

US: Highest unemployment rate since 1940

Today's jobs report is horrible with the unemployment rate up at 14.7% and 20.5 million jobs lost in April, but the data will continue to deteriorate. Social distancing, consumer angst, travel restrictions and the legacy of up to 40 million jobs lost mean there is zero prospect of a V-shaped recovery



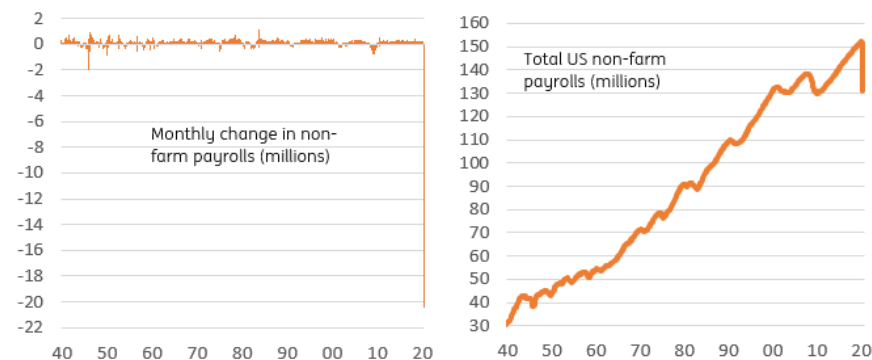
14.7% US unemployment rate

20.5 million jobs lost broadly across sectors

As widely expected, based on initial jobless claims data, we see that US non-farm payrolls fell 20.5 million in April with the unemployment rate reaching 14.7%. A truly terrible outcome resulting from Covid-19 containment measures.

The details show job losses were broader than we had expected – it clearly isn't just retail and hospitality that were impacted in the first wave. 7.7 million jobs gone in leisure and hospitality, 2.1m in business services, 2.1m in retail, 2.5m in health/education, 1.3m in manufacturing, 1 million in construction and 1 million in state and local government.

US payrolls monthly changes and total payrolls



Source: Bloomberg, ING

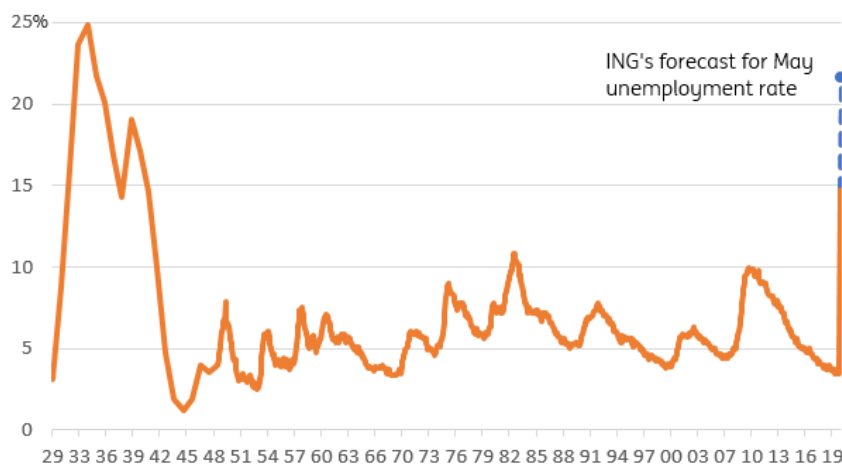
Unemployment surges with just 51.3% of working age employed

Unemployment, as measured by the household survey, didn't rise as much as implied by the payrolls plunge (it was up 15.9 million), most likely due to self-classification issues and the fact that some of those impacted may have lost more than one job. For example, someone who works in a shop in the daytime and as a cleaner in the evening would only count once in the household survey if they lost both jobs, but twice in the payrolls report. Alternatively, a student who has just lost a part-time bar job, may not classify themselves as unemployed as they are a student and therefore outside of the labour force (instead they are contributing to a drop in the participation rate to 60.2%).

This means the unemployment rate is now the highest since 1940 – see chart below. We can only get annual data back to 1929 on this. Another terrible statistic is that just 51.3% of people of working age now have a job – it will be below 50% next month.

As expected, we also saw an outsized jump in average hourly earnings of 4.7%. With 20 million people towards the lower end of the income spectrum dropping out of the calculation for “average” hourly earnings we automatically got a big skew to higher “average” hourly earnings for those still in work. Ignore it – no-one is getting a pay rise in the US.

US unemployment rate 1929-2020 with ING forecast for May 2020



Source: Macrobond, BLS, ING

Monthly BLS data from 1948 with annual numbers from 1929:

<https://www.bls.gov/opub/mlr/1948/article/pdf/labor-force-employment-and-unemployment-1929-39-estimating-methods.pdf>

The outlook for the May report and beyond

As for the May jobs report, to be published on 5 June, we expect to see a payrolls drop of around 12 million. Remember that the data is collected in the week of the 12th of each month so if we assume weekly initial claims comes in at 3 million next week that would give a four-week total of around 14.5 million on the debit side of the ledger – those job losses will increasingly be in manufacturing and business services. However, with more and more states opening-up there is going to be increased hiring in the economy after virtually nothing in April.

Hiring will be tentative at first as retailers and restaurants start to open their doors. Social distancing restrictions will be in place such as with Texas restaurants only allowing 25% of maximum occupancy and Georgia allowing 10 customers per 500 square foot. We also must consider whether consumers remain somewhat anxious about returning to normal life given the health concerns, while the legacy of 30-40 million unemployed people means that there will naturally be less demand as many households are forced to retrench.

Most businesses won't need as many staff as they had before the pandemic hit while many businesses may simply take the view that it isn't economically viable for them to open at this stage and they remain closed. Regular retail will be having to do similar calculations on what is worthwhile opening.

With social distancing, consumer angst, travel restrictions and the depressing effects of mass unemployment mean that economic activity and employment will certainly not be exhibiting a V-shaped recovery. If we can get unemployment back down to 8-10% by year-end that would likely be a "good" outcome.

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 www.ing.com.