TD Economics

Surge in Jobless Claims Implies A Record Rise in U.S. Unemployment Rate

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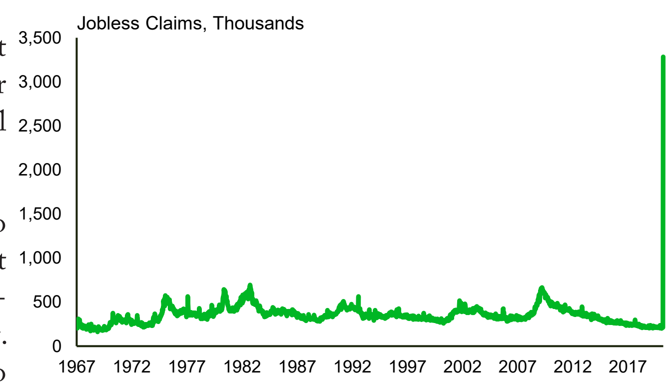
Highlights

- Claims for unemployment insurance benefits have skyrocketed to an unprecedented high of 3.3 million as coronavirus-related shutdowns are felt in the U.S. labor market.
- Elevated jobless claims will soon show up in reported unemployment rates. Based on the relationship with weekly jobless claims and estimates of the share of activity that will be shut down through April, the unemployment rate could rise to upwards of 12% in the month and average just under 9% for the second quarter overall.
- Fiscal and monetary policies are reacting to COVID-19 by providing extensive support to households and business during this difficult period. These will help to bring about a speedier recovery as the coronavirus shock passes, but more may be required if the disruption lingers.

As efforts to contain the COVID-19 virus spread across the United States, jobless claims have skyrocketed. Either due to quarantines or shutdowns, millions of people have been left without jobs over the last two weeks. After a jump of 71,000 two weeks ago, jobless claims reached 3.3 million for the week ending March 21st, an explosive rise of 3 million for the week. This was almost double what markets had expected (+1.8 million) and is by far the largest increase ever recorded (Chart 1).

The number of jobless claims will likely continue to reach record highs in the weeks ahead as more industries shut down to contain the virus. California and New York have already instituted these policies, resulting in mass closures of non-essential businesses. The state of New York provided a detailed list of all the entities providing essential services. The only entities that can remain open are health care facilities, utility providers, take-out food places, groceries, pharmacies, financial institutions, food and pharmaceutical manufacturers, and select others.[1]

Chart 1: Jobless Claims Surged to New Heights Last Week



Source: Department of Labor, TD Economics

Rising jobless claims will imply a pick-up in the unemployment rate. By our estimates, with jobless claims of 2.6 million per week, the unemployment rate could rise to around 12% in April and average near-9% in the second quarter of 2020.

In past periods of extensive job losses, some of the people who lost their jobs gave up on the job search and were therefore not counted as unemployed. This had the effect of tempering the reported rise in unemployment. The current situation is different. According to the BLS definition, people on temporary layoff do not have to be actively looking for work in order to be considered unemployed, so the data are likely to give a fairly good read of the number of people out of a job due to the sudden economic shock.

Still, it is not perfect. Some areas of the labor market are not being captured in the jobless claims data. For example, gig workers and those self-employed do not qualify for employment insurance. Thus, today's figures may be undercounting the number of people who have lost their jobs due to the coronavirus.

COVID-19 Outbreak Resulting in Mass Layoffs Across Industries

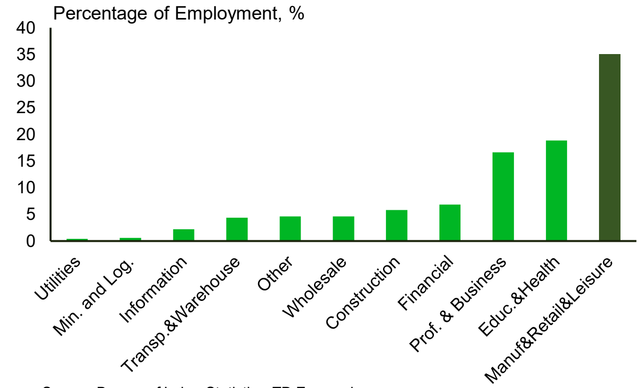
Last week, we received our first indication of the impact the coronavirus is having on the U.S. labor market. This week we saw the shock grow by more than 1000% as the number of jobless claims exploded from 282,000 to 3.3 million. As more businesses close and people practice self-distancing at home, this is only the tip of the iceberg.

The industries hardest hit by the COVID-19 shock make up a sizeable chunk of the labor force. Leisure and hospitality, manufacturing, and retail, accounted for around 35% of overall employment in 2019 (Chart 2). Shutdowns are likely to force a considerable decline in employment in these industries over the next several weeks.

