Economists warn of long recovery after 'unthinkable' US jobs report

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After digesting a previously unfathomable monthly jobs report, economists said the employment picture is still getting worse, and recovery will be slow as states begin to reopen.

The U.S. lost 20.5 million jobs in April, the U.S. Bureau of Labor Statistics said May 8, driving the unemployment rate to 14.7% from 4.4% amid unprecedented losses in the leisure and hospitality sectors, as well as in health care and manufacturing. The previous high rate was 10.8% in data going back to 1948. Unemployment rates during the Great Depression were thought to reach about 25%.

Furloughed workers represented most this total, with 18.1 million of the job losses classified as temporary layoffs, a roughly 10-fold increase over March. Those who lost their job permanently increased to 2.0 million from 544,000, and the total loss of jobs is the largest on record since the BLS began tracking the figures in 1939.

The employment report was based on surveys conducted April 12-18, so the snapshot it provides most likely did not represent the full scale of job losses in the month.

"The headline number is big, but given what we've been watching on unemployment insurance claims, this doesn't appear to be that shocking," Rajeev Dhawan, director of the economic forecasting center at Georgia State University, said in an interview. Jobless claims totaled 33.5 million in the past seven weeks. "But if you had asked me a month ago, I would have said this number would be unthinkable."

Leisure and hospitality lost 7.7 million jobs in April, a 47% free-fall, with nearly three-quarters of those losses, or 5.5 million, coming in restaurants and bars. Health care saw 1.4 million job losses, including 503,000 at dentist offices. Retail trade (-2.1 million) and manufacturing (-1.3 million) also were not spared from a catastrophic month for employment.
Searching for hopeful signs

The BLS did not provide a sector breakdown for the “temporary layoffs” category, but Dhawan said it would be a good sign if most of the layoffs outside of discretionary-spending sectors were temporary furloughs at, for instance, manufacturing and automotive plants that were shut briefly. Then the bulk of those jobs could return as factories come back online.

"Hopefully in the May report, some of those job losses will come back," Dhawan said. "But when you go this deep, you don't climb out that quickly." Ultimately, any hope of a broad jobs recovery is dictated by progress on a vaccine for the virus, Dhawan said.

The unemployment rate, while it was the highest on record going back to 1948, came in below the median Econoday estimate of 16.4%. Job losses fell short of the 21.5 million expected. Stock markets reacted positively, with the S&P 500 opening 0.96% higher.

Still, the employment figures are unprecedented. A record low 51.3% of the working-age population is employed, according to the report, reflecting stay-at-home orders and mass closures of non-essential businesses in most states.

But some states, especially in the South and Midwest, have begun to reopen on a rolling basis.

"We expect more positive numbers as the economy 'reopens,' but the net result will likely still be much higher unemployment than pre-crisis for several years," Jim O'Sullivan, chief U.S. macro strategist for TD Securities, said in a note. "Also, weakness has probably not peaked yet."

President Donald Trump did not express concern at the report, telling Fox News on May 8 that "those jobs will all be back, and they'll be back very soon."
Reopening roadblocks

But the coronavirus, which is responsible for 1.27 million confirmed cases and more than 76,000 deaths in the U.S. as of May 8 according to Johns Hopkins University data, has caused deep declines in consumer confidence, which could lead to continued depressed demand holding back a recovery even as state economies reopen.

The jobs impact of this could be "devastating," said Beth Ann Bovino, senior U.S. economist for S&P Global Ratings, as businesses attempt to repair the damage to their balance sheets.

"Here they are trying to repair the damage to their financial homes, and only a few months later if we see a second wave, I'm not sure how much insulation they would be provided," Bovino said in an interview. "October to November isn't that far away."

Restaurants will likely have a quicker comeback than their retail counterparts due their takeout offerings that have been offered throughout the month-plus of lockdowns, Bovino said.

"They already have that contact made," said Bovino, who does not expect an unemployment rate back under 4% until at least 2023. "You could see activity start to develop there."

And although the report's sample period captured many of the initial cuts, it still does not include the job losses that have occurred in the weeks since. For that reason, economists expect another sobering — and nearly as devastating — May jobs report to be released in June.

ING Economics projected another 12 million job losses by the June 5 report, likely led by manufacturing and business services. Still, James Knightley, ING Economics' chief international economist, cautioned that although there will be hiring as states reopen, it will be more limited due to social distancing guidelines and consumer angst.

"If we can get unemployment back down to 8-10% by year-end that would likely be a 'good' outcome," Knightley said.

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