

## US jobs report - how bad could it get?

Today's US employment report broke the run of 113 consecutive monthly job gains, but the timing of collection meant it missed the carnage of the past two weeks. Covid-19 containment measures means shuttered businesses and an unemployment rate could easily hit 15% by May



Source: Shutterstock

**-701k** The first monthly drop in employment since September 2010

### This is just the start...

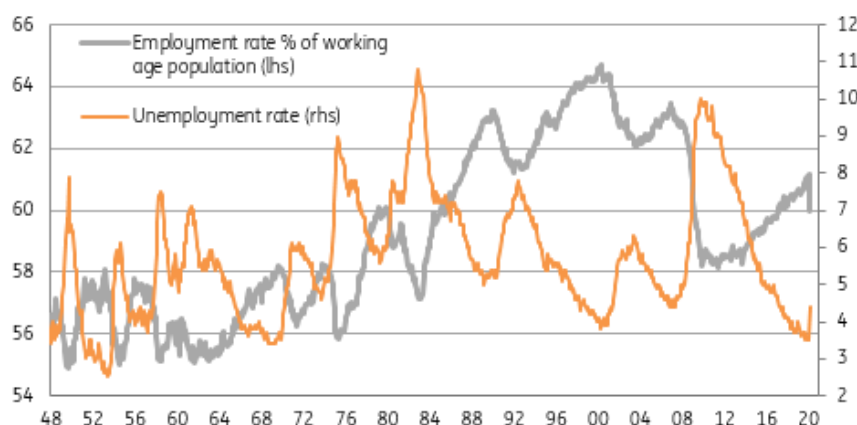
The US lost 701,000 jobs in March, far worse than expected, but it will be ignored. It merely appears that the lay-offs started a little earlier than thought as Covid-19 containment measures led businesses to close, particularly bars and restaurants, with staff laid off. This is just the start and it will get much, much worse. The cut-off for this report was the week of 12 March and we know from initial claims data that around 10 million people have registered for unemployment benefits in the last two weeks of the month.

Within the details a net 459,000 people in leisure and hospitality lost their jobs, which reflects the

orders for restaurants and bars to close while temporary help fell 50,000. It is less clear why 76,000 people lost their job in education and healthcare – presumably support staff who are required to be at the buildings as remote learning increasingly kicked in.

We saw the unemployment rate rise to 4.4% while wages surged 0.4%, which could reflect a computational issue – low income workers predominantly being fired and therefore the average wage of those in employment being skewed higher.

## Unemployment and employment ratios



Source: Macrobond, ING

In terms of where we could get to, Treasury Secretary Mnuchin warned of a 20% unemployment rate, which President Trump later clarified as a worst-case scenario. But with at least 10 million people having lost their job over the past couple of weeks and more job losses likely in the next few weeks as the Covid-19 containment measures spread and intensify – we could see a further 8-10 million job losses in the subsequent two weeks – we should be braced for a 10-11% reading for April unemployment rate with 15% conceivable for May. To put this in context the Global Financial Crisis saw unemployment peak at 10%, while the post-war high was 10.8% in 1982.

We also have to remember the data won't pick up undocumented workers who are paid in cash and cannot claim benefits. The Department for Homeland Security estimates that 3% of the population are undocumented migrants so around 11-12 million. If we then make an assumption that two-thirds of those are working in some way – the rest either being children or caring for children that would imply around 8 million workers. You would have to assume they are going to be incredibly vulnerable to losing their jobs.

When we finally get through the crisis and we can head on the path towards “normality”, unemployment will not fall as rapidly as it spiked. There is likely to be a rolling withdrawal of the restrictions, meaning a slow return to business as usual. Many companies will not make it through the crisis due to the plunge in demand and others will restructure and come out requiring a smaller workforce. In this regard we worry about physical retail stores and by extension commercial real estate. Furthermore, with businesses now knowing that remote working and meetings can be done, it could have longer term implications for business travel, hotels and hospitality. As such the prospect of additional fiscal support for affected households and

businesses appears a virtually certainty.

## Author

**James Knightley**

Chief International Economist

[james.knightley@ing.com](mailto:james.knightley@ing.com)

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