



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Matthew Honnold, Economic Analyst
matthew.honnold@wellsfargo.com • (704) 410-3059

Soaring Unemployment Claims Point to a Big Hit to Real GDP

Weekly unemployment claims soared to 6.6 million in the week ended March 28. The nearly complete, sudden stop in activity has led to widespread layoffs at airlines, restaurants, hotels and retailers.

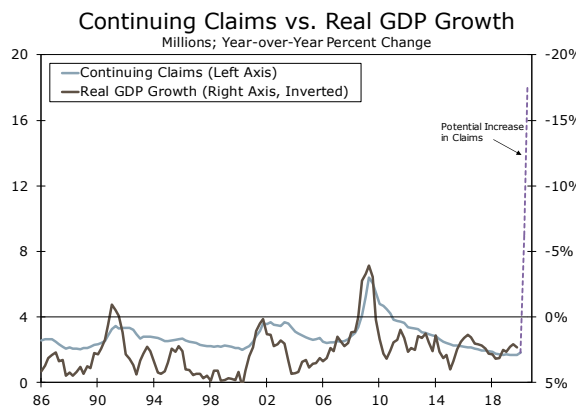
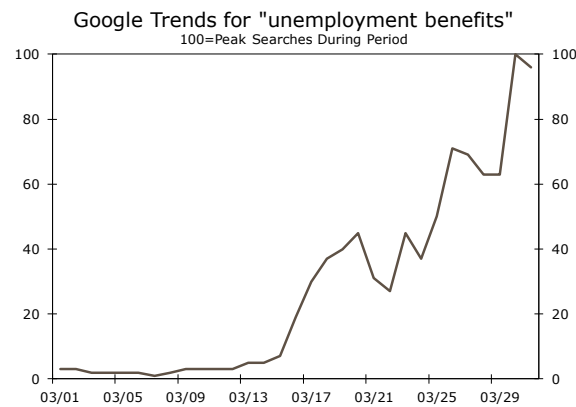
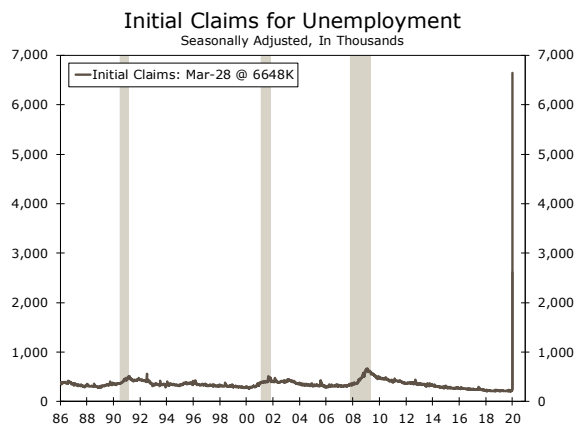
Jobless Claims Offer Insight into the Size of the Economic Hit

Weekly first time unemployment insurance claims surged to 6.65 million during the week ended March 28, and data for the prior week were revised slightly higher to 3.31 million. The bulk of jobless claims related to lockdowns, shutdowns and stay-at-home orders occurred during the past two weeks, with restaurants, bars and hotels leading the way. The shutdown of most motor vehicle assembly plants also contributed to the surge, as did layoffs at retailers and across a variety of household and business services firms. Weekly jobless claims provide the most current data point on the damage the COVID-19 outbreak has wrought on the economy.

As dramatic as the past two weeks' increase has been, we doubt we are anywhere near the peak. Numerous states report they are still having a difficult time processing the flood of claims. For example, New York reported that it received more than 7.8 million calls inquiring about unemployment benefits during the week ended March 28, compared to around 50,000 calls in a usual week. Given the magnitude of that increase, the fact that there were 'only' 366K claims officially reported in New York State suggests that when the processing logjam clears, there will be a much larger surge. Precise estimates are impossible at this stage, but the unprecedented magnitude is clear, and shows no sign of letting up—New York received 1.2 million calls on Monday, March 30 alone. Layoffs are continuing nationwide, and the broadening of benefits to include more self-employed workers means that a larger proportion of the workforce will be eligible for benefits.

The abrupt halt to economic activity that occurred, as more than three-quarters of the U.S. population fell under stay-at-home orders, means that a great deal of the rise in jobless claims is likely to be compressed into a relatively short period of time, with initial claims likely peaking in April. Initial claims provide us with a real-time measure of job losses, but the nature of the total shutdown means that relatively few of the workers losing jobs are likely to find new ones in the near-term. Attention will soon shift to continuing claims, which provide a better idea of the challenges unemployed workers face and also offer some insight into the hit to real GDP growth. Continuing claims lag a week and rose by 1.25 million in the week ended March 21. We would expect them to largely track initial claims over the next few weeks but then hover at their highs for some time.

The 9.9 million initial unemployment claims over the past two weeks would push the unemployment rate up to 9.0% if the labor force remained at its average for the past 12 months. Given that the rise in jobless claims is far from over, the rise in the unemployment rate will likely be even greater. The rise and duration of continuing claims will provide us with an indication about how large the hit to real GDP growth will be. What that hit will be is yet to be determined, but it will be massive on an annualized basis.



Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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