

# Decoding the Worst Quarter in Economic History

MAY 2020

This month the full scale of the economic devastation from COVID-19 will become apparent as we start seeing more data from the second quarter of 2020. However, it is going to be harder than usual to understand the specifics of how households and businesses are, and will continue to be, affected because unique aspects of the pandemic will distort important parts of the data.

This briefing examines three specific pieces of data that have historically provided a broad view of current economic activity, then incorporates current employment data to formulate projections for Q2 U.S. GDP growth.

## I. Institute for Supply Management Surveys

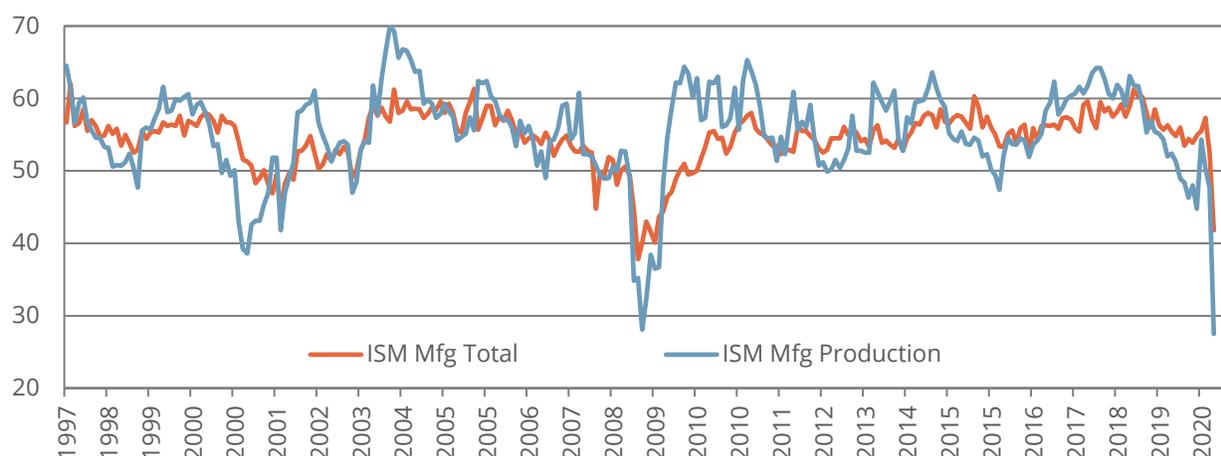
- The only industry sectors showing any strength are healthcare supplies, food and beverage manufacturing, public administration, finance and insurance.

**Table 1: Business Survey Data from the Institute for Supply Management**

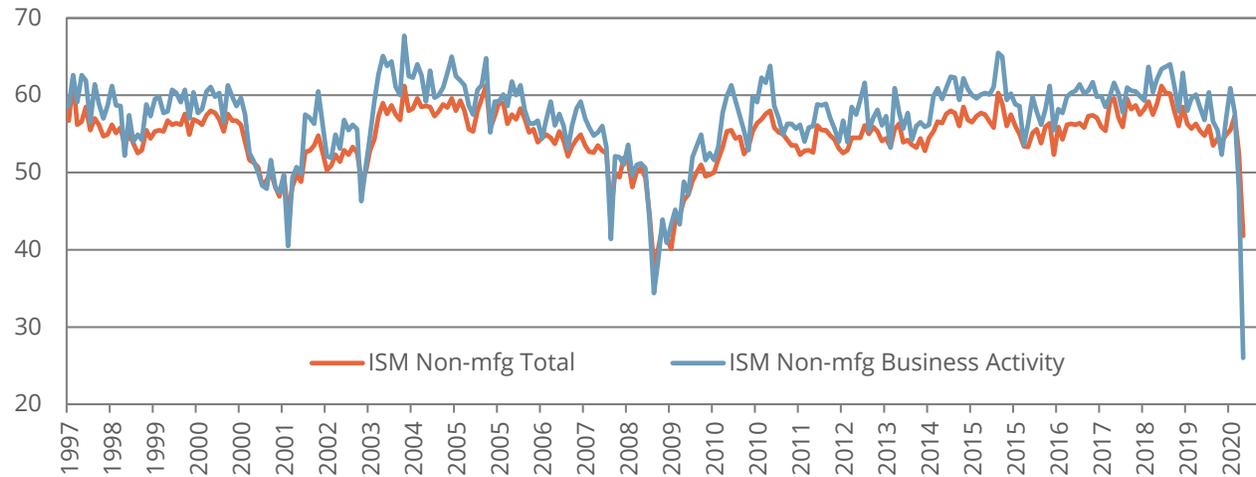
Indicator	Feb.	Apr.	Change
<b>ISM Manufacturing</b>	<b>50.1</b>	<b>41.5</b>	<b>-8.6</b>
Production	50.3	27.5	-22.8
Employment	46.9	27.8	-19.1
New Orders	49.8	27.1	-22.7
<b>ISM Non-Manufacturing</b>	<b>57.3</b>	<b>41.8</b>	<b>-15.5</b>
Business Activity	57.8	26.0	-31.8
Employment	63.1	30.0	-33.1
New Orders	55.6	32.9	-22.7

