



## ECONOMICS

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# Suffering From a Bad Claims History? Forecasting US Payrolls From Jobless Claims

by Andrew Grantham

The relationship between jobless claims and payrolls has changed dramatically in recent months, and those forecasting another decent regain in employment during July based on the decline in continuing jobless claims since mid-June could be disappointed.

According to the DoL, about 32 million people are claiming some sort of unemployment benefit. In contrast, the BLS's last count in mid-June put the number of unemployed persons at just under 18 million. That's quite a difference, and extremely atypical of normal economic downturns when the "insured" unemployment rate peaks well below the BLS's measure, thanks to people either running out of benefits or not qualifying in the first instance (Chart 1).

Moreover, the recent trends have been very different. While the BLS data show that a rebound in the labour market started in May and picked up pace in June, continuing

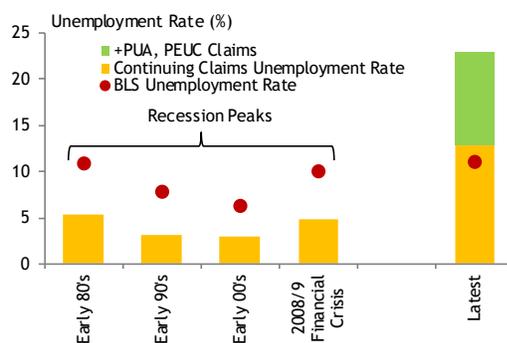
jobless claims (both state and claimants of the new Pandemic Unemployment Assistance benefit) were still rising (Chart 2). The question is; will this bad claims history continue?

### Reconciliation

Expanded eligibility of benefits to self-employed or contract workers, through Pandemic Unemployment Assistance (PUA), and the lengthening of the benefit period through Pandemic Emergency Unemployment Compensation (PEUC) explains why the insured unemployment rate is no longer below the BLS's jobless rate.

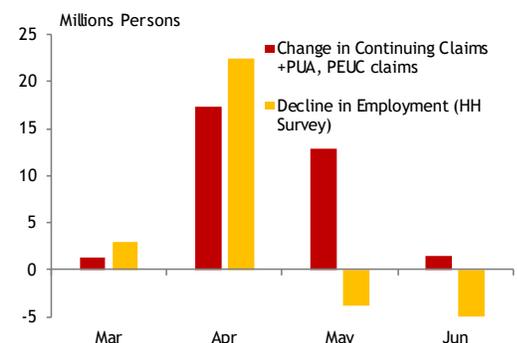
However, how do we bridge the gap between 18 million persons unemployed but 32 million claiming unemployment benefits? Firstly, as has been widely discussed in recent months, the BLS themselves admit that some people who should be counted

Chart 1  
**Claimant Rate Now Above Unemployment Rate**



Source: DoL, BLS, CIBC

Chart 2  
**Continuing Claims Have Continued to Rise Even as Employment Recovered**

