

US jobless numbers head toward Depression levels

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US job-loss figures for March, which show employers cut the workforce by 710,000, are only the start of what is shaping up to be the deepest collapse of the labour market since the Great Depression—one, moreover, that is occurring at a much faster rate.

The official March data are a significant underestimation because they are based on surveys conducted in the first two weeks of the month, before widespread lockdowns were in place. Since then, some 6.6 million people filed for unemployment benefits this week on top of the 3.3 million who submitted claims two weeks ago.

The Bureau of Labor Statistics (BLS) said the report reflected “some of the early effects” of the pandemic and it was not possible to “precisely quantify” its full effects over the month.

But even though the latest data are an underestimation, they nevertheless express the speed of the crisis. More jobs were lost than in any month since the worst days of the 2007-2009 recession. The unemployment rate for March rose to 4.4 percent from 3.5 percent in February, the largest one-month increase since January 1975.

More than half the job losses, 417,000, were at restaurants and bars, among the first areas affected by shutdowns. The job losses exceed all the gains over the past two years.

Hotels and other hospitality areas recorded 42,000 job losses. Retailers cut 46,000 jobs, health care employment went down 43,000. Manufacturing lost 18,000 jobs and construction 29,000.

A report in the *Wall Street Journal* said the real situation was much worse than the headline figures indicated. It was likely that 3 million had lost their jobs, with the bad news only just beginning.

Even though understated, the article described the

employment report as “stunningly grim.” It noted that economists, on average, had expected only a “modest loss of 10,000 jobs.”

The BLS report showed that the number of unemployed people increased by 1.35 million from February to March. But this may also be an underestimate, as those who have given up looking for work, because there are no jobs available, are not included in the unemployment rate. The number of people who consider themselves to be employed fell by 3 million.

Forecasts by Oxford Economics are that the US will have lost 27.9 million jobs by May and the unemployment rate will have shot up to 16 percent. This means that in the space of just a few weeks, all expansion of employment since 2010 will have been wiped out.

The Congressional Budget Office has said that the unemployment rate will go over 10 percent in the second quarter.

The rapidly rising US jobless numbers are only one expression of the plunge of the world economy into deep recession, if not depression. All talk of a V-shaped recovery and a sharp rebound, common just a month ago has gone.

Today, the *Financial Times* reported: “The coronavirus pandemic and lockdown imposed on both sides of the Atlantic has pushed the global economy into the sharpest downturn since the Great Depression.”

It drew this conclusion on the back of the jobs data in the US and the latest purchasing managers’ index (PMI) for the services sector of the UK economy. With a level of 50 indicating neither expansion nor contraction, it fell from 53.2 in February to 34.5 in March.

IHS Market, which conducts the surveys, said it was

the fastest fall in the services sector since it began taking the survey in 1996.

PMI data across Europe have all fallen by about 20 points, indicating that levels of business activity are going below those reached at the worst stage of the 2008-09 global financial crisis. One set of PMI data in Italy hit the lowest level on record at 17.4.

Speaking on a joint television presentation with the World Health Organisation, the managing director of the International Monetary Fund (IMF), Kristalina Georgieva, said: “This is a crisis like no other. Never in the history of the IMF have we witnessed the world economy coming to a standstill. It’s way worse than the global financial crisis.”

She warned that just as COVID-19 hit hardest at individuals with pre-existing conditions, so the economic impact would take its worst toll on weaker economies.

The demand for IMF financing has skyrocketed. “In, fact, never in the 75 year history of our institution have so many countries found themselves in need of emergency financing—85 countries have approached us so far, all at one time,” she said.

The assets of so-called emerging market economies are being dumped on a scale never seen before. According to the Institute for International Finance, foreign investors have withdrawn \$95 billion from stocks and bonds in the period since January 21. This is a rate of withdrawal four times faster than took place in the global financial crisis.

The fall in oil and commodity prices is a major factor in the crisis, as producers in Latin America and Africa have seen the price drop from near \$70 a barrel to somewhere between \$20 and \$30.

And the job cuts in restaurants, bars, hotels and the hospitality industry in the major economies are sending out shock waves around the world. A large portion of the workforce in these areas are foreign-born workers who send remittances to their families in their countries of origin in Africa, Asia and the Middle East. These remittances are now drying up, putting a further strain on foreign currency reserves.

Much worse is to come, as major rating agencies move to downgrade emerging market corporate bonds and other financial assets. Yesterday, Fitch cut its rating on the debt of Mexico’s state oil company, Pemex, to junk status and forecast that the company

would have a cash outflow of between \$15 and \$20 billion for the year.

If other rating agencies follow Fitch, then investors who are required to hold only investment grade debt will be forced to sell. This could trigger turbulence in the unstable junk bond market that goes beyond Pemex and oil.



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