US: Labour market strains intensify

A pick-up in jobless claims underlines the economic pain from renewed Covid containment measures in many states. A more pressing issue is what will happen to spending if 31.8mn unemployment benefit recipients see their incomes drop US$600/week from Saturday. We should be braced for a period of worsening economic news

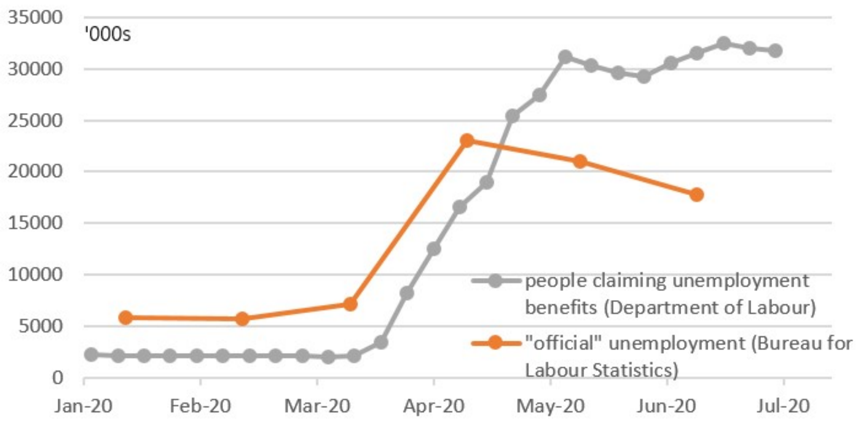
Renewed containment measures bring more jobs stress

Today's initial jobless claims data have shown another 1.416mn people lodging a new unemployment benefit claim the week of 18 July versus the consensus forecast of 1.3mn. We sensed the risks were skewed to the upside given the reintroduction of Covid containment measures in a number of states following a spike in cases. This has led to renewed shuttering of businesses in the hospitality industry with high frequency jobs data from Homebase (an employee scheduling software provider for small businesses) suggesting employment peaked in late June and has been drifting lower nationally ever since. This is the 18th consecutive week of a reading at or above 1.3mn, underlying the stressed situation in the labour market.

Continuing claims dropped from 17.3mn to 16.2mn, which is a little more encouraging, but it comes with a week lag on the initial claims numbers and could certainly rise again. That said, for us, the key figure to watch is the number of people claiming benefits under ALL programs, which is up at 31.8mn as of the week of 4 July versus 32mn the week of 27 June (it comes with an additional week lag on continuing claims data). That is because an additional 14mn people receive benefits under the Pandemic Unemployment Assistance and PEUC programs that don't qualify for state unemployment insurance benefits (only 17.2mn do) – people that left their last job voluntarily, students looking for a first job or people who didn't work enough time or earn the minimum earnings to be eligible.

Given the lags versus initial claims and the renewed containment measures and the data from Homebase we could certainly see the total number of benefits claims increase again in the next couple of weeks.

The number of people claiming benefits vastly exceeds "official" unemployment



Source: Bloomberg, ING

Support for impacted households remains key to economic outlook

The federal CARES Act has provided a huge support to the households impacted by joblessness, through extending unemployment insurance benefits by 13 weeks, but more substantially through the extra US$600 per week it has been providing in benefits to all 31.8 million. This means, according to the University of Chicago's Becker Friedman Institute, that 68% of claimants are actually on higher incomes today than when they were working with the median uplift to that income being about a third.

This has massively benefited the economy with low income households driving the recovery in retail sales based on data from www.tracktherecovery.org. The challenge is that this expires on 25 July. Talks are ongoing about another round of stimulus and we could see a temporary bridge until the new package is agreed, but we are likely as a minimum see the US$600/week tapered to something closer to US$200-450 per week given Republican concerns about the cost and whether it is actually creating a disincentive to finding work. In an extreme case where the Republicans, the Democrats and the President fail to reach an agreement before recess, this additional payment could disappear completely.

Either way incomes will be falling significantly for those 32 million people at a time when job opportunities are increasingly scarce due to renewed Covid lockdowns – JOLTS data suggests there are four unemployed people for every job opening. We are already concerned that we could see both retail sales and employment post declines in July and if this US$20bn per week in income support (the cost of the US$600/week benefit) is cut too quickly too soon, we should be braced for the prospect of more bad economic news in 2H20.

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