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A Look Ahead to First-Time Unemployment Claims and The April Jobs Report

Many economic forecasters are looking forward to the April jobs report on May 8 with a mix of fascination and dread. Four consecutive horrible, record-shattering reports on new unemployment claims suggest that unemployment rate could skyrocket into the double-digits. A fifth such report is expected tomorrow. However, when the Bureau of Labor Statistics releases its new numbers in two weeks, it's likely that the unemployment rate will be substantially lower than the unprecedented claims would suggest. But that won't be good news – because the figure will be misleading.

More than 20 million Americans filed for unemployment benefits during the four weeks ending April 11. (The seasonally adjusted number was 22 million.) The total for the week ending April 18, which will be reported Thursday morning, is expected to fall below the 4-week average of 5 million, but still remain at a level several times higher than the previous highs reached during the Great Recession.

Filing for unemployment begins the process of accessing unemployment benefits that can help workers put food on the table and pay their bills. In late March, the federal government added $600 per week to those benefits, and expanded eligibility to independent contractors and so-called gig workers. Most states have begun providing the extra jobless assistance Congress provided as part of the CARES Act, though only seven states have begun paying benefits to independent contractors.

There has been significant media attention paid to the unprecedented first-time claims during the past month. At the same time, macroeconomic forecasters have estimated unemployment rates for the second quarter that have ranged from Goldman Sachs' 15 percent to JP Morgan's 20 percent. That said, it's hard to know how high the unemployment rate will climb and what share of those who filed unemployment claims will be counted as unemployed. Though many Americans are losing their jobs (20 million and counting), it's not clear that they will all be included in the updated unemployment rate—in other words, the percentage of unemployed Americans may be diverging from the official unemployment rate.

Divergence Between Unemployment Filings and the Unemployment Rate

A new paper published by the National Bureau of Economic Research this week outlines this potential divergence. Based on a household survey completed on April 6th, it found 20 million Americans had lost their jobs and the share of Americans with a job declined by 7.5 percentage points. Yet, they also found that the unemployment rate only rose about two percentage points because so many workers who lost their jobs are not currently looking for work.

The official national unemployment rate, released by BLS each month, is not directly tied to workers filing for first-time unemployment claims. Rather, the unemployment rate is based on responses to the Bureau of Labor Statistics' Current Population Survey, often referred to as the household survey. To be counted as unemployed, a person responding to the survey must have searched for work in the preceding 4 weeks and be available for work.

With Stay-at-Home Policies, Millions of Jobless Workers Are Not Searching for Work

Millions of Americans are not working because of stay-at-home orders, and as a result, they also are not searching for work. Simply put, they are not allowed to work. Others typically work in industries, such as restaurants and bars, where even if the establishments are allowed to remain open or to reopen, jobs have been cut dramatically. These workers, too, would have a reduced incentive to search for work.

Consequently, in the April employment report released on May 8, there may be a substantial divergence or disconnect between the number of Americans who have lost their jobs and the unemployment rate. Since they are not currently searching for a job, many workers will be treated as though they have left the labor force.

March Employment Report Points to Reduction in Labor Force Ahead

BLS's March employment report gave a hint of what could be coming. In March, even before the full effects of coronavirus were felt in the labor market, the labor force shrank by 1.6 million, and the labor force participation rate fell from 63.4% to 62.7%. The employment-population ratio fell from 61.1% to 60.0%. These changes occurred even though the household survey was completed during the first half of March before most of the stay-at-home policies took effect.

Why Disconnect Between Jobs Lost and Unemployment Rate Matters

Congress, the Federal Reserve and other policymakers regularly use the unemployment rate as a key indicator of the economy's health and as a guide to crafting policy responses. But, if the unemployment rate is not reflecting millions of workers who have lost their jobs, policymakers are getting a misleading view of the economic situation. In addition to tracking the unemployment rate, policymakers will have to monitor changes in the size of the labor force and the share of the population working to gain a fuller understanding of the current state of the economy.