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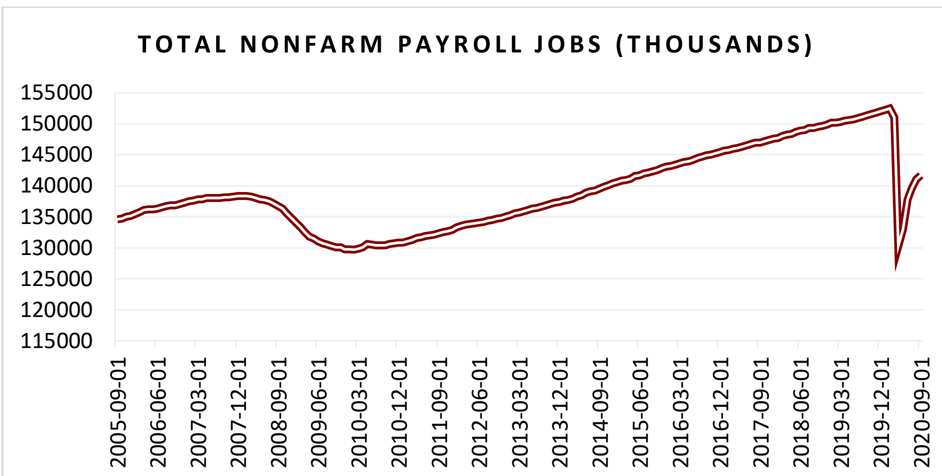
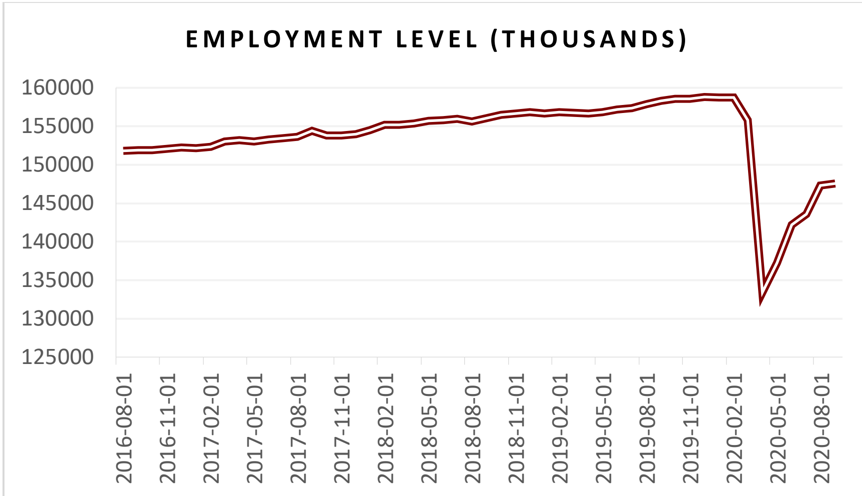
The Unemployment Virus

By Alejandro Palacios

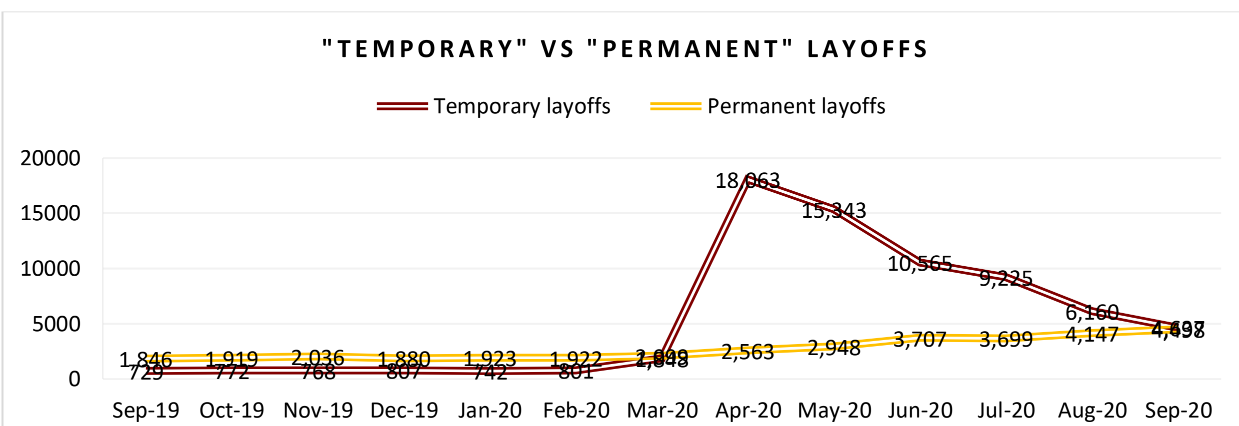
Since the start of the pandemic, the number of nonfarm payroll jobs fell by 22 million during the first six weeks which created havoc among policy makers. In the months since, the U.S regained half of the jobs lost at the start of the pandemic, a positive sign showing a resilient economy (11 million jobs). But this still far away from pre-pandemic levels, leaving us with an 11 million job deficit.



