

US: Jobs - the long road to recovery

As the economy re-opens initial jobless claim are starting to fall more quickly, but at 2.12 million for last week it remains horribly high. Hiring is happening, but it will be constrained by social distancing restrictions while the government’s own support efforts could hinder the pace of recovery



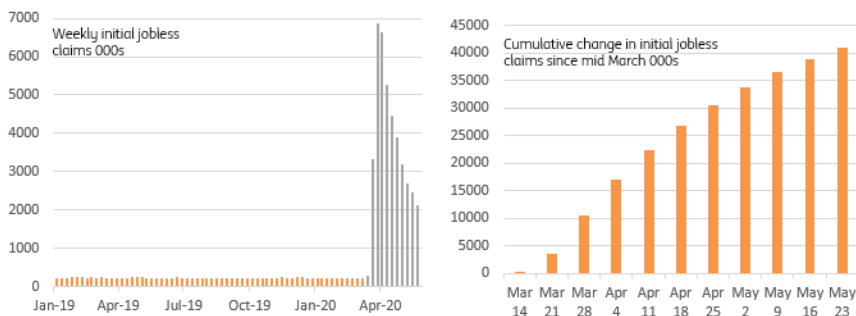
41.0 Cumulative new jobless claims over past 10 weeks
millions

Jobless claims remain elevated, continuing claims not telling whole story

Initial jobless claims dropped to 2.12 million for the week of 23 May versus the 2.1mn consensus expectation. This brings the cumulative running total to 41.0mn. Intriguingly there is a steep decline in continuing jobless claims to 21.05mn from 24.9mn and this is well below the 25.7mn consensus forecasts. We doubt this is due to hiring and may reflect more the fact the continuing

claims numbers are state benefits and don't include the people claiming the Pandemic Unemployment Assistance - they are not eligible for regular or extended unemployment benefits. As of the week of 9 May the total number of benefit claimants including Pandemic Unemployment Assistance was 31 million.

Weekly Initial jobless claims and cumulative weekly totals since lockdowns started

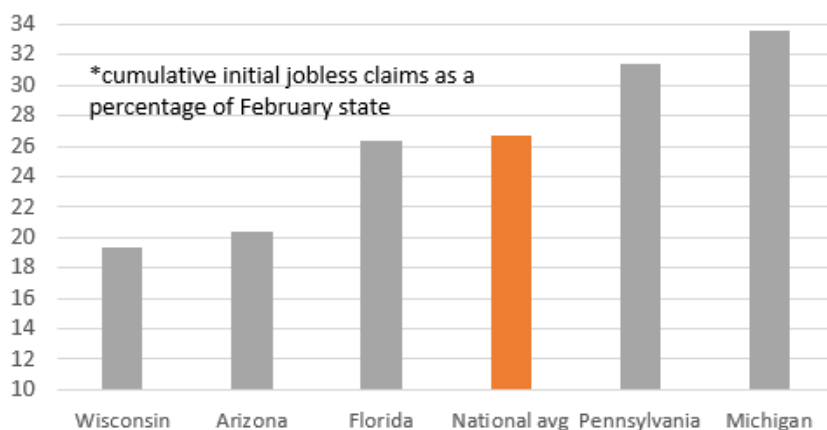


Source: Macrobond, ING

Swing states heavily impacted

Returning to initial claims, Michigan and Pennsylvania are important swing states and they have been much harder hit than most with initial jobless claims totaling more than 30% of the February employment level in their respective states. The latest polling suggest Joe Biden is leading Donald Trump by 4-7% percentage points and getting jobs created will be crucial to President Trump's re-election hopes.

Proxy for proportion of jobs lost in Presidential election battleground states*



Source: Macrobond, ING

Hiring is happening

We are indeed starting to see some hiring going on as the individual states push on with their re-opening schedules. Unfortunately, re-hiring may not be especially rapid. Social distancing will limit

the ability of many retail, restaurant and leisure firms to open properly and they may find it isn't economically viable to do so with the constraints currently being placed on them – such as limiting customer numbers. Other businesses in various sectors may find that demand doesn't return as quickly as hoped and may need to adjust employment levels in the months ahead.

Will expanded unemployment benefit hamper the recovery?

The profitability issue is being further brought into question by the temporary \$600 weekly Federal boost to unemployment benefits (due to end in late July). This means that the national average weekly unemployment payment for recipients is nearly \$1,000 and there are many industries in which this is substantially above what an employee could ordinarily receive in wages. In fact a paper from the University of Chicago estimates that 68% of benefit recipients are actually receiving a higher income as a result. [1]

Many businesses will not be able to pay enough to compete with this, so while this additional payment is good news for individual incomes and cash flow, it may have the negative effect of hampering small businesses re-opening/recovery effort. One scenario is that when the \$600 weekly bonus payment ends in two months' time, we will see a collapse in incomes and fewer jobs available given numerous small businesses have failed. As such there will be significant pressure to taper it over months to try and mitigate the effects on spending while also offering more support for small businesses to tide them over.

[1] <https://bfi.uchicago.edu/insight/blog/ui-calculator/>

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

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