Source: Institute for Supply Management, April Reports on Business

### ISM Manufacturing



## ISM Non-Manufacturing (Services)



## II. Initial Claims Data

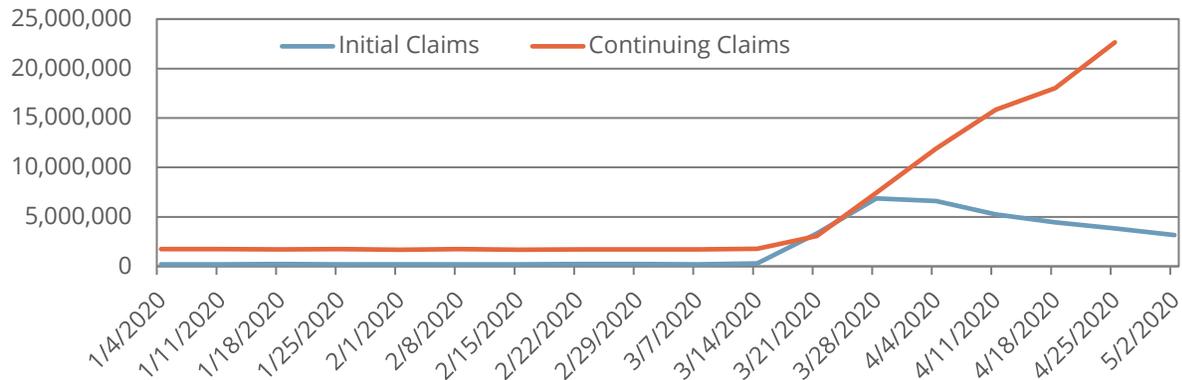
- Important caveats
  - Some people are still being paid by their employers but are not working
  - Some people may have re-entered paid work already or will soon
- Bottom line: 15.5% of people in the U.S. covered by unemployment insurance are now claiming it, by far the most ever. This suggests massive contraction in economic output across all geographies.

**Table 2: U.S. Unemployment Insurance Claims**

	Initial Claims		Continued Claims		Covered employment
	Seasonally adjusted	4-week moving average	Seasonally adjusted	4-week moving average	
3/7/2020	211,000	215,750	1,702,000	1,703,500	145,230,691
3/14/2020	282,000	232,500	1,784,000	1,726,250	145,230,691
3/21/2020	3,307,000	1,004,250	3,059,000	2,061,000	145,230,691
3/28/2020	6,867,000	2,666,750	7,446,000	3,497,750	145,230,691
4/4/2020	6,615,000	4,267,750	11,914,000	6,050,750	145,671,710
4/11/2020	5,237,000	5,506,500	15,819,000	9,559,500	145,671,710
4/18/2020	4,442,000	5,790,250	18,011,000	13,297,500	145,671,710
4/25/2020	3,846,000	5,035,000	22,647,000	17,097,750	145,671,710
5/2/2020	3,169,000	4,173,500			
<b>Continuing as percent of covered employment</b>			<b>15.5%</b>		

Source: U.S. Department of Labor

## U.S. Unemployment Insurance Claims in 2020



## III. Employment Situation

- Household Survey

**Table 3: U.S. Household Survey Data**

Indicator	Feb.	Apr.	Change
Total unemployment rate (U-4)	3.5%	14.7%	11.20%
Broad unemployment rate (U-6)	7.4%	22.8%	15.40%
Labor force participation rate	63.4%	60.2%	-3.20%
Adult men	3.3%	13.0%	9.70%
Adult women	3.1%	15.5%	12.40%
White	3.1%	14.2%	11.10%
Black	5.8%	16.7%	10.90%
Asian	2.5%	14.5%	12.00%
Hispanic/Latino	4.4%	18.9%	14.50%
College or higher	1.9%	8.4%	6.50%
High school, but no college	3.6%	17.3%	13.70%
Less than high school diploma	5.7%	21.2%	15.50%
Part-time for economic reasons (million)	4.3	10.9	6.6

Source: U.S. Department of Labor, Bureau of Labor Statistics

- Establishment Survey
  - Government losses are concentrated at the local level.

**Table 4: U.S. Establishment Survey Data**

Indicator	Feb.	Apr.	Change
Total non-farm payrolls (millions)	129.7	109.3	-20.4
Goods-producing	21.2	18.8	-2.4
Service	108.5	90.6	-17.9
Government	22.7	21.7	-1.0
Average weekly hours	34.4	34.2	-0.2
Average weekly earnings	\$981.09	\$1,026.34	\$45.25
Aggregate weekly payrolls (index)	152.7	134.7	-18.0

Source: U.S. Department of Labor, Bureau of Labor Statistics

**Table 5: U.S. Establishment Survey Data**

Sector	% chg. in employment between Feb. and Apr.
Leisure and hospitality	-48.3%
Other services	-22.0%
Retail trade	-13.7%
Construction	-13.2%
Education and health services	-10.8%
Manufacturing	-10.6%
Transportation and warehousing	-10.4%
Information	-8.9%
Mining and logging	-7.98%
Wholesale trade	-6.16%
Government	-4.4%
Financial activities	-3.0%
Utilities	-0.5%

Source: U.S. Department of Labor, Bureau of Labor Statistics

### What does all of this mean for GDP in Q2?

- Current forecasts are all over the map.
  - Listen closely and you can hear the sounds of standard statistical models breaking.
  - The Blue Chip Economic Indicators' range for averages of top 10 to bottom 10 for Q2 is currently -17 percent to -37 percent
- We use the most recent employment data to get reliable estimates (Seasonally Adjusted Annual Rates).
  - Private Sector GDP Q2 = -39.5 percent
  - Public Sector (Government) GDP Q2 = -16.5 percent
  - **Total GDP Q2 = -35.4%**