On my mind: Now let's get those jobs back

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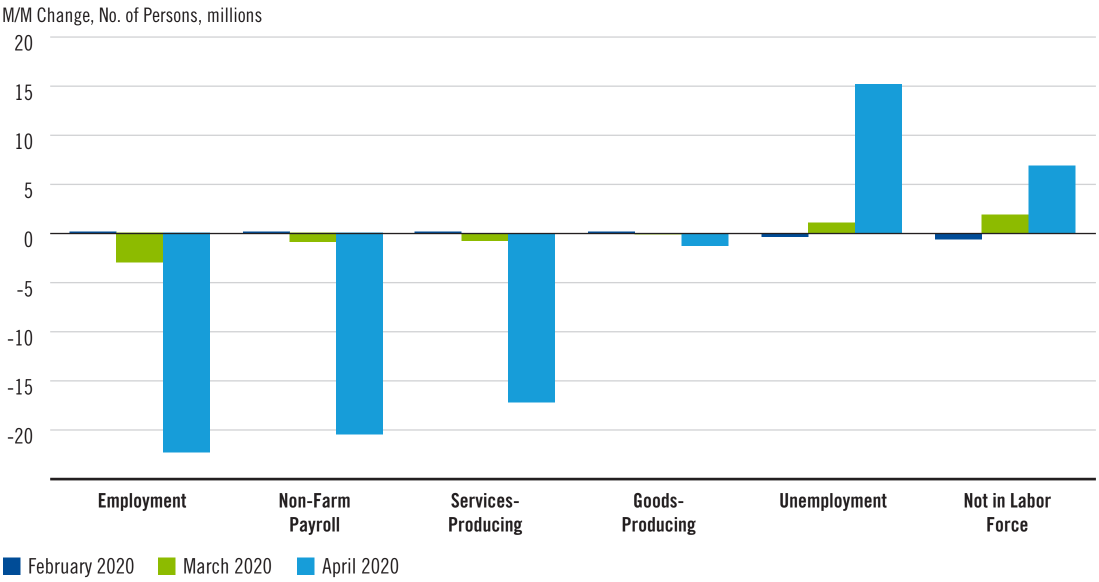
As the April US employment numbers came in, I could not help shaking my head in disbelief at what our labor market is going through.

The April jobs report has brought home the catastrophic impact that the lockdown has inflicted on US workers. Non-farm payrolls suffered the largest decline on record, falling by 20.5 million and bringing employment back to early-2011 levels. The unemployment rate jumped by more than ten percentage points to 14.7%, corresponding to 16 million more unemployed people. The broader "U6" measure, which includes workers marginally attached to the labor force or working part time for economic reasons (namely unable to find full-time work), jumped to nearly 23%.

In the 2009 Great Recession, those two rates had peaked at 10% and about 17% respectively. Most of the decline was in the services sector, especially leisure and hospitality (–7.7 million), but manufacturing and construction also suffered a heavy blow.

Exhibit 1: Payrolls Plunge by 20.5 million; Driven by Services Sector
As of April 2020



Sources: Franklin Templeton Capital Market Insights Group, BLS, Macrobond.

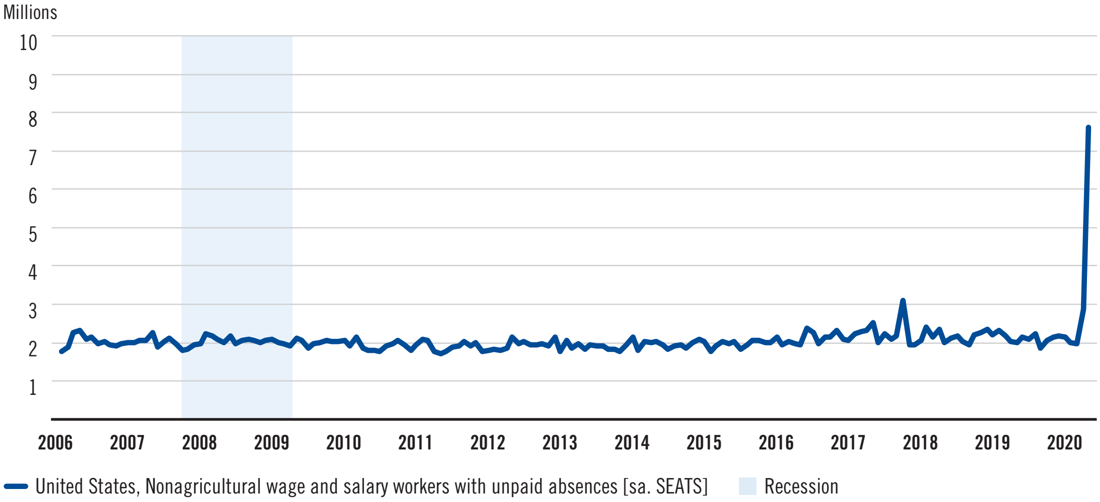
Shocking as they are, these numbers are not surprising, considering we had already seen initial jobless claims climb to over 33 million, and continuing claims to almost 23 million as large parts of the US economy were shut down in March and remained closed throughout April. Partly because of this, financial markets seem to have taken the headline numbers in stride, with equity indexes rising by the end of the day Friday.

