

US jobs: California lifts the mood

After a few weeks of not providing numbers, California has completed its data audit and has contributed to a sizeable decline in the US jobless claims figures. Nonetheless, strains in the jobs market are obvious and the case for additional fiscal stimulus is strong



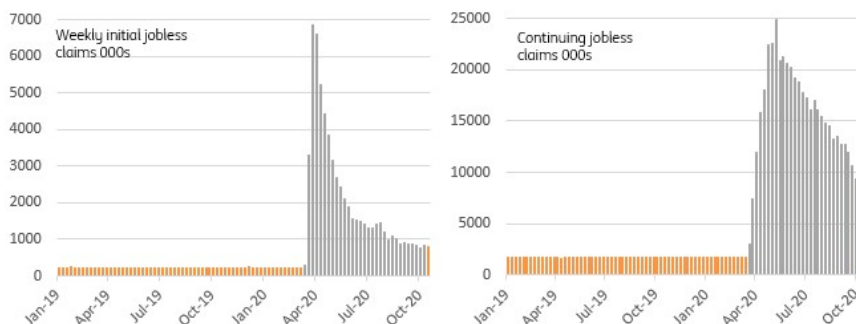
A better trajectory

After last week's surprise rise, US jobless claims have moved sharply lower during the week of October 17. Initial claims have gone from a downwardly revised 842k to 787k, which was well below the consensus forecast of 870k. Likewise, continuing claims fell sharply to 8.37mn from a downwardly revised 9.40mn.

The big revisions (and therefore the miss versus consensus) reflect the fact that California had not been reporting updated numbers for a few weeks since it has been doing an audit of its figures for fraud while also trying to clear a backlog of claims. The report therefore kept California's numbers flat at their last published reading for the duration of the outage. This process has now been completed and so we have seen sizeable changes to the history.

The better initial claims numbers are good news, but even with the California recalculations we are still significantly above the 665k peak reading during the global financial crisis in 2009, so it doesn't change the narrative of significant strains in the jobs market.

Continuing claims fell sharply, as we suspected, due primarily to the fact that the 26 weeks of regular state unemployment benefits have been exhausted for an increasing number of people. As such we saw a 510k rise in the number of people receiving the Pandemic Emergency Unemployment Compensation (PEUC) – where you can receive an additional 13 weeks of benefits. It is also worth noting that not all states produce numbers for PEUC so it likely understates the switching of benefits. As of the week October 3, 23.15mn people are receiving unemployment benefits of some kind.



Source: Macrobond

The case for more stimulus

The US economy has bounced strongly thanks largely to the expansion of unemployment benefits. The additional \$600 per week Federal payment has lifted incomes of impacted households considerably and allowed consumer spending to recover. However, this payment is now being tapered to \$400 or even \$300 in some instances while millions of people have exhausted the 26 weeks of state unemployment benefits. Consequently, household incomes are being squeezed – especially with 10 million fewer people in work versus February.

At the same time Covid cases are rising and there is some anxiety that containment measures could be introduced at some point, although probably not to the same extent as in Europe. The case for fiscal stimulus is strong in such an environment yet Senate Republicans appear wary to deliver ahead of the election – partly on concerns of the level of national debt and partly because of the sense that the White House is caving into all of the Democrat demands. We have doubts that a deal will be fully signed and sealed before the election, but a fiscal stimulus is coming.

Arguably the November 6 payrolls number could help to focus the minds of politicians more. Elevated initial jobless claims, the flatlining of Homebase employment data coupled with remote schooling limiting the usual seasonal uptick in employment and the unwind of temporary Census hiring means we could get a soft payrolls number. A weak figure would probably be a more significant catalyst for politicians to deliver action on fiscal stimulus.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

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