ECONOMIC UPDATE

REGIONS

March 26, 2020

Unemployment Insurance Claims: A Stunning Number, But Likely Only The First . . .

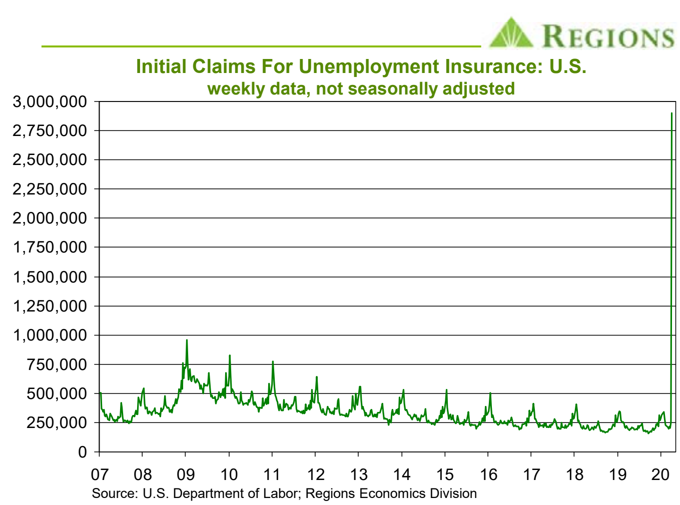
- Initial claims for Unemployment Insurance rose to 3.283 million in the week ending March 21
- Continuing claims for Unemployment Insurance rose to 1.803 million in the week ending March 14

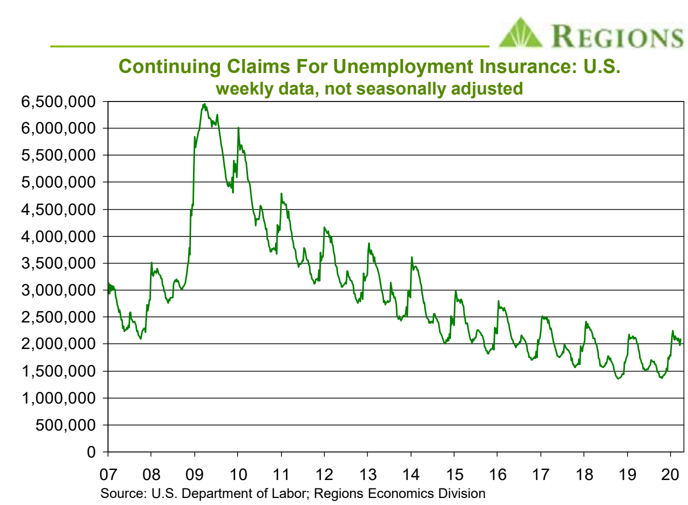
Initial claims for Unemployment Insurance rose to 3.283 million in the week ending March 21, while continuing claims rose to 1.803 million for the week ending March 14. The 3.283 million initial claims are hard to put into any sort of context – the prior high in the life of the data was 695,000 back in 1982. There is reason to believe, however, that even the 3.283 million figure understates the case – many states have reported their systems for processing claims have crashed under the weight of unprecedented volumes, so we won't be at all surprised to see this figure revised higher. Keep in mind that the data on continuing claims lag the data on initial filings by one week, so it is next week that we can expect to see the first appreciable spike in continuing claims due to the fallout from the coronavirus. Moreover, the state-level data on initial claims lag the national number by one week, so we do not yet have a consistent count of initial claims on a state-by-state basis, the first of which will come a week from today. As a side note, the data in our charts are the not seasonally adjusted data – seasonal adjustment simply isn't equipped to deal with changes as large and as sudden as we've seen in the claims data, which only reinforces our bias towards using the raw data for analysis.

A wise friend once told us that it's amazing how something you know is coming can still shock you. It has been clear that large segments of the U.S. economy were abruptly shut down over recent weeks, and anecdotal reports have pointed to significant layoffs across various industry groups. Still, it is simply hard to process the initial claims data from this morning. Here are a few points we think worth keeping in mind over the next several weeks.

First, the data for the week ending March 21 do not fully reflect what has been a rolling wave of state-mandated shutdowns of "non-essential" businesses, which will be reflected in the claims data over the next few weeks. That said, the second point to keep in mind is that it will be important to see how long initial claims remain at this elevated level. In other words, have layoffs been, for lack of a better term, front-loaded as firms prepared to be shut down for a transitory period, or will there be a more structural deterioration in underlying economic conditions. The longer claims remain at or near the levels seen in the week ending March 21, the greater the odds of deeper and more prolonged damage to the economy than is generally expected to be the case given that the economy was fundamentally sound going into this period. Third, while the aid bill still trying to escape Congress contains programs designed to incent businesses to keep workers on the payroll during this disruption, that initial claims have spiked, and are likely to remain elevated for at least a few weeks, raises the question of whether it is, for at least some small businesses, too late. It will take some time to get the various lending facilities up and running, so it is not reasonable to expect the spike in claims for the week ending March 21 will be a one-off. Finally, and this is admittedly a longer-term question, do not neglect the signal sent by continuing claims once we are passed the worst of the virus and economic activity begins to pick back up. Continuing claims will be as close to a real-time test as there is for whether the relatively rapid economic rebound many are expecting is taking place, or whether the rebound is slower in coming. The premise is that if firms are quick to ramp back up they will be quick to hire back workers, and as those collecting Unemployment Insurance benefits go back to work, they drop off the UI rolls and continuing claims will turn lower. The speed with which this happens will be a timely indicator of the speed of the rebound in the broader economy.

A final point to keep in mind is that the spike in initial claims during the week of March 21 will not be incorporated into the March employment report to be released on April 3. This spike came after the end of the establishment survey week – the week ending March 14. The first jump in claims during the survey week will be captured, and the March employment was already shaping up to be weak due to seasonal adjustment issues. It will not, however, be until the April employment report (released on May 8) that we get a fuller picture of the initial damage done to the labor market by the coronavirus.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com