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The Great Compression

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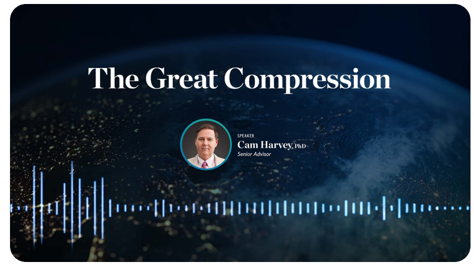

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Transcript

There are two important macroeconomic releases this week. Thursday [April 2] is weekly initial unemployment claims. Last week, claims were 3.28 million, which was obviously a record jump. This week's release will also be very informative. Importantly, the data we receive this week are about last week, so one week stale; nevertheless, the initial claims are very important. On Friday [April 3], we will get the unemployment numbers for nonfarm payrolls.

Let me focus on the unemployment number. It will not look as bad as the initial unemployment claims figure. The reason is that the unemployment number is based on a survey of about 60,000 people, surveyed throughout the month, and is heavily weighted toward the beginning and middle of the month. We know that the employment situation became worse at the end of the month. Irrespective of that, people are talking about the possibility that the unemployment rate is going to look like it did in the Great Recession. At that time, the unemployment rate peaked at 10.6%. Over 16 million Americans were out of work—and that was actually in January 2010 *after* the official end of the Great Recession. So employment is a lagging indicator.

Our current situation is pretty grim. In the industries that are obviously really hard hit, such as restaurants, bars, and retail, there are 30 million people working, and easily half could lose their jobs. On top of that, another 37 million working in industries are severely at risk, think about airline travel. If we put these numbers together, there are 67 million people whose jobs are at risk, and 40 or 50% of that number—you can easily do the math—would be a 25% unemployment rate. That rate is greater than the estimated rate during the Great Depression.

People are asking me if this is another depression. I would not jump to that conclusion for multiple reasons. Number one, the Great Depression went on and on and on. It started in 1929. Four years later we seemed to emerge, but then ran right back into recession. The Great Depression was a prolonged period of economic stagnation and decreased growth. This episode is different in that it hit really hard and fast.

There is also a light at the end of the tunnel in terms of the possibility that everybody can eventually be tested for COVID-19 and those people who are detected as having the virus can be isolated. Then, we can get back to work. Even though I expect there will be record unemployment the like of which we've never seen, I also expect that just as we saw a spike up in unemployment, we will see a spike down in unemployment. So think of this particular episode as a regular recession that's just compressed, say, a Great Compression. We get into it very quickly as the economy suddenly stops. And then once we're beyond the point of risk, I'm hopeful the economy can snap back quickly.

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