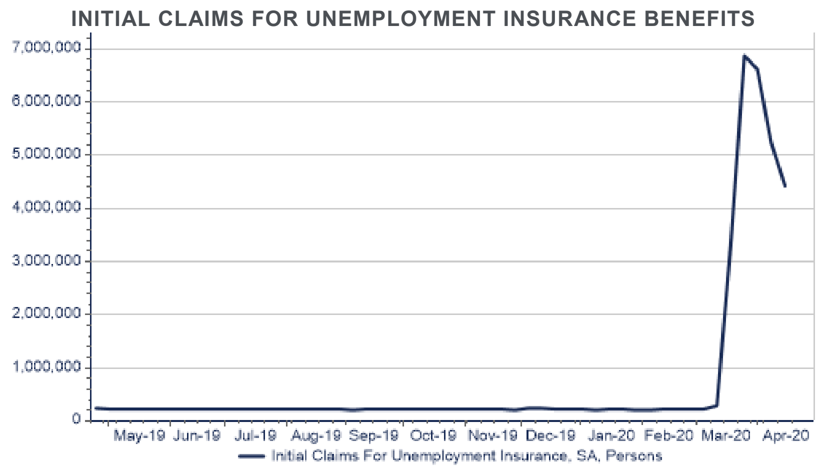
29 April 2020

RESEARCH NOTE

A Shocking (But Complicated) Employment Report Next Friday

Unemployment will clearly skyrocket, yet the April Employment Report next Friday won't tell the full story, and the impacts will differ by state and industry.

Unemployment near 15%? Initial claims have declined for three consecutive weeks—confirming we have passed the peak—but the level remains unfathomably high. The April 23 claims report coincides with the April payroll reference week, and we have seen a cumulative 26.7 million rise in claims between the March and April reference weeks. A back-of-the-envelope calculation suggests this translates to a 21% unemployment rate, assuming the labor force remains at March levels and those unemployed in March continue to be unemployed. However, there are many nuances that could easily lead to a different and much lower number.



Source: FactSet. As of April 27, 2020.

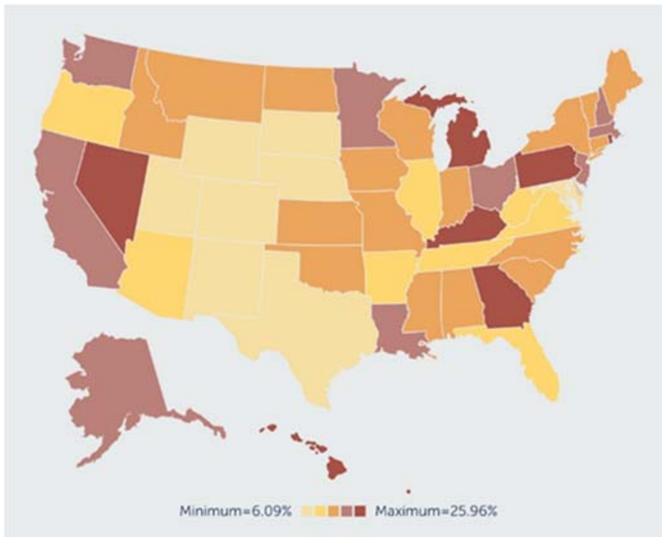
New regulations that strengthen unemployment insurance benefits during the downturn note that workers may receive benefits without looking for a job and will therefore not be included in the unemployment rate calculation. Moreover, misreporting was extremely prevalent in the March Employment Report, as many people were recorded as employed but absent from work due to "other reasons," rather than "unemployed on temporary layoff." The BLS estimated that these misclassifications lowered the unemployment rate by a full percentage point, meaning that the March unemployment rate should have been 5.4%, rather than the 4.4% that was reported.

These data irregularities will likely lead to an unemployment rate closer to 15% – still well above the high of 10% seen during the Financial Crisis. While the unemployment rate will spike rapidly, it will take quarters or even years, not weeks, for it to come back down near pre-pandemic levels.

A Pain That Spans the Country

No state was spared by the pandemic, though some were hit harder than others. Hawaii, Kentucky, Michigan, Rhode Island, Pennsylvania, Nevada, and Georgia experienced the largest cumulative rise in new filings between the March and April payroll reference weeks relative to their labor force.

INITIAL CLAIMS VARY BY STATE
(SHARE OF LABOR FORCE APPLYING FOR UI BENEFITS SINCE MARCH 13)



Source: Bloomberg. As of April 27, 2020.

Areas hit the hardest include those which saw the first impact of the virus—as they were forced to shut down businesses sooner—as well as those reliant on leisure and hospitality, tourism, and energy. Conversely, a study shows that areas less affected by the virus and more reliant on industry, agriculture, and professional and business services have seen less of an impact.

Industry Breakdown

While initial claims data is not reported at the industry-level, we can look to comments by states in each report to get a sense of where layoffs stem from. At the onset of the crisis, new filings were concentrated in accommodation and food services and transportation and warehousing. The list quickly expanded to include other services industries, construction, and manufacturing.

Industry	Change in Employment From Feb 20 to Mar 20 (ths)	Share of Total Employment (Dec 19)
Total Nonfarm	-701	
Government	12	14.9%
Professional & Business Services	-52	14.1%
Health Care & Social Assistance	-61	13.6%
Leisure & Hospitality	-459	11.0%
Retail Trade	-46	10.3%
Manufacturing	-18	8.5%
Financial Activities	-1	5.8%
Construction	-29	5.0%
Wholesale Trade	1	3.9%
Other Services	-24	3.9%
Transportation & Warehousing	-5	3.7%
Educational Services	-15	2.5%
Information	2	1.9%
Mining & Logging	-7	0.5%
Utilities	1	0.4%

Source: Bureau of Labor Statistics. As of April 27, 2020.

Leisure and hospitality and health care and social assistance had been among the fastest growing industries in terms of employment in the U.S. While the March Employment Report was issued prior to mass lockdowns, leisure and hospitality and health care and social assistance saw employment plummet 459,000 and 61,200, respectively. Given that these industries were growth drivers, the rapid, mass layoffs in these sectors will lead to an unprecedented drop in employment in April, which should fall more than it did in March due to country-wide lockdowns, and more industries will likely feel the pain as demand weakened.

The fiscal spending bills have helped cushion the downturn, but more targeted support will likely be needed as the path to recovery will be much longer than that of the collapse, and will be differentiated by region and industry.

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Kathryn Asher is a member of the Barings Investment Institute. Kathryn is an Economist, responsible for conducting research and analysis on the macro economy to aid the firm's investment teams across public and private markets. She has worked in the industry since 2016. Prior to joining the firm in 2019, Kathryn was an Associate Economist at Moody's Analytics and a National Economics and Statistics Experienced Associate at PricewaterhouseCoopers. She holds a B.A. in Economics from Villanova University.

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*As of December 31, 2019

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