Leap in Jobless Claims Only a Glimmer of What’s to Come

Jobless claims jumped to 281K the week ending Mar. 14. Early reports from a few states, however, signal initial claims could rocket well over one million next week—underscoring how fast the economic outlook is worsening.

The Tip of the Iceberg

It is no longer a question of whether the coronavirus outbreak which emanated in China will take a toll on the U.S. economy, but to what degree. Given the abruptness of the shock, it will be weeks, if not months, before much of the economic data capture the turmoil of the past few weeks. Yet weekly jobless claims, which are published only five days after the coverage period, will provide an early marker as to what extent activity is contracting. For the week ending March 14, initial jobless claims jumped 281K (top chart). That marks a material increase from the prior 10 weeks of the quarter, when weekly claims averaged 212K.

In the preceding three months of the past six recessions, the four-week average for claims has risen at an annualized rate of 26% (middle chart). Even with today’s spike, the four-week average for initial claims through March 14 was up only 12% on a three-month average annualized basis. A similarly sized print next week, however, would send the rate up to 33%, consistent with the U.S. economy already being in a recession.

Moreover, the speed and breadth at which economic activity is grinding to a halt is anything but average. The number of government-mandated closures has risen dramatically since March 14, the last day included in today’s weekly numbers. Tens of thousands of restaurants and bars have since closed their doors, retailers have temporarily shuttered stores and major hotel chains have already announced layoffs. The claims data from individual states for this week are starting to trickle in, and the data are startling.

Ohio officials reported 36,645 unemployment claims were filed on Monday, in addition to 11,995 filed on Sunday. The previous Sunday it received 562. Massachusetts reported 19,884 claims filed on Monday alone, more than the total received in February, while Pennsylvania reported 50,000 claims on Monday and even more than that on Tuesday. The list goes on (bottom table). Many states reported that their employment websites crashed due to a surge in traffic, suggesting demand for unemployment benefits is even higher than the reported figures.

In short, initial reports of jobless claims filed this week indicate that the overall U.S. figure released on March 26 will blow past today’s print, and likely well above even the worst week of the Great Recession. If you apply the median yr/yr percentage increase from 12 states that have reported data for the first few days of this week (what we view as a conservative estimate, since it assumes zero additional claims are filed this week) to the national figure, that suggests that total U.S. initial jobless claims could reach well over 1 million next week. In other words, the U.S. economy appears to be quickly catapulting into a recession, with employment and household income headed for an abrupt hit without swift policy intervention.

Source: U.S. Department of Labor and Wells Fargo Securities