

US: unemployment surge is just the first wave

Even in the knowledge that tens of thousands of businesses shuttered in response to Covid-19 containment measures, the 3.3 million spike in initial claims is still shocking. Soberingly, given jammed phone lines and crashed government websites this figure understates the economic cost of the crisis so far



3.283m Initial jobless claims last week

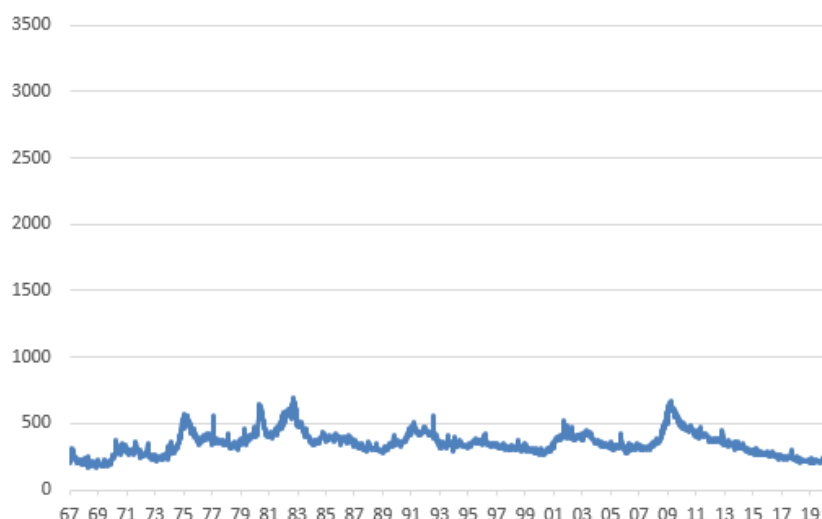
We knew that today's figure was going to be bad, just not quite this bad. There were 3.283 million initial jobless claims for the week ended March 21st – up 1064.2% on the week before and the highest on record by a factor of nearly 5. We were expecting something a little north of 2 million while the consensus was at 1.7 million.

This is obviously the result of the city and state lockdowns that have been spreading across the US

as a response to try to contain Covid-19. Pennsylvania reported the highest number of claims (378,900), with Ohio reporting 187,800, Illinois 114,700, California 186,800 and New York 80,300.

The latter two states seem low given anecdotal evidence, which may indeed reflect issues with websites crashing and phone lines jammed and a general reluctance of people to stand in line with lots of other claimants in the current environment. We would expect numbers from these states and others to climb in coming weeks, particularly with the number of lockdowns increasing across the US.

Weekly initial jobless claims 1967-2020 (000s)



Source: Bloomberg, ING

The longer the crisis lasts the more likely that even good quality businesses will fail and unemployment will climb higher – hence the importance of the agreement on the fiscal package that can provide support for key industries and small businesses. Without it, Treasury Secretary Steven Mnuchin mentioned the possibility of a 20% unemployment rate, which would imply unemployment rising from just under 6 million as of February to 33 million in just a matter of a few months. St Louis Fed President, James Bullard, has talked of the possibility of a 30% unemployment rate, which would suggest nearly 50 million out of work in the US.

The path of the coronavirus and the government's response will be the key determinant of what happens to the labour market. Nonetheless, if firms can get financial support from the Federal Reserve and from government and there is the inkling of a roadmap out of the situation, involving testing and a gradual reopening of the economy later this year, firms are more likely to keep workers on their payroll. As such, we remain hopeful that these doomsday type estimates for unemployment will be avoided

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.