

TRACKING THE COVID-19 ECONOMY ANALYSIS AND COMMENTARY

What Is the Path Ahead for Initial UI Claims?

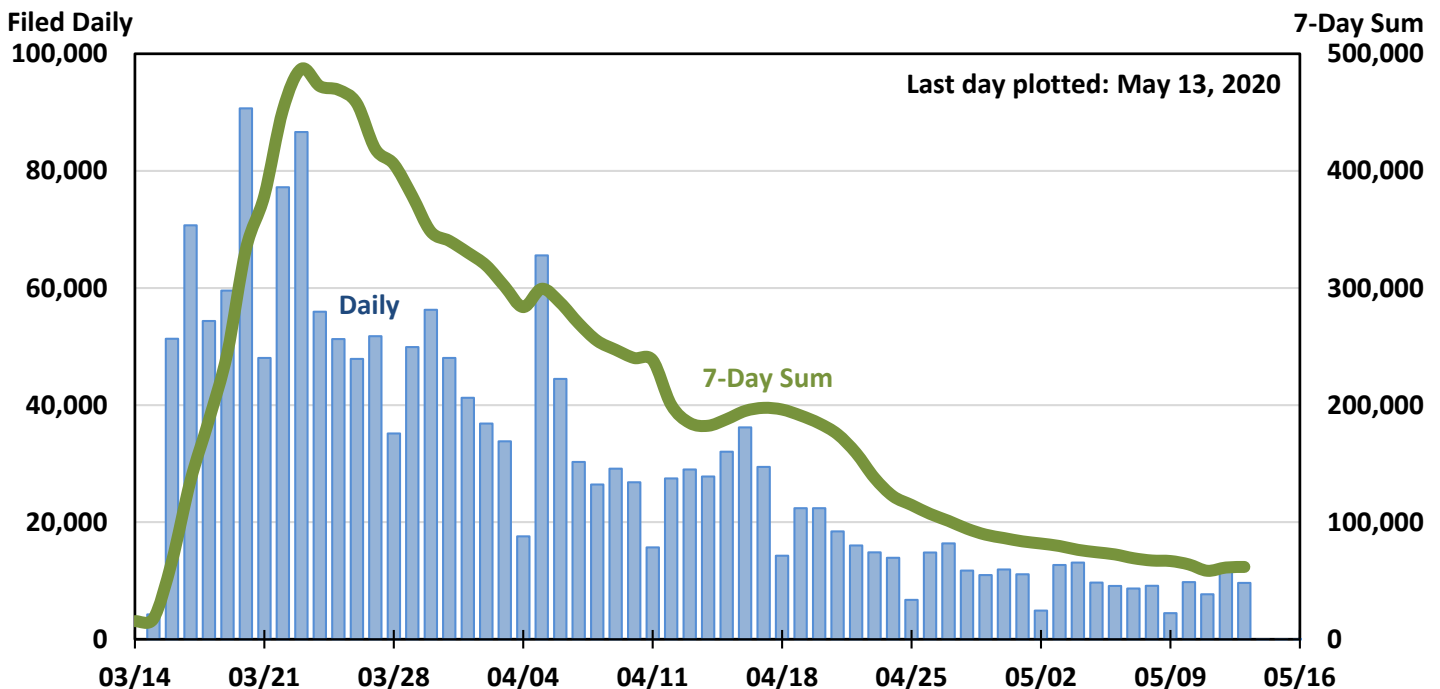
By Paul R. Flora

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Historical Context for Pennsylvania's Initial Unemployment Insurance (UI) Claims

In Pennsylvania, recent initial UI claims have hit record highs. On a daily basis, the record peak was 90,677 initial UI claims filed on Friday, March 20. This peak followed the March 19 statewide order that all nonessential businesses must close. On a weekly basis, the published series peaked at 404,677 (revised) for the week ending March 28, while the seven-day moving sum of the daily data peaked on Monday, March 23, at 487,212 claims. Since then, the seven-day moving sum has fallen steadily — now near 60,000.

Initial UI Claims, not seasonally adjusted



Source: Pennsylvania Office of Unemployment Compensation and U.S. Employment and Training Administration

This sharp and sudden increase in initial UI claims contrasts with previous recessions. Unlike a typical recession, this COVID-19–driven contraction was accompanied by stay-at-home orders and the early passage of expanded unemployment insurance benefits — driving estimates of UI claims (initial and continued) to extremes at the outset. Similarly, differences may affect the path of initial UI claims as the economy nears recovery.

A comparison with the Great Recession is instructive. (Since UI claims are highly seasonal, the following comparisons adhere to comparable weeks of each year.) Pennsylvania's weekly UI claims were 15,439 on March 14, 2020 — in a tight labor market before the COVID-19 impacts were fully felt. In comparable weeks, prior to and near the outset of the Great Recession, Pennsylvania's weekly UI claims were 21,217 for the week ending March 17, 2007, and 22,382 for the week ending March 15, 2008. According to the National Bureau of Economic Research, the United States entered a recession in December 2007; a recovery began in June 2009.

Paul R. Flora is the manager of regional economic analysis in the Research Department of the Federal Reserve Bank of Philadelphia. The views expressed in this article are not necessarily those of the Federal Reserve.



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By April 25, 2009, before the trough of the Great Recession, Pennsylvania's UI claims had risen to 34,332. Initial claims remained relatively high throughout the remainder of 2009 but finally returned to prerecession levels on April 24, 2010, at 22,732. Claims continued to edge down with each passing year.

This comparison suggests that Pennsylvania's initial UI claims have increased suddenly and sharply compared with the Great Recession. In addition, despite the steadily falling numbers of initial UI claims since March 20, now at almost 60,000 a week, they continue to exceed the levels experienced during previous recoveries.

Meanwhile, Uncertainty Clouds the Horizon

The path of COVID-19 health risks and the future policy responses of federal and state officials remain highly uncertain.

In conversations and in surveys, firm contacts have noted several factors that could contribute to intermittent surges, ongoing volatility, and/or elevated levels of initial UI claims.

- Layoffs continue to be announced and more are anticipated, as the economic fallout from COVID-19 outbreaks and extended business closures further stress the financial positions of private-sector firms and public-sector entities.
- The Payroll Protection Program and other government assistance are intended to encourage firms to rehire furloughed employees. However, firms continued to note concerns that when the assistance expires or the firm is unable to attain prior levels of business, they might be forced to furlough again or lay off employees permanently.
- Some firms have reported that they were rotating workers on and off the payroll on a weekly basis to provide their entire staff with some regular income.
- Other firms have reported outbreaks that forced worksites to close. The threat of further COVID-19 outbreaks could lead to future plant closings, ongoing reluctance of employees to report to work, or the resumption of tighter state-mandated business closing rules.
- Congress is debating an extension of the additional \$600 per week for eligible UI claimants — currently set to expire at the end of July. Firms have noted difficulties in recalling and retaining workers whose UI benefits match or exceed their normal wages. Childcare responsibilities have also reduced worker availability.
- Finally, other firms have reported hiring workers for disinfecting worksites, monitoring employee health, and other jobs related to the pandemic, including production of personal protection equipment. These jobs will eventually diminish and could increase future claims.

In addition, the sudden, immense number of claims has swamped the processing capability in some states and appears to have contributed to unusual trends in reported initial and continued claims, and in the expected relationship between the two series. This problem should diminish as states adjust to the added burden and as continued claims stabilize and ebb lower.

So despite the significant drop in initial UI claims over the past seven weeks, a recovery is not likely to take hold until firms have reopened and stabilized their workforce — devoid of risks from new COVID-19 outbreaks and from major public policy shifts.