At the same time, within retail and manufacturing, there are sub-industries that are facing a surge in demand due to the coronavirus (i.e. groceries, pharmacies, delivery services, and medical equipment manufacturing). It has been reported that 700,000 new jobs opened up as hospitals contend with the exponential rise in infections, and shopper flock to grocery stores.[2] These subgroups make up around 10% of total employment, and so while providing an offset, the potential gain in these sectors will not make up for the losses in vulnerable sectors.

For industries that are deemed essential, there may not be a significant drop in employment. Barring a deep structural shock to the U.S. economy, industries such as professional and business services, information, and, health will likely not see mass layoffs. Still, the longer it takes to bring the virus under control, the greater the impact on business balance sheets, which could cascade into job losses in some of these industries as well.

Chart 2: Industries Most Affected by COVID-19 Account for 35% of Total Employment



Source: Bureau of Labor Statistics, TD Economics

The Unemployment Rate is Set to Surge in April

Given the significant pressures COVID-19 has introduced into the labor market, the unemployment rate is set to rise considerably in March and even more noticeably in April. Using an econometric framework, which maps in changes in jobless claims to the unemployment rate, we expect the unemployment rate to increase to around 12% in April and average near 9% in the second quarter of 2020 (Table 1).

Indeed, with jobless claims of 2.6 million per week lasting through April, the number of jobs shed through the month could rise as high as 10.5 million. This would be the largest number of losses we have even seen over history, but entirely consistent with the scope of shutdowns.[3]

Following the peak in April, our working assumption is that containment efforts result in a return to more normal activity in May. This will allow for many of the jobs lost in April to be recovered in May and June, helping to bring down the average unemployment rate in the second quarter.

As we note in our Forecast Update, it is not possible to predict with any confidence how long the disruption goes on for. Given the uncertainty surrounding the duration of the disruption and the extent of the shutdowns, we consider two alternative scenarios. In a best-case scenario, jobless claims average 1.4 million as the economy gears back up mid-April. Conversely, in a more severe scenario, in which shut downs and temporary layoffs become more

Table 1: Unemployment Rate Scenarios					
	Assumptions	**Unemployment Rate**			
	Jobless Claims	April	May	June	2020Q2
Optimistic	Averages 1.4 million per week in April	8.7%	6.5%	3.6%	6.2%
Baseline	Averages 2.6 million per week in April	11.7%	8.5%	6.1%	8.8%
Severe	Averages 5 million per week in April	17.7%	14.6%	13.0%	15.1%

Source: TD Economics. Forecast as of March 2020.

encompassing, we could see upwards of 5 million jobless claims per week in April. The point is that given the level of the disruption already in tow, even a relatively short-lived scenario is likely to see the unemployment rate reach close to 9% in April and average around 6% for the quarter. In the severe case, the unemployment rate shoots up to 18% in April and averages 15% in the second quarter. With jobless claims coming in at 3.3 million last week — considerably higher than market expectations — this suggests the risks for the unemployment rate are tilted towards a more severe outcome.

Fiscal and Monetary Policymakers Are Responding to COVID-19 Shock

The good news is that with job losses set to hit record highs, fiscal and monetary authorities are enacting policies to ensure a quick turnaround in the labor market when the coronavirus shock passes.

On the monetary policy front, the Fed has moved quickly, with breadth and depth, to limit the impact on credit markets and ease the concern in financial markets (see commentary). It restarted the quantitative easing program, launched a number of lending facilities, and issued guidance to banks to be flexible with consumers experiencing financial challenges.

On the fiscal policy side, policymakers finally struck a deal for an aid package worth $2 trillion, the largest government funding bill in modern U.S. history. The deal will send direct payments of $1,200 to workers with incomes less than $75,000, increase unemployment assistance by $600 per week for up to six months, $350 billion in loans to small businesses, among other provisions (see commentary). This should help put a floor under the impending downturn in the U.S. economy.

Endnotes

1. For a full list of essential businesses/facilities for New York State see https://www.governor.ny.gov/news/governor-cuomo-issues-guidance-essential-services-under-new-york-state-pause-executive-order.
2. CBS News. "Here are 700,000 open jobs that need to be filled immediately." https://www.cbsnews.com/news/hiring-700000-jobs-immediately-unemployment-economy/?ftag=CNM-00-10aac3a
3. This view is guided by industry specific assumptions. Industries most affected by the COVID-19 see employment fall by 25% in April from February, employment in other non-essential industries falls by 10%, and essential industries or areas where telecommuting is an option see no change in employment.