

# US Watch

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## US jobs report is no game changer

The non-farm payrolls report last Friday was a dramatic surprise to the upside, with jobs gaining by 2.5mn in May, compared to consensus estimates for a 7.8mn fall (ABN AMRO: -5mn). The unemployment rate officially fell to 13.4% (consensus: 19%; ABN: 18.5%) from 14.7%, although survey methodology issues means that the true unemployment rate was around 3pp higher, according to the Bureau of Labor Statistics. The main surprise in the data was in the timing – [we had forecast net job gains to start in June](#) rather than May, and the weekly jobless claims data had also suggested a continued fall in May.

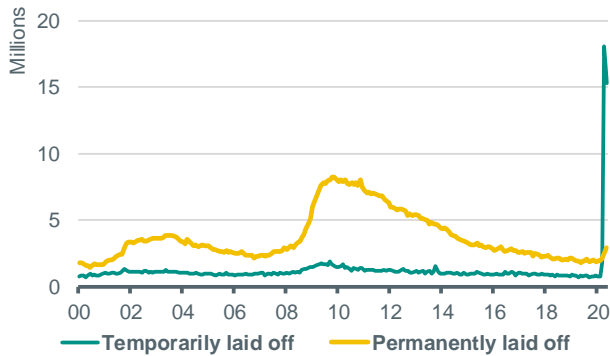
### Upside surprise brings forward the expected labour market recovery



Source: Thomson Reuters Datastream, ABN AMRO Research

**What explains such a dramatic turn-around in the labour market?** In our view, the jobless surge was widely misinterpreted [in the first place](#). The overwhelming bulk of job losses were not what we typically see in a downturn, but rather they were furloughs – or temporary layoffs. As such, it was always likely that many of these workers would return to their jobs when restrictions were eased, and indeed we expected this to begin happening from June onwards. This kind of shift therefore comes as no surprise to us, it is just that it happened a bit sooner. One reason for the earlier timing could be due to much higher take-up of the Paycheck Protection Program, a scheme providing finance to small businesses to keep employees on payroll. Initially this financing is classified as a loan, but the loan can be forgiven if employees stay in their jobs. While the structure is different, it is ultimately a form a wage subsidy scheme of the kind we see across Europe at present (like the NOW scheme in the Netherlands, for instance).

### Bulk of job losses have been temporary (furloughs)

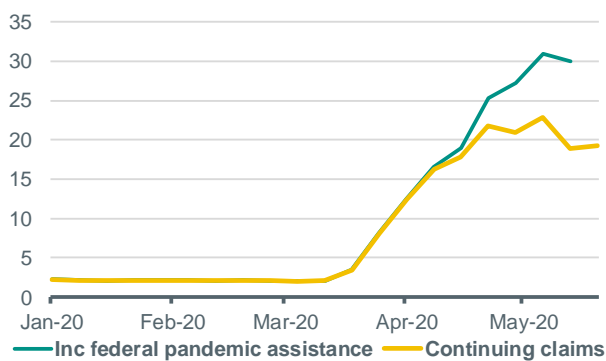


Source: Thomson Reuters Datastream, ABN AMRO Research

**Why are jobless claims painting a much worse picture?** The discrepancy with weekly jobless claims is stark. Gross initial new claims have continued in the millions in recent weeks, and even the more reliable continuing claims data suggests a more gradual improvement in the labour market than last Friday's payrolls report. We think this is because although many workers are returning to payroll, it is probably with reduced hours. Employees are eligible for benefits even if they remain on payroll but their hours have been reduced, and so workers are likely using unemployment benefits to supplement their incomes. As such, and given the gradual pace of reopening, continuing jobless claims are likely to remain elevated for some time to come.

### Jobless claims are likely to remain elevated

Continuing claims, millions



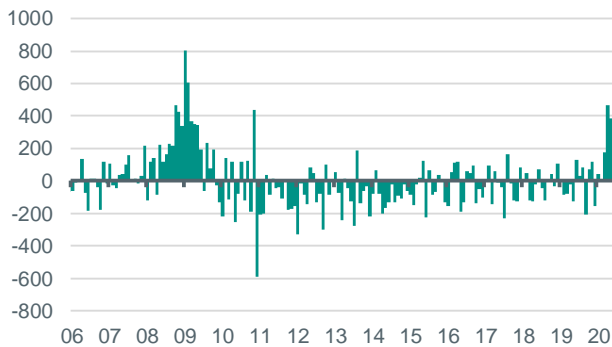
Source: Thomson Reuters Datastream, ABN AMRO Research

**Focus on permanent job losses...** – The fact that workers seem to be returning to payroll more quickly is certainly positive, and essentially brings forward somewhat the recovery in the labour market we had already penciled in. Our key concern was (and remains) that the longer workers were displaced, the more likely temporary layoffs would become permanent. However, it is unfortunately still very likely that a significant number of current furloughs become permanently laid off. This is because the reopening process will continue to be gradual, and it is likely that capacity restrictions in the hospitality sector, and disruption to tourism, will persist for much longer. As a base case, we continue to expect around half of furloughed staff to lose their jobs permanently, although there is of course enormous uncertainty on what the precise number will ultimately be. Indeed, one of the little reported details of last Friday's jobs report was that the number of permanent job losses last month totaled 385k, following a 464k rise in April. These are not far off the kind of numbers

we saw in the middle of the Great Recession, and we expect this number to rise significantly in the course of the year as businesses adjust to the new, post-covid 19 normal.

### Permanent job losses not far off Great Recession magnitudes

Monthly permanent job losses (gains), thousands

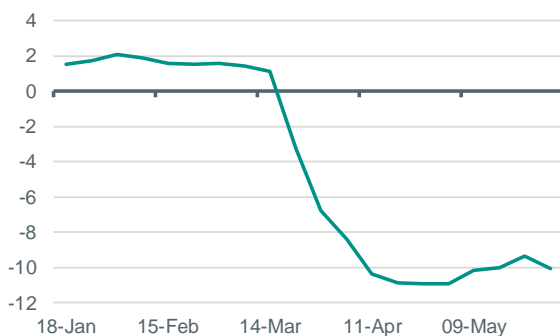


Source: Thomson Reuters Datastream, ABN AMRO Research

**...and activity indicators, which remain subdued** – This view is corroborated by activity indicators, which – despite the reopening in many states – remain subdued. For instance, the New York Fed's Weekly Economic Index – which tracks a host of high frequency indicators – has improved from a trough of -10.9 in mid-April to -10.1 as of 30 May. For reference, this indicator stood at +1.6 at end-February, so there is considerable lost ground to be made up. Separate Indicators such as seated dining in restaurants, and air travel, are also still only around 20% of normal levels. This, if anything, suggests risks to our growth forecasts are still tilted to the downside. Without a significant recovery in demand – which requires a significant further easing in covid-19 lockdown restrictions – the labour market improvement cannot be sustained over the medium term.

### Weekly Economic Index implies only a very gradual recovery

Index / Implied GDP growth, % yoy



Source: Thomson Reuters Datastream, ABN AMRO Research

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