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CORPORATES & MARKETS

Economy

Focus US
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Is the US unemployment rate heading for 20%?

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The lockdowns being implemented in the US will upend the labour market. Its flexibility, which is normally an advantage, will facilitate the adjustments and cause new jobless claims to skyrocket. They were around 200,000 before the coronavirus shock; they could quickly number in the millions. There will be no valid historical comparisons. The scale could be that of the Great Depression, except the shock is expected to last a few weeks this time, not several years. The fiscal stimulus just voted is aimed at cushioning the fall in revenues and preserving consumer spending.

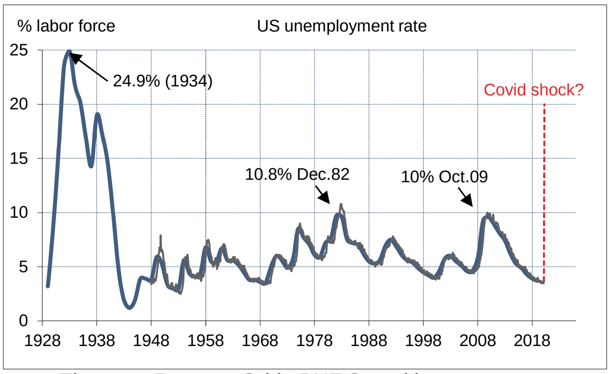
The week's focus

According to the US Treasury Secretary, without a massive stimulus plan to counter the coronavirus shock, the unemployment rate in the US could surge to 20%. The previous peaks, reached in 1982 and 2009 in severe recessions, were in the region of 10%. The 20% level is only comparable to the Great Depression in the 1930s (chart lhs). A stimulus has been approved (see p.2) but the labour market nonetheless looks set to undergo a brutal adjustment due to the closure imposed on numerous sectors. With a labour force currently at 165 million (incl. 5.8M unemployed), a jobless rate of 20% implies 27M additional unemployed. Is such a scenario possible? Unfortunately, it is.

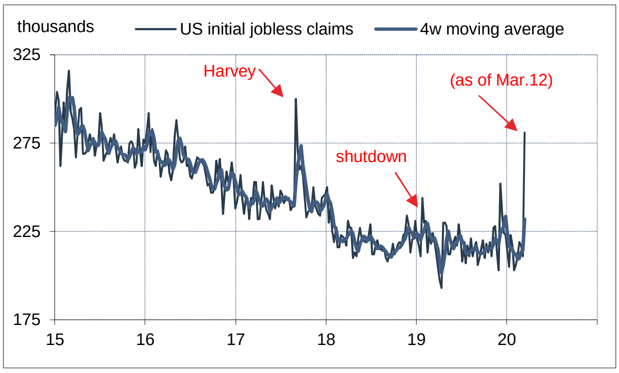
As a result of light-touch regulations, the US labour market is extremely fluid in terms of entry and exit. In the near future, increasingly stringent confinement will have devastating effects on employment conditions. Already, sporting events and political meetings have been suspended. Air transport has been significantly reduced. The closure of restaurants and tourist accommodation is accelerating rapidly. This sector has 14 million employees. The education sector is also likely to be affected, here again with around 14m employees concerned. To this must be added, the halt in production at automotive plants, numerous construction sites and retail premises. Social distancing is an unprecedented shock. In some states (Pennsylvania, Connecticut, Ohio, etc.), compensation claims have soared. This will become visible at the national level as of the data taken at 19 March (published on 26 March), but already on 12 March, the rebound was beginning to materialise (chart rhs). The baseline assumption is that confinement will last for a number of weeks, too short a period to record a durable rise in unemployment[1]. However, there will be a period of uncertainty during which households will see their revenue decline but will have expenditure that cannot be reduced. And on top of the sudden stop in employment will come the loss in value of financial assets...

1 If the people at risk, knowing that they will return soon to their jobs, do not actively seek employment, they will not be categorised as unemployed but they will exit the labour force. This would then massively reduce the rise in the unemployment rate.

US: the unemployment rate in the last century



US: weekly new jobless claims



Sources: Thomson Reuters, Oddo BHF Securities

Economy

- Any comments on statistics have to limited to the strict minimum (slight contraction in retail sales, due to the fall in prices at service stations) as they primarily describe a situation prior to the coronavirus shock. High-frequency indices such as claims give an idea of the direction (see page 1) and the forward-looking data of surveys have logically declined: sentiment in the industrial sector is in free fall in the New York and Philadelphia districts, household confidence shed 5.1pts in **March**, according to Michigan University, confidence in construction contracted by 2pts according to the NAHB.

