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Low-wage job losses fuel the US stimulus debate

Weekly Market Compass: I believe Congress needs to help American households remain solvent through further stimulus

May 11, 2020 | Kristina Hooper, Chief Global Market Strategist

As expected, the US Employment Situation Report for April was abysmal. Unemployment rose dramatically as pandemic lockdown measures were implemented across the US, with hospitality and leisure posting the biggest job losses. Amidst all the terrible data, there was one obvious and glaring takeaway: Job losses were concentrated among low-wage workers. In fact, so many lower-paying jobs were lost that wage growth rose markedly, underscoring how hard hit lower-income workers have been by this pandemic.

Of the 20.5 million jobs lost in the US in April, respondents categorized the vast majority of losses (18 million) as temporary.[1] However, I would caution that the length of the job losses is dependent on the ongoing policy response – particularly the health response and the fiscal response. A temporary loss can turn permanent if fiscal stimulus is inadequate or if the lockdown protocols are loosened too quickly, resulting in a resurgence in infections.

Many US households lack adequate emergency savings

The jobs report underscores the importance of following the health of US households very carefully. The St. Louis Fed's Center for Household Financial Stability recently wrote a research note identifying which American households are particularly vulnerable to an income shock such as COVID-19. Not surprisingly, at the top of the list are households with less than two months of income in emergency savings. And there are many households that fall into that category – I have long been quoting the statistic from the Federal Reserve Board of Governors Survey (2013-2018) that 40% to 50% of Americans don't have enough savings to cover a $400 unanticipated expense, and would either have to borrow or sell something to do so. And so sudden job loss would be very problematic for these households.

And that could be problematic for the entire economy: Recall that consumption remains a critical driver of US gross domestic product (GDP) growth, accounting for almost 70% of total output in the US.[2] While Europe has also seen lower-income workers disproportionately hurt in this crisis, it – unlike the US – has a robust social safety net that can blunt the pandemic-related damage. All this means that it's critically important to focus on negotiations in Congress about another stimulus package – in particular, what Congress is doing to help American households remain solvent.

I believe this needs to happen sooner rather than later. Unfortunately, it seems that the White House wants to take a more cautious approach to additional fiscal stimulus. White House economic advisor Kevin Hassett said on Sunday that the Trump administration does not believe a fourth stimulus package is currently needed, and that time should be taken to assess how the current stimulus is working. I believe that is a mistake, and that it is clear certain entities need funding – including ongoing support for households as well as stimulus for state and local governments to help prevent massive layoffs that would only compound already sky-high levels of unemployment.

Ending lockdowns prematurely could lead to a slower recovery

Some believe the answer to current economic woes is to open up the US economy. And yet I worry about reopening those parts of the US where infection rates have not fallen enough, which could result in a significant spike in infections and set back the US health and economic recovery. I believe we can learn lessons from the Spanish flu of 1918, in which cities that were too quick to roll back lockdowns and reopen experienced a resurgence in infections which forced them to shut down again. Ultimately those cities were locked down for longer and had a slower economic recovery than cities that maintained longer lockdown periods during the initial wave of infection.[3]

Of course, I believe the key to maintaining an adequate lockdown period is adequate fiscal stimulus. As I have said many times before, the shape of the recovery will largely be dependent on policy. Public health policy needs to be stringent enough, and fiscal policy needs to be supportive enough to compensate for the stringent health policy. The decisions that policymakers take in the coming days will be very important in dictating the shape of the recovery in the third quarter and beyond.

It's important to recognize that a lack of adequate fiscal stimulus would likely be a far bigger problem for the economy than the stock market. Given the massive monetary stimulus the Federal Reserve has provided, risk assets are likely to be relatively well-supported and to remain decoupled from the US economy (although there are certainly risks to that scenario, including a possible reignition of the tariff war between the US and China). This could mean a repeat of the post-Global Financial Crisis recovery, where the stock market recovery dramatically outpaced an anemic economic recovery. Hopefully the US won't repeat the same historical mistakes.

Source

[1]Source: US Bureau of Labor Statistics, as of May 8, 2020

[2]Source: US Bureau of Economic Analysis

[3]Source: "Nonpharmaceutical Interventions Implemented by US Cities During the 1918-1919 Influenza Pandemic" by Howard Markel, Harvey Lipman, Alexander Navarro, Journal of the American Medical Association, 2007

Important information

The US Employment Situation Report is a monthly report from the US Bureau of Labor Statistics that tracks nonfarm payrolls, the unemployment rate, and other employment-related statistics.

The Federal Reserve Board's Survey of Household Economics and Decisionmaking (SHED) began in 2013. The goal of the survey is to share the wide range of financial challenges and opportunities facing individuals and households in the United States.

Gross domestic product is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period of time.

The opinions referenced above are those of the author as of **May 11, 2020.** These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.