Layoffs Rising Again as Recovery Stumbles

Initial jobless claims rose for the first time since late March, increasing to 1.42M. The renewal in layoffs will turn up the heat on Congress to address the July 31 expiration in emergency unemployment benefits.

Initial Claims Rise in Payroll Survey Week

In one of the clearest signs yet that the U.S. recovery is stalling, initial jobless claims rose to 1.42M for the week ending July 18, from 1.31M the prior week. That marks the first increase since the end of March as re-imposed restrictions on businesses activity have taken a toll on employment. The rise comes during the Bureau of Labor Statistics’ survey week for nonfarm payrolls and suggests another sizeable monthly increase in payrolls for July, set to be released on August 7, is unlikely to be in the cards.

Granted, seasonal factors may have distorted the topline number this week, as fewer summer shutdowns at auto manufacturers in early July led to a smaller drop in claims mid-month than in recent years. Yet in addition to benefits filed under regular state programs, new claims for the Pandemic Unemployment Assistance program, which covers self-employed workers, independent contractors and gig workers, rose nearly 200K (not seasonally adjusted).

More positively, continuing claims under regular state benefits fell 1.1M in today’s report. That brought the insured unemployment rate down to 11.1%, its lowest rate in three months. However, those figures lag the initial claims data by one week. The increase in initial filings suggests the ranks of recipients of unemployment benefits is likely to remain stubbornly high in the next few weeks.

Watch Your Step, There Is a Cliff Ahead

The 18th consecutive week of initial claims over one million illustrates the relentless nature of the current crisis. Currently there are 32 million individuals receiving unemployment benefits through either regular state programs or the Pandemic Unemployment Assistance program, passed under the CARES Act in late March. Congress authorized an additional $600 per week for unemployed workers in the same legislation. It is hard to understate the significance of those transfer payments to household income. As illustrated in the middle chart, income from unemployment benefits has more than offset the drop in employee compensation since the pandemic struck.

The generosity of the federal emergency benefits, which are set to expire at the end of next week, has shored up spending power, but it has also become a point of contention as Congress discusses additional economic stimulus. In 36 states, workers on average can earn more than pre-pandemic wages, creating a financial disincentive to return to work (bottom chart). But with layoffs rising again, unemployment still near a record high and a dearth of jobs available as the pandemic has decimated activity, we have a hard time believing Congress will let them fully lapse. The labor market simply remains too weak with dire implications for spending and the rest of the economy.

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