THE HILL

Curb your enthusiasm about the new unemployment numbers

June 5, 2020

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While the president is very excited about the new unemployment numbers, it is akin to one of my students displaying irrational exuberance over a grade improvement from an F on a mid-term exam to a C- on the final—it still takes a C to pass the course.

I would say to both (borrowing the title of a popular HBO series): *curb your enthusiasm.*

Recognizably, equities, real estate, and labor markets often mirror Newton's Third Law of Motion—whatever goes down, must go back up. And while we may be bottoming out in terms of unemployment numbers, the climb back up will be long and hard and may very well not level out to where we were before mid-March when COVID-19 dramatically accelerated.

What we know so far. The U.S. jobless rate fell to 13.3% from 14.7% a month earlier, and employers added 2.5 million jobs in May. However, the economy had lost 22.1 million jobs combined in March and April as businesses were directed by governmental authorities to close in an effort to curtail the spread of COVID-19. Presently, payrolls are nearly 20 million below their pre-COVID-19 level.

And despite all the cheering over the latest unemployment number, the rate may be actually higher in the U.S. than any time since the onset of the pandemic. That is because the Labor Department's employment classification scheme allows individuals to categorize themselves as "employed on temporary layoff" instead of "unemployed on temporary layoff." If they are employed, are they getting paid by their employer? Do they know their layoff is really going to be temporary? Without the misclassification, the May unemployment rate would have been about 16%.

Another factor to consider in assessing employment and unemployment numbers is that the typical worker on unemployment is earning more on unemployment than he or she had been at work, due to enhanced benefits and stimulus money provided by Congress. The program pays workers an extra $600 a week and is currently set to expire in July. What happens then?

Be that as it may, the good news in the latest labor statistics is that employment rose sharply across industries, including leisure and hospitality, construction, education and health services, and retail, according to the Labor Department. Many of these jobs are lower-skilled and labor-intensive. This, plus the continuing trend of technology replacing many of these jobs, make for an unstable employment outlook for workers in these sectors. This is especially true for retailing, not only due to consumers shopping online but the bankruptcies (or threat of bankruptcy) by firms such as JC Penney, Nordstrom, Pier 1, Best Buy, Kroger, J.Crew and AMC Theatres.

Another major damper on a rebound in employment (not to mention a rise in unemployment) is that many small businesses will not reopen. Small businesses make up 99.7 percent of U.S. employer firms, 64 percent of net new private-sector jobs, and 49.2 percent of private-sector employment, 42.9 percent of private-sector payroll. It is not unusual for a small business owner to lament: “I was struggling before, with my customers buying online, like Amazon, and was thinking of retiring in two years; but hell, I might as well just close up shop now and move to Florida.”

At present, coronavirus cases are rapidly rising across the globe—over 100,000 per day on a seven-day average.

Given the recent spate of protests worldwide, in the wake of George Floyd’s death at the hands of Minneapolis police, along with the continual reopening of commercial establishments and widespread relaxation of social distancing rules, we may well see a return of lockdowns, resulting in layoffs of workers.

The bottom is we are not out of the woods yet, and one month’s encouraging unemployment numbers does not a trend make. “Hope tempered with realism” should be our mantra.

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