Monetary and fiscal policy

- The Fed pulled out all the stop this week. On **15 March**, after another emergency meeting, it cut its policy rates by 100bp. They returned to their floor level of 0-0.25% as in 2009 to 2015. The asset purchase programme has been revived for $ 500bn on Treasuries and $ 200bn on MBS. The Fed also cut the rate on the discount window to 0.25% opening this facility to maturities of up to 90 days. The biggest US banks will be using this facility with no fear of the stigma that is usually attached to its use. As a regulator, the Fed has also pushed banks to use the capital accumulated since the crisis to absorb the coming shock and promoting continued loans to business by relaxing its regulations. In coordination with the leading central banks (BoC, BoE, BoJ, ECB, BNS), the Fed extended its USD swap lines of up to 84 days (and no longer one week), with a margin of +25bp (instead of 50bp). In the first swap operation with the ECB, the amount was $ 76bn. On **19 March**, the Fed broadened its swap lines with other countries: Australia, Brazil, Denmark, South Korea, Mexico, Norway, New-Zealand, Singapore, Sweden, for $ 30bn or$ 60bn depending on the case.

- Moreover, the Fed has resurrected the array of measures created during the 2008 crisis, designed to support different segments of the capital markets, such as Commercial Paper Funding Facility (CPFF), Primary Dealer Credit Facility (PDCF), Money Market Mutual Fund Liquidity Facility (MMLF). We are going to have to relearn loads of acronyms. There is no doubt, this is a severe financial crisis that has just begun. Over the week, the main equity markets continued to plummet. A slump of close to 30% over less than one month.

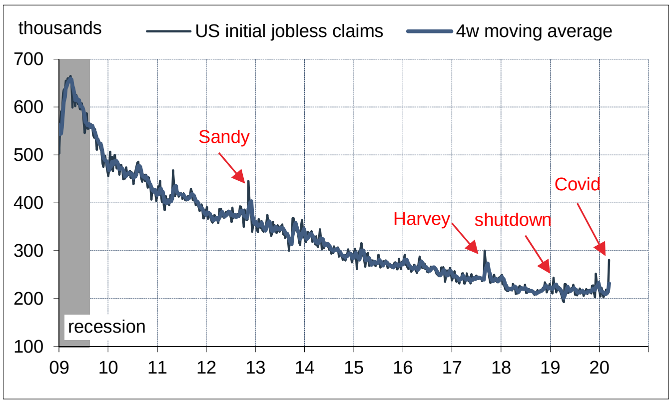
- From the fiscal standpoint, decisions have also been accelerated. The White House has proposed a $ 1,000bn support programme that was voted in by the Senate on **18 March**. Half of this amount has been earmarked to support household income. The government is to send on two occasions**, 6 April** and **18 May**, a cheque to American households with amount determined by revenue and the size of the family. This aid will be means tested. An envelope of $ 50bn is planned to support airlines with $ 150bn set aside for other sectors in which activity has been stopped by the healthcare crisis (hotels, tourism, shopping malls operators). This aid will take the form of secured loans or loan guarantees. Lastly, $ 300bn is destined to help SMEs weather this crisis. For companies with fewer than 500 employees, the Treasury will guarantee 100% of wages over six weeks (below a certain ceiling) if they retain all of their personnel despite the downturn in activity.

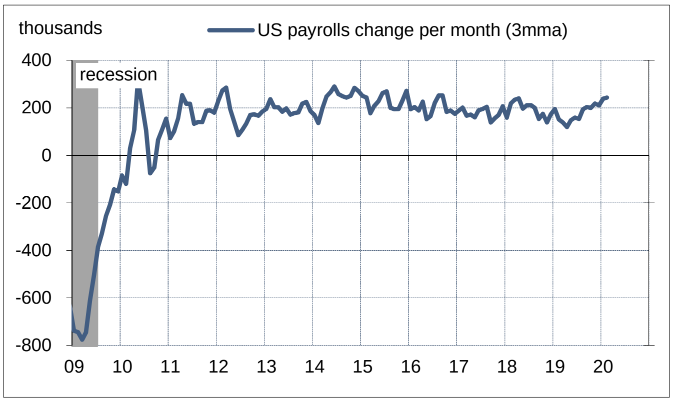
- In this context, entirely dominated by the coronavirus, political competition has taken a back seat. Joe Biden scored a comfortable victory in the three states which held their primaries on **17 March** (Florida, Illinois, Arizona). In terms of number of congressional delegates, he is 13 points ahead of Bernie Sanders, a gap that cannot reasonably be closed. Assuming that there are no mishaps, Joe Biden will be the democratic candidate for the presidential election in November (with a female VP as he promised). The current president now has bad karma. He will be running against a candidate who will largely mobilise the democratic vote, he has been criticised for his management of the coronavirus crisis and the stock market, that has hitherto acted as a barometer of his success, has now returns to the levels prevailing when he took office.

