

US Short Insight

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Labour market stabilising, but permanent damage significant

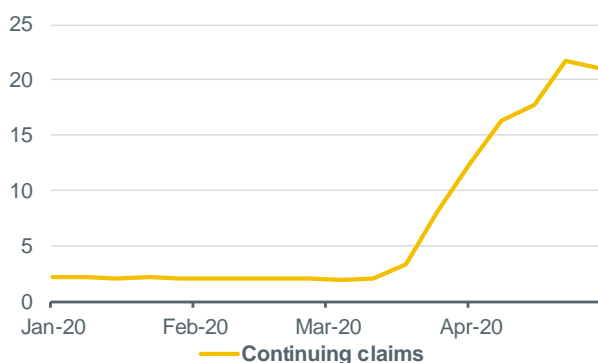
- ▶ While the headlines still look grim, we might be over the worst of the *initial* hit to the labour market
- ▶ The unadjusted continuing jobless claims fell in the week to 2 May. This probably understates labour market stress, but we find it to be more reliable than the more timely initial claims data
- ▶ So far, the bulk of newly unemployed have been temporarily laid off, and surveys suggest most of these expect to return to their previous jobs
- ▶ However, we expect up to half of these temporary layoffs to become permanent – concentrated in the hospitality sector, where social distancing restrictions are likely to be more prolonged
- ▶ As a result, while we expect unemployment to decline significantly again over the summer, it is likely to settle at a much higher level than before the pandemic

Labour market looks to be stabilising

There were a further 3mn new jobless claims last week, down from 3.2mn the week earlier. There were signs of a stabilisation in the continuing claims data, which increased by 456k to 22.8mn on a seasonally adjusted basis in the week to 2 May, but actually *fell* by 629k on an unadjusted basis to 21.1mn. This was the first overall fall in the continuing claims since the surge in jobless claims started in mid-March. We think that in the current environment the non-seasonally adjusted numbers give a better read on the real labour market conditions (see box on page 3). We also think the continuing claims – which show the stock of unemployed – is more representative than the initial claims, which is a gross flow number, and appears to count duplicates.

Continuing jobless claims look to be plateauing...

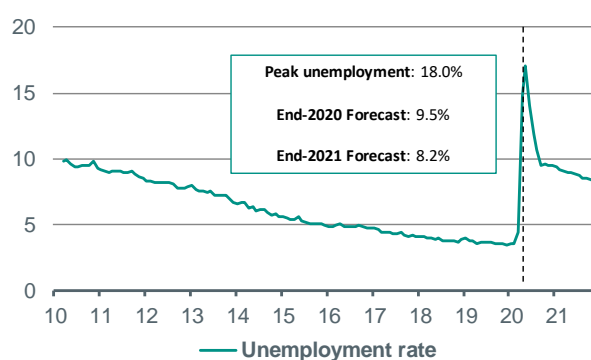
Millions, non-seasonally adjusted



Source: Thomson Reuters Datastream, ABN AMRO Group Economics

...but permanent damage will be significant

% unemployment rate

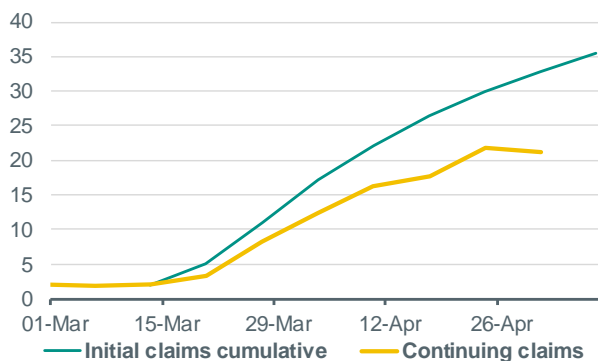


Source: Thomson Reuters Datastream, ABN AMRO Group Economics

Indeed, if you add up the flow of initial jobless claims over the past two months, it would now come to 35mn since early March – an enormous discrepancy from the continuing claims. Taken together, we believe we may be over the worst in terms of the initial hit to the labour market. The data so far points to a further significant fall in the May nonfarm payrolls (out on 5 June), albeit on a much smaller scale than the unprecedented 20.5mn decline in April – we currently project a fall of 3.5mn. From June, we expect payrolls to begin rising again.

Huge discrepancy between initial and continuing claims

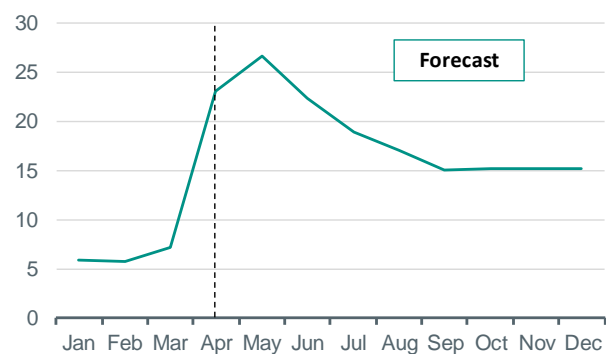
Millions, non-seasonally adjusted



Source: Thomson Reuters Datastream, ABN AMRO Group Economics

Unemployment likely to peak in May

Monthly unemployment, millions (BLS household survey)



