Economic data to get worse (before it gets better)

The rapid ramp-up of containment efforts to combat the spread of COVID-19 in North America has accelerated sharply over the past two weeks. Similar measures in other countries, South Korea and China, for example, appear to be successful at slowing the spread of the virus. The measures undertaken to-date in North America (widespread closures of schools and offices, retailers either shuttered temporarily or working under reduced hours, large gatherings effectively all cancelled) will probably work in Canada and the United States too. But in the mean-time we are likely to see some shockingly weak economic data reports.

Case in point should be next week’s US initial claims numbers. RBC’s call is that 1 million(!) jobless claims were filed in the latest week. By comparison, the highest weekly layoffs reading in the global financial crisis of 2008/09 was 665 thousand, and it took more than a year to ramp up to that level. And the reality is that 1 million might be a low estimate. Effectively, it looks like the US unemployment rate may have increased by more than a percentage point in just one week, and aggressive coronavirus containment measures have only continued to escalate. A lot of these layoffs are occurring too late in the month to have a dramatic impact on the March payroll employment numbers that will be released in a couple of weeks. And we still think a lot of these layoffs will ultimately prove temporary. But the current trajectory means April labour market data will likely look bad on an unprecedented scale.

Canada does not publish as timely layoff data as in the US, but we are, if anything, probably ahead of that country in terms of imposing containment measures and layoff announcements are increasingly widespread here as well. Labour market numbers will likely look as ugly in Canada in the near-term as in the US. The question will be how many of those job losses will ultimately prove temporary. As long as businesses can weather the coming disruptions, workers will eventually be hired back even if not likely all at once. There is still light at the end of the tunnel for labour markets, but the data is going to look exceptionally bad in the near-term.