US unemployment claims at an all-time high

Initial and continuing unemployment claims are edging lower from painfully high levels, but for the real story on what is happening in the US jobs market look at the measure of total unemployment claims - a new all-time high

32.92mn

The total number of people claiming unemployment benefits in the US

Focus on the total claimants...

Weekly initial jobless claims have come in a little lower than expected at 1.314mn for week of July 4th (cons 1.375mn), but remain more than double the level seen during the Global Financial Crisis. Continuing claims fell to 18.062mn (cons 18.8mn). However, the total number of people claiming benefits under ALL programs rose to 32.9mn - up 1.4mn on the week. That is because a broader range of people qualify for benefits under the Pandemic Unemployment Assistance program which had 14.4mn claimants as of week June 20. This only serves to illustrate the ongoing extreme stress in the jobs market and suggests unemployment is closer to 20% than the 11.1% currently listed as the "official" rate.

Focusing initially on the jobs claims (as that is what the market will do), they have proved to be far stickier than most analysts thought likely as the re-opening got underway. Unfortunately we don't expect to see meaningful declines from these huge numbers anytime soon. High frequency data from Homebase suggest that employment gains are already plateauing as the spike in Covid-19 cases has led several states to announce renewed containment measures while other states delay their phased re-opening.

This is forcing renewed businesses closures (leisure and hospitality in particular) while others are taking the view that it simply isn't viable for them to stay open. This is only adding to the problems in the jobs market, while at the same time the ISM business surveys indicate that larger firms are looking to shrink their workforces in the face of lower revenues and weaker corporate profits.

August unemployment back at record highs?

Last Thursday's June jobs report published by the Bureau for Labour Statistics announced that the number of people classified as "officially" unemployed fell to 17.75mn or 11.1% of the workforce. Unfortunately, this simply does not reflect the reality of the US labour market today. Instead, that is why we focus increasingly on the total number of people claiming unemployment benefits, which is tucked away midway on page four of today's jobless claims report and now stands at a new record high of 32.92 million.

PERSONS CLAIMING UI BENEFITS IN ALL PROGRAMS (UNADJUSTED)

WEEK ENDING	June 20	June 13	Change	Prior Year[1]
Regular State	17,316,689	17,552,371	-235,682	1,586,713
Federal Employees	14,482	14,645	-163	7,017
Newly Discharged Veterans	13,107	12,637	+470	5,400
Pandemic Unemployment Assistance[3]	14,363,143	12,853,484	+1,509,659	NA
Pandemic Emergency UC[4]	850,461	769,155	+81,306	NA
Extended Benefits[5]	2,266	2,615	-349	1
State Additional Benefits[6]	2,241	2,128	+113	5,041
STC / Workshare [7]	359,946	304,512	+55,434	7,950
TOTAL[8]	32,922,335	31,511,547	+1,410,788	1,612,122

Source: Department of Labour

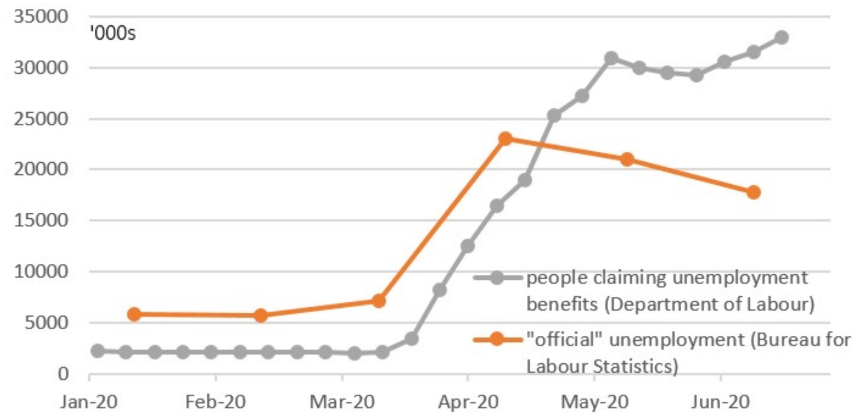
Which measure do you believe?

Why the difference? Well to be classified as "officially" unemployed you have to be actively searching for work. This was always viewed as the broadest measure of unemployment as not everyone could claim unemployment benefits (for example through not enough work history, or because you were an independent contractor etc).

However, given the unprecedented nature of the Covid-19 pandemic the rules on claiming unemployment benefit have been relaxed with a broader range of people now qualifying. More significantly you don't need to be actively searching for work to get benefits, including the additional $600 per week from Federal government.

This makes sense as if you are a bar worker and all the bars are shut, what is the point of searching for the impossible? Therefore the "official" unemployment figure is under-representing unemployment in the US today and the unemployed claimants, we argue, is providing the fairer picture. The chart below shows how the two measures have evolved since the crisis.

BLS versus DoI measures of unemployment



Source: Macrobond, ING

The official unemployment rate looks set to rise

So far, extended unemployment benefits, including the US$600 per week Federal boost, are supporting incomes and consumer spending. However Labour Secretary Eugene Scalia stated on Bloomberg TV on Monday that “it’s right” that this program expires at the end of the month. This will result in a huge drop in incomes for those millions of people at a time when the reinstatement of Covid-19 containment measures is limiting the opportunities for finding work.

This won’t impact the July jobs report as the data is collected the week of July 12th, but for the August report we could see the unemployment rate rise sharply. Millions of workers seeking to replace the lost benefit income will begin “actively” looking for work despite there being few jobs available (as the states dial back on re-opening forcing more bars and restaurants and gyms etc to close once again). This means they will now be classified as “officially” unemployed with the result being the unemployment rate potentially pushing up above 15% - the highest since de-mobilisation after World War 2.

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