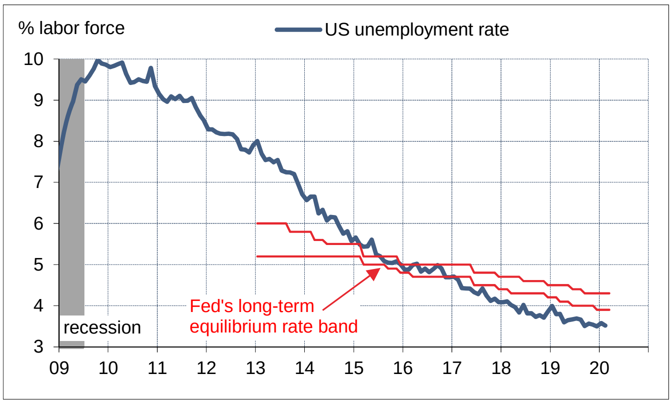
The week ahead

- Weekly jobless claims are set to surge net week (publication on **26** for the week of 19). The PMI surveys (**24**) should move in the opposite direction. From now on, hard economic data up until March will be of only limited worth.

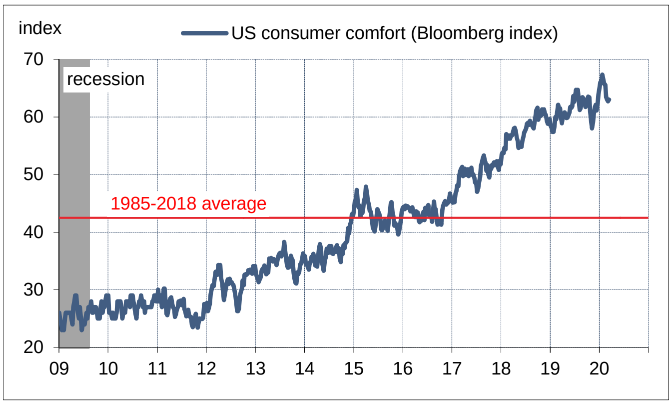
Appendix 1 - Labour market

