



April 2, 2020



ECONOMIC COMMENTARY *from the Investment Advisory Group*

Labor Pains: Soaring Jobless Claims, and Understanding New Wrinkles in Unemployment Benefits

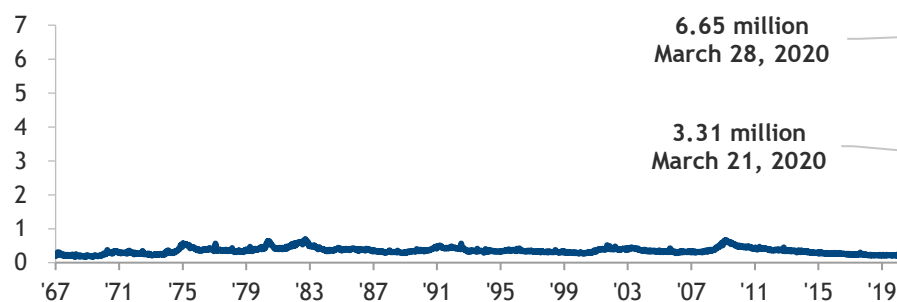
Job-related data will continue to deteriorate; however, the temporary income replacement—which is a key feature of the CARES Act—is likely underappreciated.

What Happened

Initial weekly jobless claims soared to 6.65 million for the week of March 28, an increase of 3.3 million from the prior week (March 21). Again, prior to March 21, the record had been 695,000 in October 1, 1982.

On a state level, the biggest jumps were: California (878,727), Pennsylvania (405,880), New York (366,403), Michigan (311,086), Texas (275,597), Ohio (272,129), and Florida (227,000). While these figures are astonishing, they will likely head higher, particularly considering news reports of system outages due to the flood of filings and, in some states, understaffed labor agencies.

US Initial Jobless Claims (in millions)



Source: SunTrust IAG, Bureau of Economic Analysis

Past performance does not guarantee future results.

Investment and Insurance Products:

- Are not FDIC or any other Government Agency Insured
- Are not Bank Guaranteed
- May Lose Value





Understanding Unemployment Insurance

Temporary income replacement is the principle intent for the unemployment insurance (UI), which is a joint state-federal program that provides cash benefits to eligible workers. Each state administers a separate unemployment insurance program, but all states follow the same guidelines established by federal law.

Unfortunately, there is a hodge-podge of rules that vary greatly by state, such as caps on the amount received and the length of time. The median weekly benefits are just \$450 for 26 weeks. However, it could be as little as \$235 per week (Mississippi) or as much \$1,495 (Massachusetts). And the length can be as short as 12 weeks (Florida and North Carolina) or as long as 30 (Massachusetts). Some states also have minimum waiting periods before benefits begin.

UI Extended and Expanded Under CARES Act

The big \$2.0 trillion fiscal plan, known as the CARES Act, greatly bolsters the UI program for 2020, earmarking roughly \$250 billion. The CARES Act extends the program, immediately adding on thirteen more weeks to unemployment benefits and adds an additional \$600 per week for thirteen weeks on top of state-level caps.

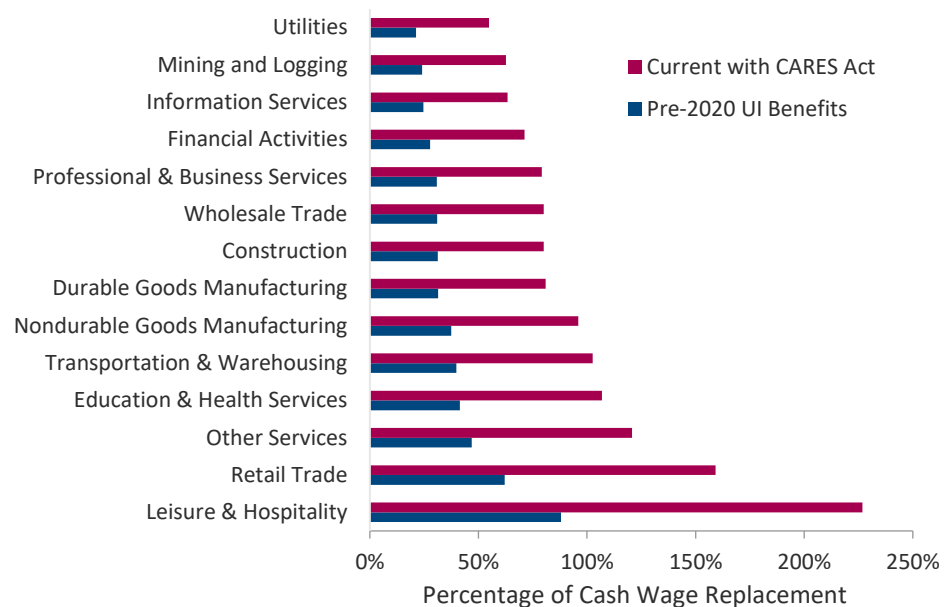
It also greatly expands the number of eligible workers and waves state-level waiting periods. For instance, self-employed, contractors and gig workers—who are typically not allowed to collect UI in most states—would be able to collect during 2020 under the CARES Act.

