

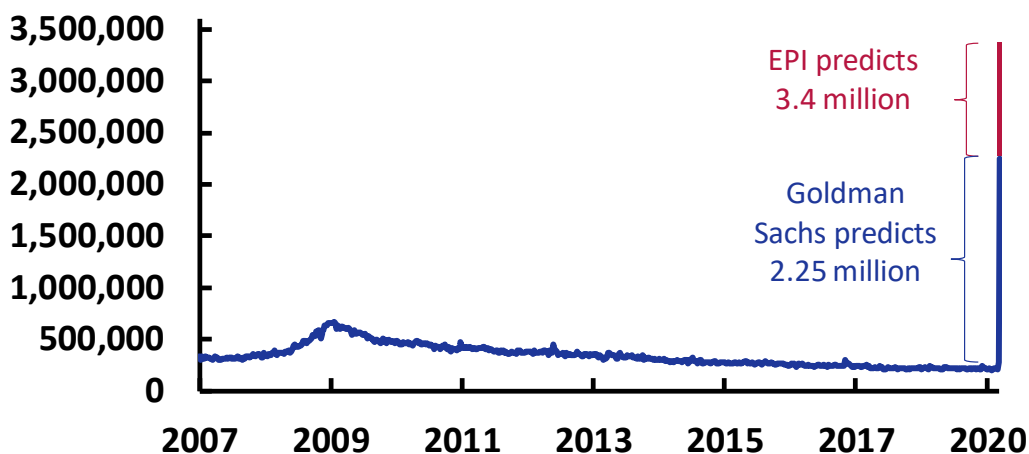


Thursday's Initial Unemployment Claims Will Be Key for Estimating the Economic Impact of COVID-19

At 8:30 am Thursday, when the Department of Labor releases the number of new unemployment insurance claims filed last week, we will get one of the strongest early indicators of the likely magnitude of the economic damage caused by the COVID-19 pandemic.¹

Macroeconomic forecasters and labor market economists predict that first-time claims will explode—from an average of 218,000 per week over the past six months to **2.25 or as high as 3.4 million** according to estimates by Goldman Sachs and the Economic Policy Institute, respectively.² This higher estimate would be **five times greater** than the 665,000 new claims reported in March 2009 during the worst of the Great Recession.

Initial Claims for Unemployment Insurance Number of Jobs, Seasonally Adjusted



Source: Department of Labor, Economic Policy Institute, Goldman Sachs

A high number of claims would reveal skyrocketing unemployment

If the number of new claims is as high as predicted and if it remains high in coming weeks, unemployment will skyrocket. For example, if three million new claims are reported Thursday, it would mean a **1.8 percentage point** spike in unemployment—in just one week.

At this rate, unemployment would more than triple in less than a month and would quickly exceed the 10 percent peak in 2009 during the Great Recession. Federal Reserve Bank of St. Louis President James Bullard predicts the rate may reach **30 percent** in the second quarter of this year, higher even than the 24.9 percent unemployment at the worst of the Great Depression.³

Other economic indicators can't keep up with the pace of economic decline

Analysts are particularly focused on the initial unemployment claims because the numbers are released weekly while other key economic indicators are released monthly or quarterly. Statistics on job growth or loss and for unemployment for the month of March won't be released until next Friday, April 3.⁴ The initial estimate of first-quarter GDP won't be available for more than a month on April 29.⁵ Unemployment claims are a leading indicator that will strongly suggest the direction and pace of economic change.

State and local governments are being overwhelmed by the influx of claims

State unemployment insurance offices have been inundated with calls and in-person visits by workers trying to file for unemployment insurance—phone lines are jammed, offices are packed and websites are crashing. States are not equipped to deal with this record pace of unemployment—and they are at historically low levels of administrative funding. They will also be contending with unprecedented health care costs.

Most states are required by law to balance their budgets, so they will be forced to cut service and lay off employees, further accelerating unemployment. Some states, like Ohio, have already begun cutting their budgets and implementing hiring freezes. Substantial state and local aid is needed to ensure that states can meet their balanced budget requirements without having to scale back services or cut staff when they are needed most.

Reports from key states suggest that Thursday's initial claims will be exceptionally high

The numbers coming out of state unemployment insurance offices in advance of the national release already have exceeded historic highs: 564,000 workers in California filed for unemployment benefits for the first time last week; over 353,000 claims were filed in Pennsylvania; nearly 140,000 claims were filed in Ohio.⁶ Together the number of first-time claims from just these three states total over one million—more than has ever been filed in one week across all states.

The unemployment claims report understates the severity of the problem

The initial claims in many ways understate the magnitude of the challenges facing American workers. The jobless numbers only reflect the number of claims that are actually filed and do not include workers who *intended* to file claims but were unable to due to jammed offices and phone lines; or websites that were unable to process their claims. Others are out of work, but not eligible to file. In addition, there are 1.1 million workers who were already long-term unemployed before the coronavirus crisis began.

¹ Department of Labor. March 19, 2020. Unemployment Insurance Weekly Claims. <https://www.dol.gov/ui/data.pdf>

² Annalyn Curtz. March 20, 2020. Goldman Sachs predicts 2.25 million Americans filed initial unemployment claims this week, the highest on record. *CNN*. <https://www.cnn.com/2020/03/19/economy/unemployment-benefits-goldman-sachs/index.html>;

Aaron Sojourner and Paul Goldsmith-Pinkham. The coronavirus crisis led to a record-breaking spike in weekly unemployment insurance claims. *Economic Policy Institute*. <https://www.epi.org/blog/coronavirus-record-breaking-spike-in-ui-claims/>

³ Steve Matthews. March 22, 2020. U.S. Jobless Rate May Soar to 30%, Fed's Bullard Says. *Bloomberg*. <https://www.bloomberg.com/news/articles/2020-03-22/fed-s-bullard-says-u-s-jobless-rate-may-soar-to-30-in-2q>;
Bureau of Labor Statistics. Labor Force, Employment, and Unemployment, 1929-39: Estimating Methods. Page 2, Table 1. As of July 1 of each year. <https://www.bls.gov/opub/mlr/1948/article/pdf/labor-force-employment-and-unemployment-1929-39-estimating-methods.pdf>

⁴ BLS release schedule https://www.bls.gov/schedule/news_release/empsit.htm

⁵ BEA release schedule <https://www.bea.gov/news/schedule>

⁶ ABC7Jory. (2020, March 21). Governor Newsom: Unemployment claims in California over the last week: [Tweet]. <https://twitter.com/ABC7Jory/status/1241522459905421312>;

Lisa Adams. (2020, March 21). PA First Time Unemployment Compensation Claims Soar. *Erie News Now*. <https://www.erienewsnow.com/story/41924656/pa-first-time-unemployment-compensation-claims-soar>;

Lacey Crisp. (2020, March 20). Unemployment claims in Ohio skyrocket; grocery stores seek helping hands. *10 TV WBNS*. <https://www.10tv.com/article/unemployment-claims-ohio-skyrocket-grocery-stores-seek-helping-hands-2020-mar>