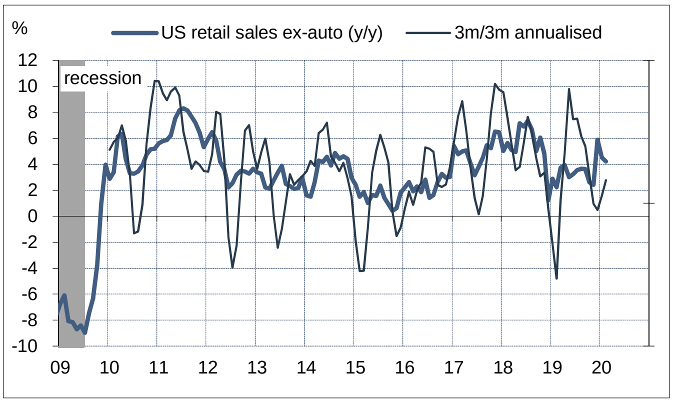


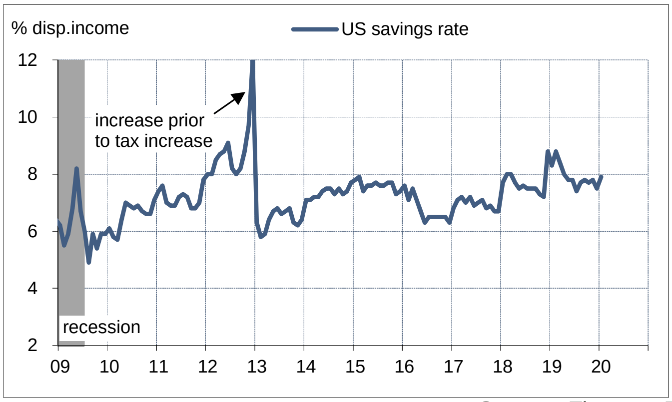


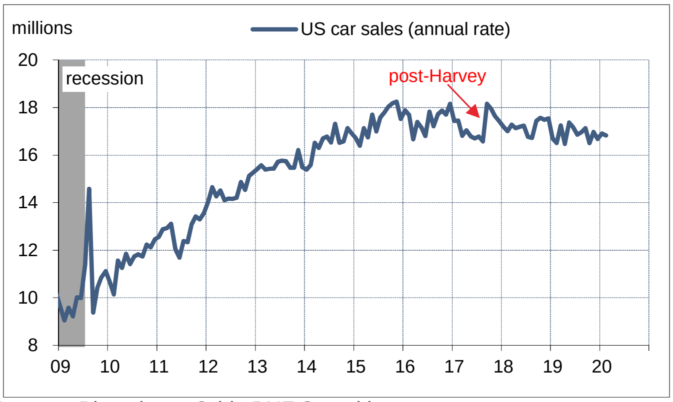


Appendix 2 - Consumer



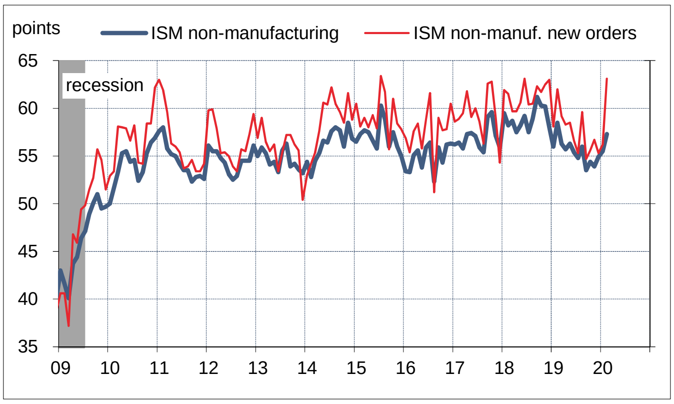


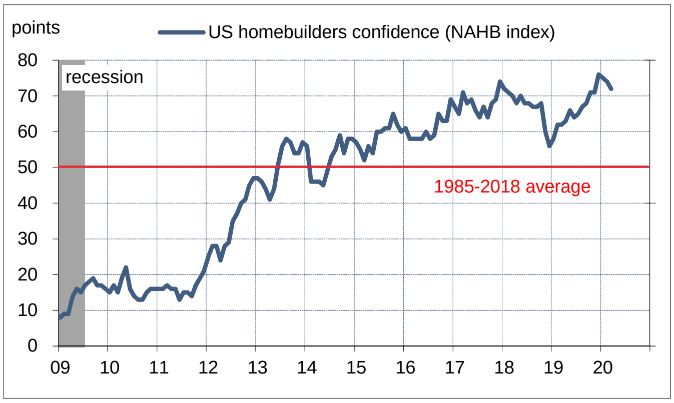


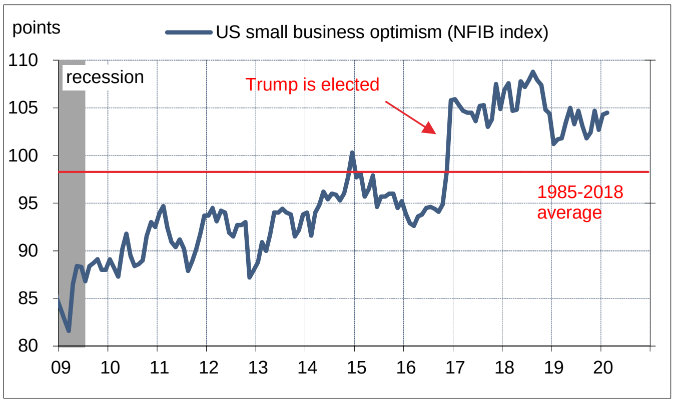


Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities

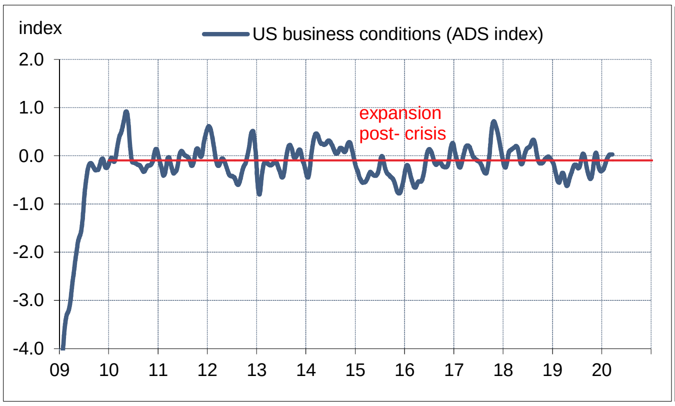