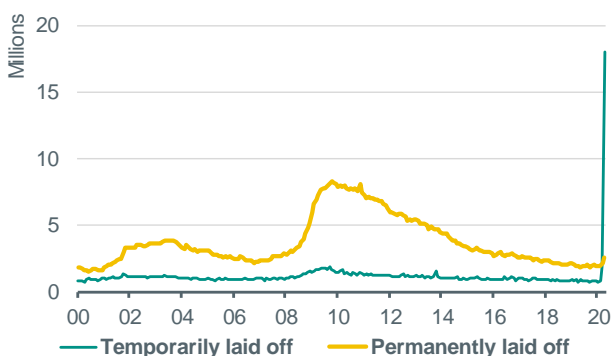
Source: Thomson Reuters Datastream, ABN AMRO Group Economics

We expect around half of temporary layoffs to become permanent

With that said, much more important for the medium term outlook will be how many of the millions of unemployed become permanently displaced from their previous jobs. The data from last week's April nonfarm payrolls report suggest that by far the bulk of the newly unemployed have been temporarily laid off, or furloughed. This is corroborated by a Fed survey conducted in early April, which showed only 8% of those furloughed do not expect to return to the same job. Indeed, with the economy now reopening, many of these workers are likely to return to their previous jobs – we estimate around half, over the coming months. However, it has become increasingly clear that the reopening process will be a very gradual one – potentially punctuated by renewed outbreaks and a reintroduction of restrictions. Meanwhile, some sectors – particularly hospitality – will face prolonged restrictions regardless (for instance, restaurants in many states are now capped at 25-50% of normal capacity levels, to enable social distancing). This will inevitably weigh significantly on employment in these sectors. We therefore continue to expect unemployment to end the year in the high single digits – up sharply from the 3.5% registered in February – and with only a gradual improvement in 2021 (see chart on page 1).

Most unemployed have been temporarily laid off...

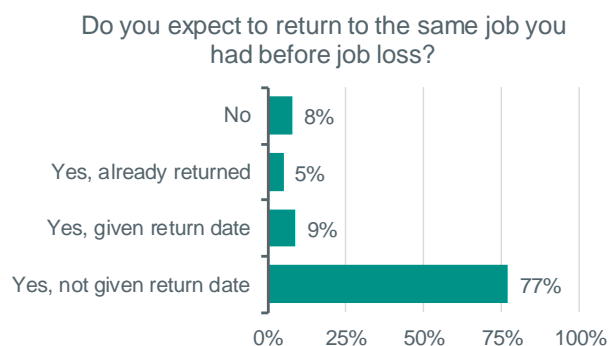
Monthly unemployed, by type



Source: Thomson Reuters Datastream, ABN AMRO Group Economics

...and expect to return to their previous jobs

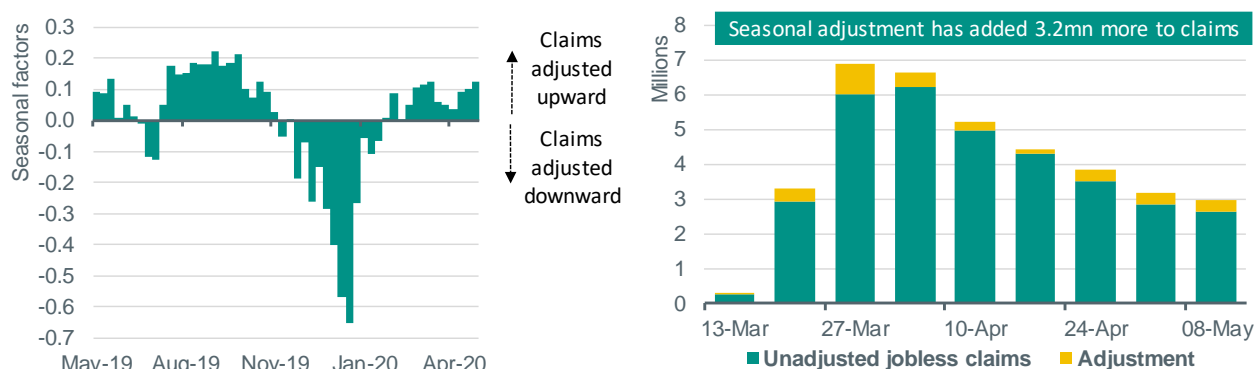
Survey responses, 3-6 April



Source: Federal Reserve, ABN AMRO Group Economics

Box: Seasonal adjustment has had a distorting effect on initial claims

The non-seasonally adjusted initial jobless claims have been significantly lower than the adjusted claims. In normal times, seasonal adjustment helps to cut through the noise in data by correcting for seasonal patterns. For instance, jobless claims tend to spike in December and January each year, and fall in the summer months (see right-hand chart). However, in these exceptional times – with volumes ten times the usual amounts – seasonal adjustment is actually having a significant distorting effect. Over the past two months, we calculate seasonal adjustment has added a total 3.2mn extra to the initial claims statistics.

Seasonal adjustment factors are positive for the current period, pushing jobless claims numbers higher

Source: Thompson Reuters Datastream, ABN AMRO Research

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