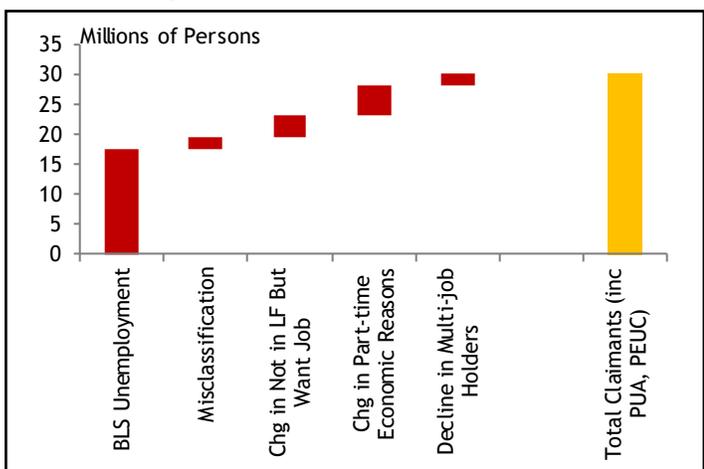


Source: DoL, BLS, CIBC

<http://economics.cibccm.com>

Chart 3

**Trying to Fill The Gap Between Unemployed and Benefit Recipients**



Source: BLS, DoL, CIBC

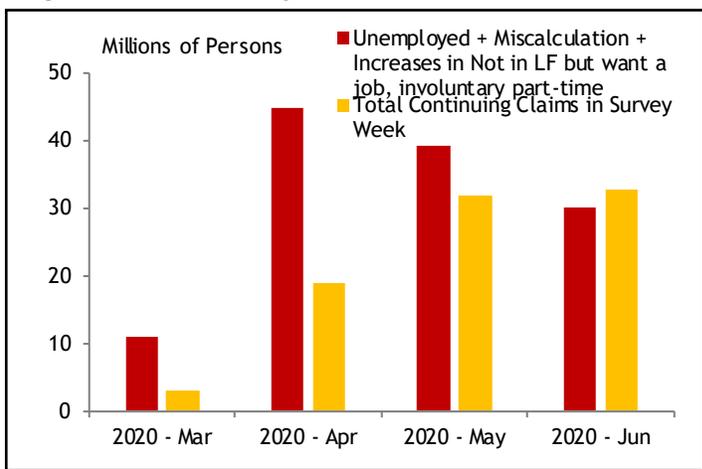
as unemployed are misclassified as out of the labour force on temporary leave. However, as of June that misclassification was much smaller than it had been a couple of months prior, accounting for only two million of the 14 million divergence.

Secondly, and more importantly, is the job seeking qualification for being classed as unemployed versus simply out of the workforce. The BLS asks people if they have looked for work since losing their prior job. If they have, they are classed as unemployed. If not, they are classed as out of the labour force. The same job seeking qualification is normally required to receive unemployment benefits. However, due to the overwhelming number of claimants that states are having to deal with, that requirement has been relaxed. As such, the increase versus February in persons classed by the BLS as out of the labour force but wanting a job are also likely receiving benefits. That's slightly more than 3½ million persons.

Finally, even though the word "unemployment" is in the name of the new benefits, expanded eligibility means that you don't necessarily have to be unemployed to receive money. People who have suffered a big enough decline in their income due to reduced hours etc. could also be eligible, or those needing to self-isolate or provide childcare. That would bring in at least a proportion of the nearly 7 million increase in persons who have either lost a second job or who are now classed as involuntarily part-time. Adding all of this up, and we can account for almost all of the difference between the BLS's unemployment count and those collecting benefits (Chart 3).

Chart 4

**Number of Benefit Recipients Lagged Potentially Eligible Persons Early on**



Source: DoL, BLS, CIBC

**Timing**

The timing of when people started receiving benefits and subsequently ceased getting those payments when they returned to work could also be an issue. Due to the sudden nature of the downturn in late March/April, state departments were overwhelmed by claimants which led to delays in people receiving benefits in the first instance. Even by mid-May the claimant count was still below the potential number of eligible beneficiaries based on the expanded criteria described above (Chart 4).

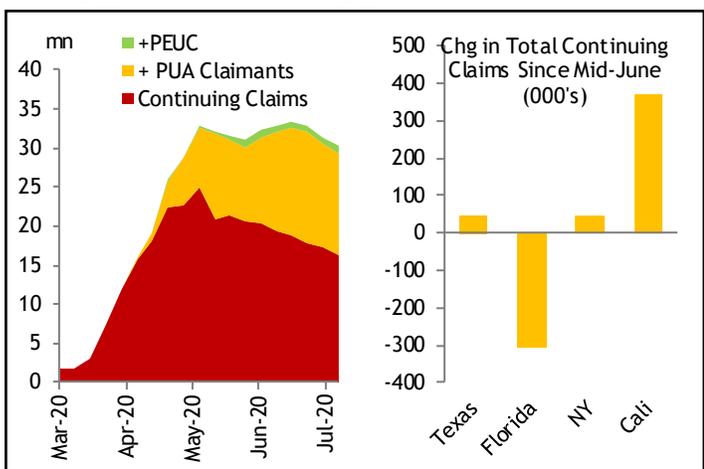
There could also be delays between people returning to work and their benefits ceasing. Due to the large workload having to be undertaken at state benefit offices, it has been impossible for them to retest eligibility for each claimant each week, instead only taking a sample. This could explain why continuing jobless claims have fallen since the last payroll survey period (typically implying a healthy gain in July payrolls) while other measures of the labour market recovery have stalled.

