

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

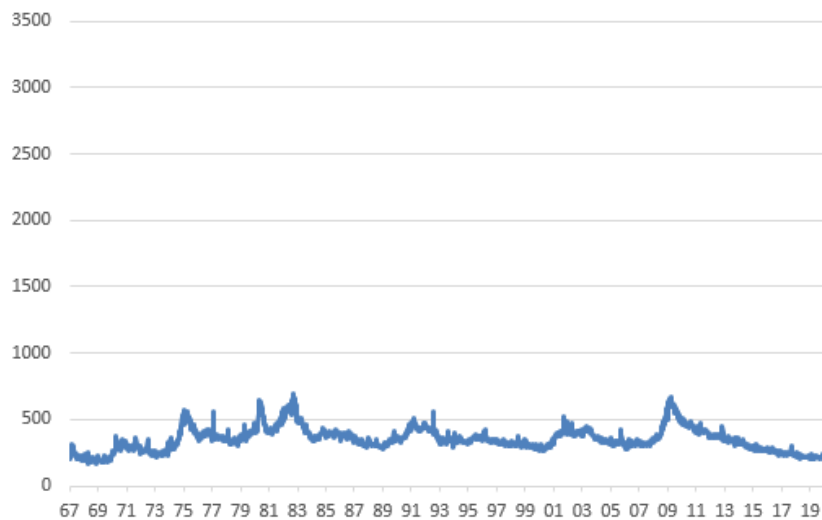
We knew that today's figure was going to be bad, just not quite this bad. There were 3.283 million initial jobless claims for the week ended March 21st – up 1064.2% on the week before and the highest on record by a factor of nearly 5. We were expecting something a little north of 2 million while the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

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