \$1200 for people earning up to \$75,000 before it being phased out completely for those earning more than \$99,000. For married couples who file jointly, it is \$2400 that gets phased out once incomes reach \$198,000. The fact that it is being more targeted perhaps also hints at a recognition that more than one cheque may be required given the likelihood that restrictions continue for at least another couple of months.

In addition to this, it looks as though \$208bn of loans will be made available, including \$58bn for the airline industry with a further \$300bn for small businesses. President Trump had already indicated a desire to take equity stakes in companies that are getting major support while the Democrats may insist on firms that get support keep worker lay-offs to a set minimum with more focus on health and unemployment benefits.

As such, more work is needed to finalise the details, but we are increasingly confident that support on the fiscal front will soon be stepped up to try to limit the economic hardship created by Covid-19.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.