**Still a Useful Forecasting Tool?**

While the rise in Covid-19 case counts since mid-June has resulted in the tighter physical distancing restrictions in some areas of the country, continuing claims appear to be on course for a 2½ to 3 million drop since the last payrolls survey period unless there's a big increase again on Thursday (Chart 5, left). That implies another sizeable payroll gain, despite the more challenging backdrop. That seems a little off, as does some of the detail, with Florida for example seeing a fairly sizeable decline in claimants

Chart 5

**Total Continuing Claims Have Fallen Since Mid-June (L), Even in Florida (R)**



Source: DoL, CIBC

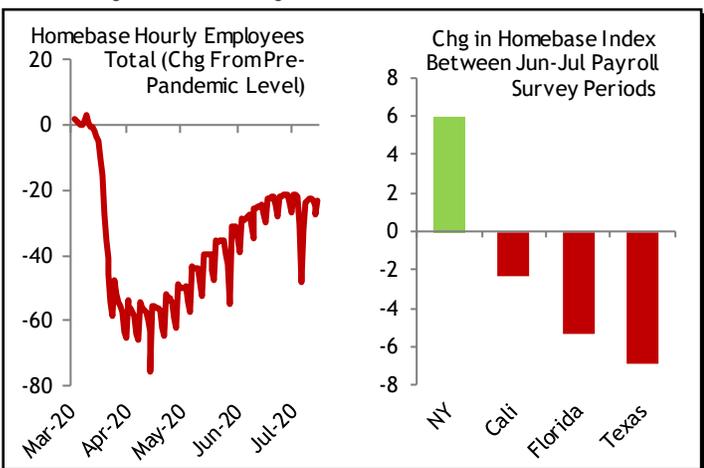
despite being one of the states hardest hit by rising case numbers (Chart 5, right).

Admittedly continuing claims are a week (or two for PUA claims) delayed relative to initial claims, and those first time claims figures did rise in the latest week. However, it could be that once again some of the newer, higher frequency, data on the US labour market are providing a clearer picture of what is actually happening on the ground.

Data on the national number of shifts worked from Kronos suggests a modest 0.7% gain in July, which would represent a notable slowdown from a 1.9% improvement

Chart 6

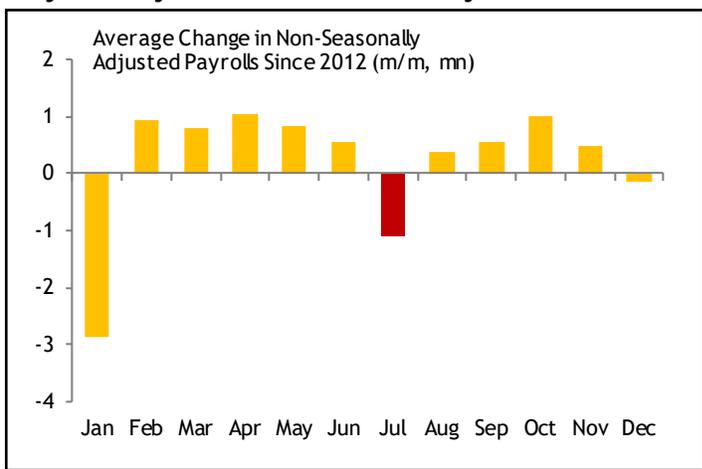
**Other Measures Signal a Stall in Labour Market Recovery Particularly Where Cases Have Risen**



Source: Homebase, Bloomberg, CIBC

Chart 7

**July Usually a Slow Month For Payrolls**



Source: BLS, CIBC

in June. The Homebase survey of hourly employees was actually slightly lower in mid-July than it was during the time of the payrolls survey in mid-June, with declines in areas hardest hit by rising case counts offsetting gains elsewhere (Chart 6). Latest figures from the Census Bureau’s Household Pulse Survey appeared to show a big decline in employment, however that appears a little suspect and could be influenced more than other data by seasonal factors.

Those seasonal factors are a complicating matter for all of the new measures of labour market activity, which cannot be adjusted for normal seasonality due to their short history. July is typically a “down” month for non-farm payrolls, thanks largely to government workers (Chart 7). As such, while the apparent stall in the labour market recovery is concerning, it may not have gone any further than the normal seasonal pattern...yet.

**A Bad Claims History?**

The relationship between continuing jobless claims and the BLS’s measure of employment/unemployment has changed dramatically since the pandemic started, due to expanded eligibility for benefits. It will change dramatically again before the end of the year as well, but when and how depends on the decisions of Congress as it hammers out details of a new stimulus plan.

So don’t get stuck with a bad claims history. Based on other high frequency data it appears likely that July’s payrolls figure will disappoint any forecasts that are made based off of the 2½-3 million reduction in continuing

claims since the last payrolls survey. There's even the possibility of a temporary reversal in the labour market recovery, although that would seem more likely to show up in the August payrolls report due to normal seasonal adjustments.

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