
Unemployment rate poised to soar

Multi-asset | 26 March 2020



Anwiti Bahuguna
Head of Multi-Asset Strategy,
North America

In the coming weeks, traditional economic measures will begin to capture the impact of social distancing and the wholesale economic shutdown.

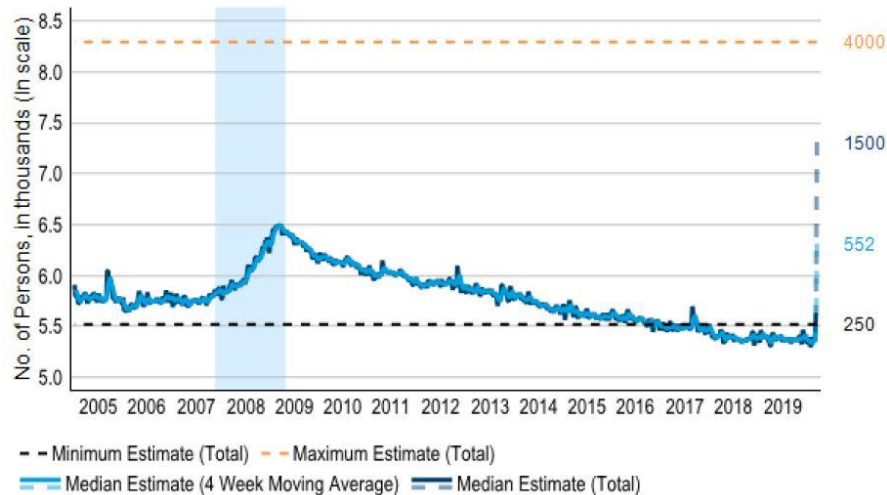
While many of these measures are lagging indicators, and may already be priced into markets, investor sentiment could still take a hit. There is still much data to come, but what we do know is:

- Data on people filing for unemployment benefits for the week ending 14 March 2020 showed that the coronavirus is starting to have an impact on the US economy. Initial jobless claims rose to a two and a half year high of 281,000 last week – up from 211,000 earlier in the month¹
- Timely state-level data suggests an unprecedented surge in claims over the next few weeks as layoffs increase
- Aggressive virus containment measures implemented in the past few days are resulting in a near shutdown of activity in sectors such as travel, leisure and many parts of retail, with a devastating impact on the labour market and ultimately on the US economy
- National statistics to be released on 26 March 2020 will likely show a large increase in claims from these already elevated current levels. Bloomberg consensus estimates suggest claims averaging 1.5 million with a wide range of predictions from 500,000 to four million.
- An increase of 1.5 million in unemployment claims is instantly going to push the unemployment rate to 4.5% from the current 3.5%, but that data is released in the monthly payroll report from the Department of Labor with a considerable lag. (Note: the period of survey for the March payroll report, to be released on 3 April, ends on 12 March and will not accurately depict the current level of stress in the labour market. March disruption will show up in the April payroll to be released on the first Friday of May.)

¹ Unemployment insurance weekly claims, US Department of Labor, 19/3/2020.

Labour market data is the most reliable indicator that a US recession is underway. The figure for national unemployment claims – to be released on 26 March 2020 – will likely confirm it. As the virus-induced shutdown ends and activity begins to normalise, we expect claims and the unemployment rate to edge down. After a rude shock, US activity will also slowly return to normal levels.

Figure 1: Initial claims for unemployment insurance (US)

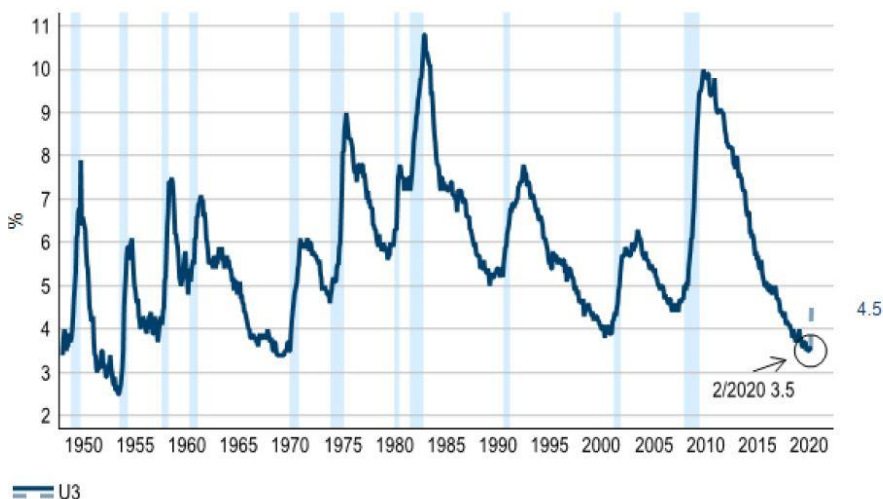


Source: Macrobond/Department of Labor/Columbia Threadneedle Investments, 25/3/2020.

Despite its timeliness, weekly jobless claims and other economic data are in reality lagging indicators of a contraction in economic activity. Financial markets have already reacted to the possibility of a sudden and sharp slowdown in activity and the subsequent hit to earnings.

The duration and the intensity of the recession depends on the duration of the shutdown and whether there is an adequate policy response from monetary and fiscal authorities to help cushion the blow. Early signs are encouraging. These past two weeks have seen a swift and substantial response from the Federal Reserve and a fiscal policy response is underway to help support the economy. Nevertheless, economic data in the coming months is likely to paint a bleak picture of the US economy.

Figure 2: Unemployment rate with consensus initial claims forecast



Source: Macrobond/Bureau of Labor Statistics/Columbia Threadneedle Investments, 25/3/2020.



Important information: For use by Professional and/or Qualified Investors only (not to be used with or passed on to retail clients).

Past performance is not a guide to future performance. Your capital is at risk. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. This document is not investment, legal, tax, or accounting advice. Investors should consult with their own professional advisors for advice on any investment, legal, tax, or accounting issues relating to an investment with Columbia Threadneedle Investments. The analysis included in this document has been produced by Columbia Threadneedle Investments for its own investment management activities, may have been acted upon prior to publication and is made available here incidentally. Any opinions expressed are made as at the date of publication but are subject to change without notice and should not be seen as investment advice. This document includes forward looking statements, including projections of future economic and financial conditions. None of Columbia Threadneedle Investments, its directors, officers or employees make any representation, warranty, guaranty, or other assurance that any of these forward-looking statements will prove to be accurate. Information obtained from external sources is believed to be reliable, but its accuracy or completeness cannot be guaranteed. Issued by Threadneedle Asset Management Limited. Registered in England and Wales, Registered No. 573204, Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority. This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). For Distributors: This document is intended to provide distributors' with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparties and no other Person should act upon it. **Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.**