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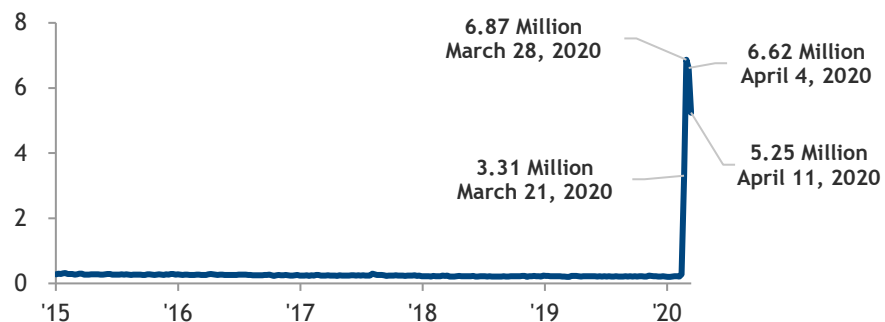
Labor Pains: Peak in Jobless Claims, But Employment Dynamics Now in Recessionary Mode

We see the jobs report as showing good and bad indicators for the economy. The good news is weekly jobless claims have likely peaked. The bad news is the monthly job loss and the unemployment rate appear to be headed higher for the foreseeable future due to the employment dynamics, which are now in recessionary mode.

What Happened

Initial weekly jobless claims were 5.25 million for the week of April 11, a decrease of 1.37 million from 6.62 million claims in the prior week (April 4). Accordingly, it appears that initial weekly jobless claims peaked during the week of March 28.

US Initial Jobless Claims (in millions)



Source: SunTrust IAG, Bloomberg, US Department of Labor

State-Level Claims

The state-level trend solidifies our view that initial weekly jobless claims have peaked. Just four states had week-over-week increases of more than 1,000 for the week of April 11: Colorado (up 58,747), New York (up 51,498), Florida (11,408) and South Carolina (up 1,113).

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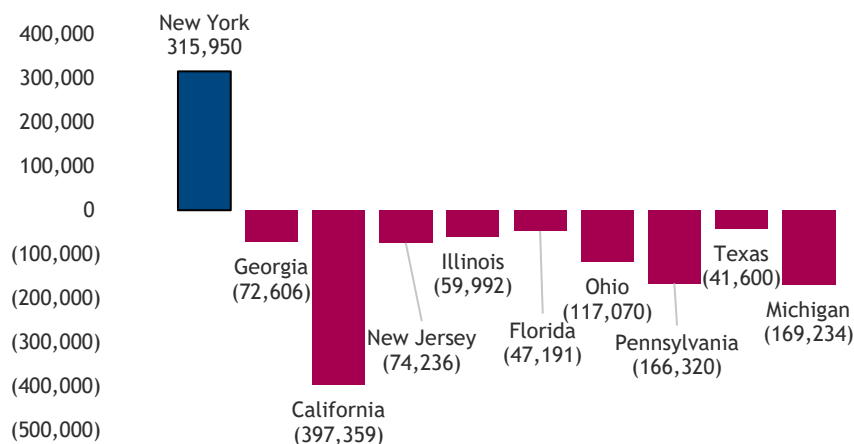
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Furthermore, of the top ten in terms of total claims, New York is the only state that has not declined in the past three weeks. There have been reports of New York claims system outages, which may explain some of the time lag compared to other states. That said, it is clearly not the volume of claims in New York; California peaked three weeks ago at 1,058,325 claims, nearly three times as many claims as NY's 395,949 last week. It is more likely that the lag was related to New York having roughly half of the total confirmed cases of COVID-19 in the United States.

Change from Peak in Initial Jobless Claims Top 10 State



Source: SunTrust IAG, Bloomberg, US Department of Labor

Near-Term Employment Outlook

Despite the apparent peak in initial jobless claims, other employment-related data will continue to deteriorate in the coming months. For instance, assuming a one-to-one pull through from 22 million claims during the past four weeks turns into monthly job losses in the coming months—which is not typically the case—and would equate to an unemployment rate of roughly 14%.

We believe that several of the programs within the CARES Act, most notably the paycheck protection plan, will help mitigate additional initial claims. Moreover, we expect that a portion of the initial claims during the past four weeks will not become permanent job losses as some business recall workers after accessing the needed capital via government programs, private loans, etc., to make payroll once stay-at-home restrictions are lifted.



Employment Dynamics Now in Recession Mode

The COVID-19 outbreak has changed the employment dynamic. Unfortunately, now companies are *just* dealing with a recession, meaning that typical recessionary behaviors on the part of businesses are now being undertaken.

Business leaders will rightly begin to rethink their long-term plans; first, they will adjust for their immediate current needs then right-size for their new future. In some cases, particularly for public companies, a crisis can provide the “cover” to make difficult long-term strategic business decisions without the normal scrutiny from investors and analysts. For instance, an airline that previously had ambitious orders for new planes can simply cancel the order or have the leverage to convert it to another type of aircraft with little or no penalty from the maker or investors. Similarly, some firms may choose to exit business lines that were marginally profitable prior to the crisis; again, without the typical questions from the investors regarding the about-face.

Companies can also use the crisis to permanently cut staff, or even selectively cut employees that were previously viewed as important, or perhaps outsource some functions. Investment in technology or other automation will also play a part in further reducing headcount for firms.

We anticipate that business shifts like this will unfold in waves in the coming months—albeit much smaller than the initial wave—as companies pivot from simply temporary emergency moves to long-term strategic shifts. Though the difference for employees may be subtle, the macro implications are substantial. In other words, some commentators are anticipating a quick recall of all workers once COVID-19 restrictions are relaxed; however, that is just not how recessions work for most businesses.

As a result, while some of the CARES Act programs will mitigate near-term job losses, these “altered” dynamics will spur a protracted period of elevated unemployment, which is common during recessions.

Lastly, this altered dynamic will also impact wages and incomes, including bonuses, etc. Pay and worktime were temporarily reduced; however, the wage impact tends to be more permanent, taking years to recoup for most workers.

Bottom Line

The bad news is that monthly job losses and the unemployment rate appear to be headed higher for the foreseeable future, as the spike in initial claims translate into permanent job losses. Moreover, the employment dynamics have changed to the typical recessionary mode, which will exacerbate job losses.



The good news is that weekly jobless claims have apparently peaked. Also, with initial claims being so concentrated in a shorter period rather than spread out for months or over a year or longer, as occurs during the typical recession, it could accelerate the recovery process. Furthermore, the massive monetary and fiscal responses, including the CARES Act and other factors, should blunt the downside and hasten the recovery.



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