Investors are probably also heartened by the fact that some US states have begun to reopen their economies; equity markets are also likely building in the expected impact of the massive monetary policy expansion on asset prices, as we have seen in the reaction to previous crises.

Don't let the financial markets' reaction fool you, however. The labor market has suffered a tremendous blow, and now faces a formidable challenge to rebuild jobs and livelihoods. To get the full sense of the damage, consider the following: while the ranks of the unemployed swelled by 16 million people, once we add workers marginally attached to the labor force or working part time for economic reasons, we get to almost 22 million jobs lost—broadly equal to the decline in employment. To these numbers we must add the roughly 6.4 million people who exited the labor force.

And finally, we have seen a sharp increase (about 5.5 million) in workers classified as "working but absent from work": they remain attached to their employers but are not actively working. This brings us to close to 34 million people—broadly in line with the 33 million who filed jobless claims.

Exhibit 2: Sharp Increase in Workers Classified as "Working But Absent From Work"
As of April 2020



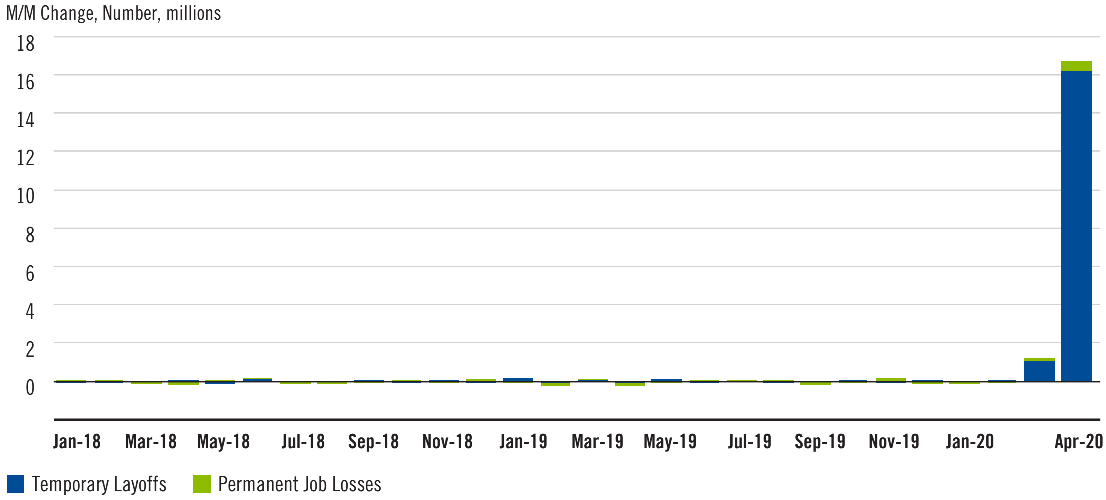
Sources: Franklin Templeton Capital Market Insights Group, Macrobond, BLS, Macrobond.

The people who lost their jobs come mostly from the more disadvantaged sections of the labor force: workers with lower skills and lower wages. This was highlighted by the remarkable jump in average hourly earnings, which rose 7.9% in April from 3.3% in March. Job losses among lower-paid workers have been so massive that the average wage for the economy rose significantly.

In my view, this highlights the urgent need to speed up the safe reopening of the US economy. Some sectors will face protracted headwinds because of potential changes in consumer behavior (like air travel and restaurants) or because of the slump in economic activity in the rest of the world. We also need to watch the potential disincentive effect of generous unemployment benefits, which might slow hiring in some sectors (as we discussed in our recent white paper, "US Macro Outlook: Let's Bend the Economic Growth Curve." But other sectors could enjoy a faster recovery as restrictions are lifted.

The encouraging news is that temporary layoffs accounted for the lion's share of the increase in the unemployed in the April report (about 90%) and roughly 78% of current total unemployed. This is important because in past recessions, a large share of temporary unemployed workers has resulted in a stronger and faster rebound in employment levels—most notably after the 1982 recession.

Exhibit 3: Temporary Layoffs Account For Lion's Share of Total Unemployed
As of April 2020



Sources: Franklin Templeton Capital Market Insights Group, BLS, Macrobond.

Most newly unemployed people still have an open line with their employers and are ready to go back to work; many businesses stand ready to rehire.

If states move at a rapid pace to reopen their economies while deploying smart, targeted measures to keep contagion under control and protect those most vulnerable to the virus, we can still make fast progress in reducing unemployment to less daunting levels. Time, however, is not on our side; the longer unemployment hovers at the current stratospherical levels, the harder it will be to get the economy going again—and the greater the long-term human and economic costs.

The coming weeks will be crucial to shape the future course of the labor market and the economy.

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