US jobless claims surge to record 3.28 million as mass coronavirus layoffs begin

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Market Intelligence

The number of individuals filing for weekly unemployment benefits in the U.S. rocketed to 3.28 million amid layoffs linked to coronavirus-related containment measures, blowing past the prior record of 695,000 hit in 1982 — and many economists expect these figures to only get worse as the outbreak takes its tollon the economy.

The U.S. Labor Department said individual states broadly cited increased layoffs in the services sector, especially accommodation and food industries. Other industries "heavily" cited for the spike included health care and social assistance, arts, entertainment and recreation, transportation and warehousing, and manufacturing.

The grim numbers for seasonally adjusted initial claims in the week ended March 21 compare to a revised 282,000 in the previous week, the U.S. Labor Department reported.

The consensus estimate of economists polled by Econoday was for jobless claims to climb to 1.0 million, with the range of estimates running from 750,000 to 2.7 million claims.

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"We knew that today's figure was going to be bad, just not this bad," James Knightley, chief international economist for ING Economics, said in a note.

Still, the figure could be an undercount.

At the state level, Pennsylvania (378,900) recorded the highest number of new claims, while California (186,800) and New York (80,300) were notably lower despite being the leading states in terms of reported coronavirus cases. Knightley said these relatively low claims figures are likely due to issues with crashing unemployment office websites, jammed phone lines and an overall reluctance by claimants to stand in line with other individuals potentially exposed to the virus.

"We would expect numbers from these states and others to climb in coming weeks, particularly with the number of lockdowns increasing across the U.S.," Knightley said.

Treasury Secretary Steven Mnuchin cautioned in the last week that the unemployment rate, which stood at 3.5% in February, could soon reach 20%, and the president of the Federal Reserve Bank of St. Louis has cautioned that figure could even reach 30%, which would top the height of unemployment in the Great Depression.

This would only further enhance the likelihood that the U.S. is barreling toward a deep recession in the coming quarters, economists warned. States including California and Connecticut among others have implemented stay-at-home orders, while cities including San Francisco and Newark, N.J., have ordered residents to shelter in place as the virus continues to spread in the U.S., now nearing 70,000 confirmed cases, according to data compiled by Johns Hopkins University. That figure is also expected to rise rapidly in the coming weeks, as testing becomes more readily available despite social distancing measures.

"The full damage will only show up in the April jobs report in May," Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University, said in an interview.

The Bureau of Labor Statistics is set to release its March monthly jobs report April 3 and its April monthly jobs report May 8.

The four-week moving average of jobless claims climbed to 998,250 from a revised average of 232,500 in the prior week.

In the week ended March 14, insured unemployment climbed to 1,803,000, its highest level since April 14, 2018, from the prior week's revised level of 1,702,000. The seasonally adjusted insured unemployment rate, which measures the proportion of the labor force receiving unemployment benefits, was steady at 1.2%.

The U.S. Senate on March 25 voted overwhelmingly in favor of a roughly $2 trillion package to provide economic aid to American citizens and businesses affected by the coronavirus pandemic. Senators voted 96-0 to pass the $1.8 trillion CARES Act, which would provide much sought-after cash relief to workers, and hundreds of billions of dollars to U.S. businesses decimated by widespread layoffs and closures.

That bill, which is now to be considered by the House of Representatives before it would move to President Donald Trump's desk to be signed into law, would provide $1,200 to individuals making $75,000 or less and $2,400 for couples making $150,000 or less per year, plus $500 for each child. Those making more than $99,000 would not receive any cash assistance. It would also expand unemployment insurance to the tune of an additional $600 per week for four months.

The bill's expansion of eligibility for unemployment insurance, such as offering the benefit to the self-employed, will also boost claims numbers moving forward, Oxford Economics projected.

"With partial lockdowns across the country leading to a sudden stop in economic activity, the U.S. economy will experience the largest economic contraction on record with the most severe surge in unemployment ever," Nancy Vanden Houten, lead economist for Oxford Economics, said in a note.

The firm projects 15 million to 20 million job losses in the coming weeks and an unemployment rate likely above 10% in April.

Despite the historic unemployment claims, Treasury Secretary Steven Mnuchin said March 26 that "these numbers right now are not relevant."

"Last week they didn't know if they had any protections, they didn't have any cash, they had no choice," Mnuchin said on CNBC. "Now with this bill passed by Congress, there are protections."

Moody's Analytics is cautioning that even if COVID-19 cases wane over the summer, the threat of a resurgence in cases in the fall and winter and uncertainty around a timetable for a vaccine and distribution will likely weigh on businesses for at least a quarter and possibly a year or longer. This would limit hiring and hurt job prospects for affected workers. Well-timed and well-placed fiscal stimulus, including a quick influx of cash for small business and consumers, is the best hope for the outlook, the firm said.

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