Impact on Industries, Especially Restaurants

Similar to state-level UI rules, there is an assortment of minimum wage laws. While at first blush it appears that workers in some industries—particularly in leisure & hospitality and retailers—might receive UI benefits above their average weekly earnings, this is for CASH WAGES ONLY. Specifically, many of restaurant workers, in most states, do not receive the federal minimum wage of \$7.25 per hour. Moreover, minimum wage laws differ greatly by state, and some minimum wage provisions do not apply to tipped employees in many states.



Unemployment Benefits



Data Sources: SunTrust IAG, Renmac, Haver

Restaurants have been especially impacted. An estimated 3% of restaurants have permanently closed due to the pandemic, according to a survey by the National Restaurant Association. Roughly 11% of respondents expect to close permanently within 30 days. The survey indicated that nationwide restaurant sales dropped by 47% between March 1 and March 22. The remaining restaurants have been able to maintain some pared back offering, continuing off-premise sales, including to-go, drive-through, delivery and catering. But some simply are not equipped to continue as about 44% have closed temporarily.

Bottom Line

Like most incoming economic data, we expect job-related data will continue to deteriorate in the near term. Initial weekly jobless claims are seemingly being restricted by bottlenecks in state systems. Thus, claims (including continuing claims) should ramp higher in the coming weeks.



Looking ahead, it is unlikely that the monthly jobs report for March—which will be released tomorrow—captured the start of the downturn. It will likely show only a modest reduction of jobs and a relatively small increase in the unemployment rate since the survey by the Bureau of Labor Statistics took place during the week of March 12, which was before any of the state-level stay-at-home bans occurred and the corresponding spikes in weekly jobless claims. These job losses, on the other hand, will show up in the April jobs report along with an outsized jump in the unemployment rate.

However, we believe that temporary income replacement—which is a key feature of the CARES Act—is likely underappreciated. Expanded and extended UI benefits should help give a much larger contingent of Americans enough income to get through this painful period. Additionally, the CARES Act has \$350 billion for paycheck protection loans to help small businesses. These paycheck protection loans are structured as Small Business Administration (SBA) approved lenders where the proceeds are used to pay employees and the loans forgiven if certain requirements are met. This should allow some small business to retain employees rather than furloughing workers.

Lastly, while the spike in jobless claims is certainly unnerving, it does offer the possibility that the downturn and job losses will be concentrated rather than spread out for months or over a year or longer, as occurs during the typical recession. Likewise, given the massive fiscal and monetary responses, it might hasten the recovery.



Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

SunTrust Private Wealth Management is a marketing name used by Truist Financial Corporation and the following affiliates: Banking products and services, including loans and deposit accounts, are provided by SunTrust Bank and Branch Banking and Trust Company, both now Truist Bank, Member FDIC. Trust and investment management services are provided by SunTrust Bank and Branch Banking and Trust Company, both now Truist Bank and SunTrust Delaware Trust Company. Securities, brokerage accounts and /or insurance (including annuities) are offered by SunTrust Investment Services, Inc., BB&T Securities, LLC, and P.J. Robb Variable Corp., which are SEC registered broker-dealers, members FINRA, SIPC, and a licensed insurance agency where applicable. Investment advisory services are offered by SunTrust Advisory Services, Inc., GFO Advisory Services, LLC, BB&T Securities, LLC, Sterling Capital Management, LLC, Precept Advisory Group, LLC, and BB&T Institutional Investment Advisors, Inc., each SEC registered investment advisers. BB&T Sterling Advisors, BB&T Investments and BB&T Scott & Stringfellow are divisions of BB&T Securities, LLC. Mutual fund products are advised by Sterling Capital Management, LLC.

While this information is believed to be accurate, SunTrust Banks, Inc., now Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. STIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. STIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

STIS/STAS shall accept no liability for any loss arising from the use of this material, nor shall STIS/STAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction.

Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

STIS/STAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

Asset classes are represented by the following indexes. An investment cannot be made directly into an index.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

©2020 Truist Financial Corporation. SunTrust®, the SunTrust logo, and Truist are service marks of Truist Financial Corporation. All rights reserved

CN2020-0779 EXP12-2020