Appendix 3 - Business climate

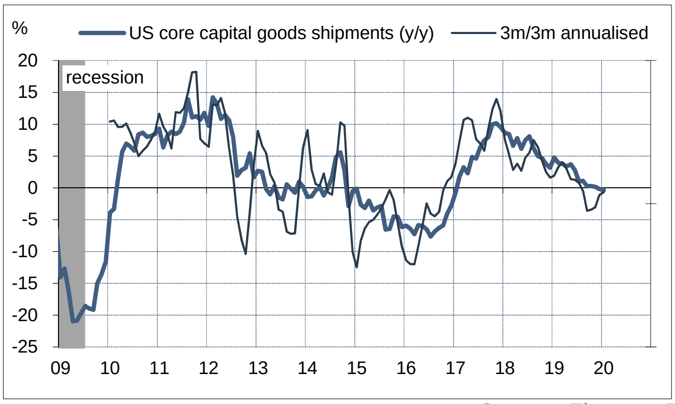


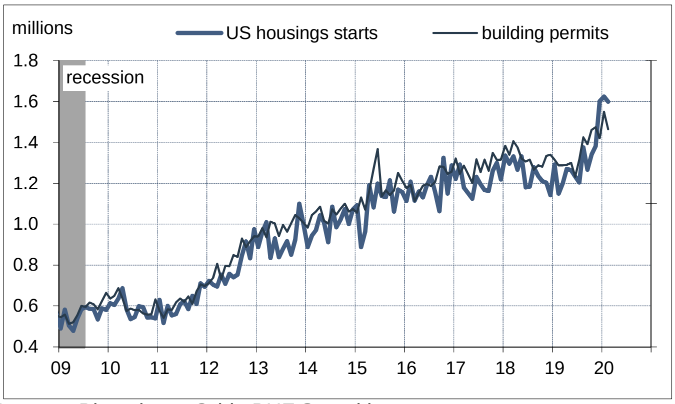




Appendix 4 - Conditions of economic activity

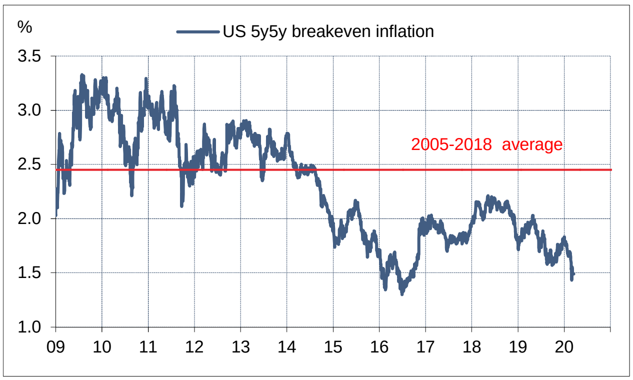


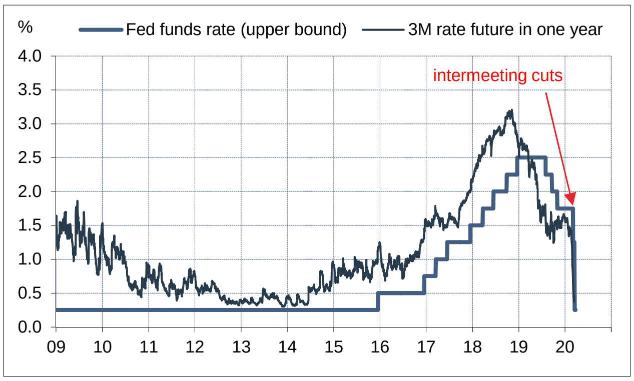


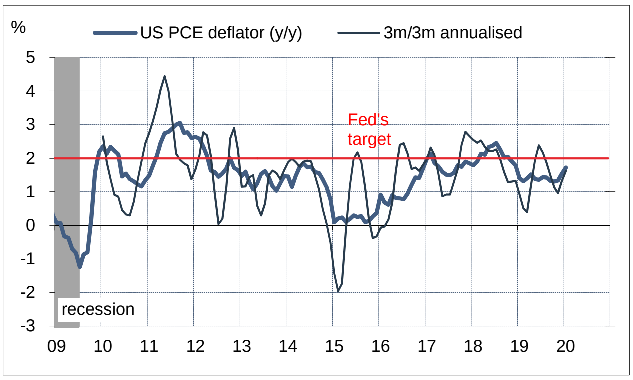


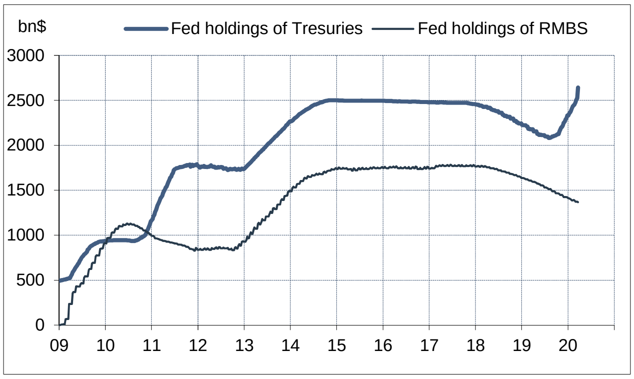
Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities

Appendix 5 - Inflation and monetary policy

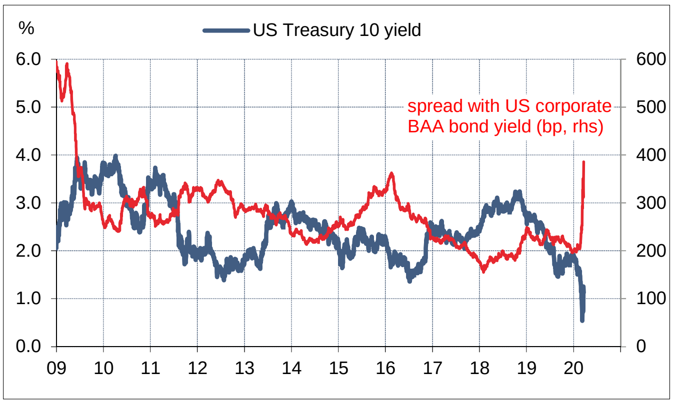


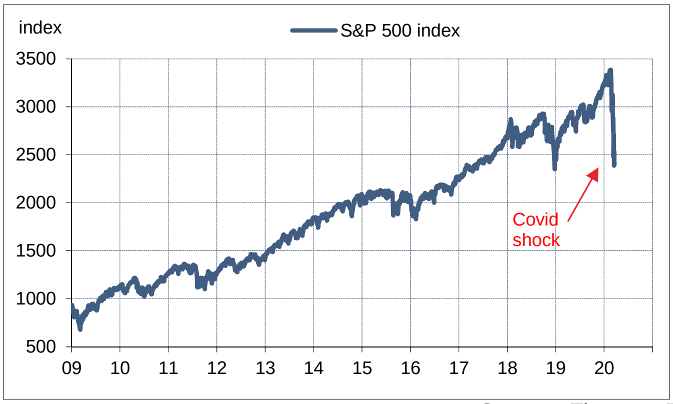


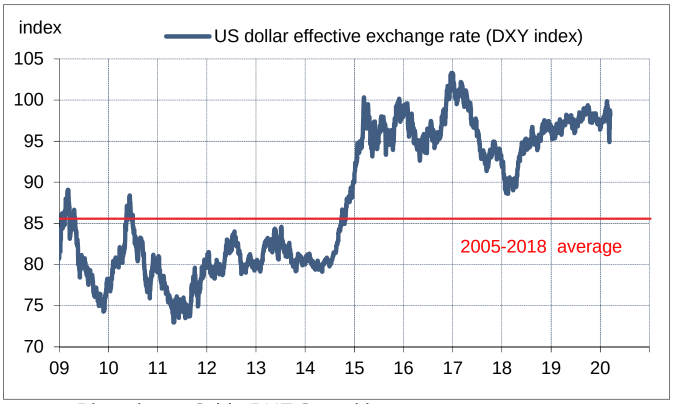




Appendix 6 - Financial markets







Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities

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