The number of nonfarm payroll jobs show a possible ‘V’ shape recovery that a lot of analysts predicted at the start of the pandemic, but we can’t assume that we are out of danger. The jobs recovery seems to be stalling, or at least slowing down. Our economy added jobs in May and June as lockdowns eased and businesses started reopening. But job gains have trended downwards after June and have since slowed down significantly when compared with the first two quarters of the year. This slowdown can be reflected in the employment level graph below, a lagging indicator showing how job growth has stalled.

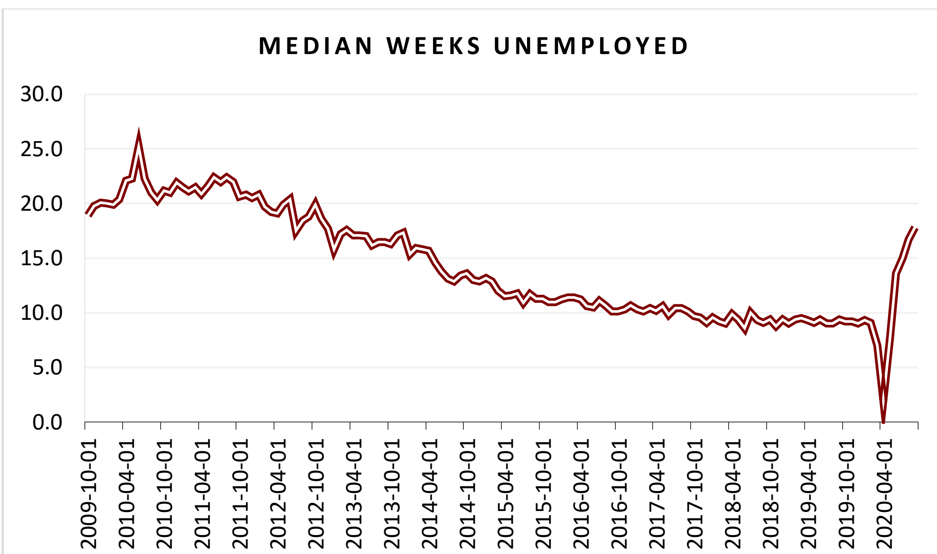


We cannot dismiss the fact that these are massive gains in employment. This jump is greater than the monthly job gains this time last year but we are still shy of pre-pandemic employment levels. The reason I attribute for the slowdown in employment is that millions of alleged "temporary" layoffs are turning into permanent job losses. As businesses closed and started furloughing their employees most analysts assumed that this job loss would be short-lived and workers would be recalled once the lockdown was over. Unfortunately, weeks turned into months and COVID-19 is still very much with us. Our economic activities are still restricted by government mandates and fear of contracting the virus, which mean businesses have been reluctant to rehire. Therefore, the share of unemployed that report permanent job loss keeps mounting.



As you can see from the graph above, although temporary layoffs have been consistently decreasing since the start of the year, permanent layoffs have increased significantly in the second and third quarters of this year slowing the pace of job recovery

The problem with rising permanent layoffs is that the average time unemployed is also rising. According to the Dallas Federal Reserve, workers typically spend between five and ten weeks out of work, although the average may vary during recessions as jobs are harder to find during an economic slowdown. This recession has been an exception. Initially, because businesses started rehiring as soon as the government eased restrictions many were soon recalled to their old jobs, causing the median weeks unemployed to fall sharply. Since then, the number of weeks an individual spends looking for a job has risen to new highs, almost matching the median weeks unemployed of the 2008 recession. This is a very concerning metric. The longer a worker is unemployed, the harder it is to find another job. This could cause the level of unemployment to increase in the following months.



Even more worrisome, the Payroll Protection Program (PPP) which kept small businesses afloat during the pandemic, ended in August. The expiration of the program is certain to turn “temporary’ layoffs into permanent layoffs. Furthermore, the special bailout program for airlines expired at the end of September, already most of the leading carriers have since started major layoff programs. We can also expect layoffs by state and local governments whose finances have worsened by the pandemic. Now millions of small businesses are at risk of foreclosing if federal assistance is not reinstated. If you add rising coronavirus cases to what I stated above, we could say that there is a massive grey cloud looming over the economic recovery of the United States.

I expect a long road for a complete economic recovery. Our nation cannot fully heal until it is safe for people to work, shop, socialize, and recreate as they did before. Even if we have strong job growth moving forward, we wouldn't regain all the jobs lost until late 2021. This may take considerably longer than expected and investors should factor that when assessing their portfolio allocation. In the short term, the only viable option for a full economic recovery is the discovery of a vaccine and the rapid administration of it to the populous.