Economic Commentary – Expiring pandemic jobless programs will likely push people towards jobs and spur a modest uptick in growth and inflation

October 1, 2021

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What happened

There was a massive 6.5 million decline in workers participating in pandemic-related jobless programs in the most recent week, September 11, 2021. About 2.1 million remain on the two programs, nearly evenly split between the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) (see slide 3).

The PUA program adds up to 57 weeks of benefits for self-employed, contract or gig workers that are normally ineligible for unemployment insurance (UI), which are administered by states. The PEUC program extends benefits for an additional 24 weeks of assistance provided for by the CARES Act after state-level UI benefits expire. Both programs ended September 6, 2021.

This is unrelated to the highly-publicized Pandemic Unemployment Compensation (PUC), which added $600 a week on top of other weekly unemployment insurance (UI) benefits and programs such as PUA and PEUC. Those expired July 31, 2020, then dropped to $300 for several weeks. In December 2020 and March 2021, Congress extended the $300 federal supplement until September 6, 2021.

Traditional state-level jobless programs

Initial claims for state-level unemployment insurance (UI) benefits fell to 298,300 (not seasonally adjusted) in the most recent week. This count is the number of workers asking for UI. The pre-pandemic 3-year average was 227,000. Thus, new state-level UI claims are roughly back to pre-pandemic range (see slide 4).

Continuing claims—the number of workers receiving UI benefits—fell to 2.46 million. The pre-pandemic 3-year average was 1.813 million, though more than one-quarter of the weeks were greater than 2 million and the maximum was 2.52 million. So, continuing claims are down from the lockdown period, but remain somewhat elevated relative to the pre-pandemic range (see slide 3).

Now, as the pandemic-related jobless programs expire, the total participating in all programs is about 4.9 million with nearly 60% on state-level programs.

Our take

The loss of continued support – from the myriad of jobless benefits programs to CARES Act checks – will certainly push more people towards the many open jobs. There were 4.2 million more job openings than hires in July 2021 (the latest figures), which is more than 3.5 times the level in July 2019 (see slide 5).

Yet, there are several factors driving the gap between job openings-hiring, including job-pay differences, COVID-related issues such as child care, fear of infection, and vaccine hesitancy, along with jobless benefit programs. And the loss of support will likely not outweigh the COVID-related issues for all people, particularly those struggling with child care.

(Continued on next page)

Economic Commentary – Industry differences, sticky wages and the bottom line

Job-pay differences are largest driver

Job-pay differences appear to be the biggest driver of the job openings-hiring gap in our view, while we don't view the jobless benefit programs as necessarily being "too generous," especially during 2020. Nonetheless, **all of these factor have contributed to the massive gap between job openings and hiring.**

By job-pay differences, we are referring to workers unwilling to take jobs paying under $12-$15 per hour or quitting other jobs. This is evident in the 2.7% rate of employees voluntarily quitting their jobs, down slightly from 2.8% in the spring (see slide 6).

However, the quit rates for three industries—food service, manufacturing, and retail—are significantly higher than their respective long-term average since 2001 (see slide 6). Not surprising: the average hourly wages in all three are under $9 per hour, with pay within food service averaging as low $6. Accordingly, these three industries will continue to struggle to fill open jobs and should see higher wages. Furthermore, **these higher wages concentrated in such a sizable portion of the labor force offsets the increased supply of workers, which would generally help lower the wages.**

Additionally**, we anticipate that the recent wage gains will likely be sticky.** It is typically very difficult for employers to "take back" wage increases. Furthermore, given that these three industries—food service (7.0%), manufacturing (7.7%), and retail (9.5%)—account for almost a quarter of the total U.S. labor force, these wage gains will spur some overall inflation.

Lost in the shuffle is that higher wages will boost overall U.S. growth. Those higher wages are income for those workers, which will drive additional spending. Moreover, additional workers means expanded capacity and higher sales for their employers, which typically lead to increased future spending.

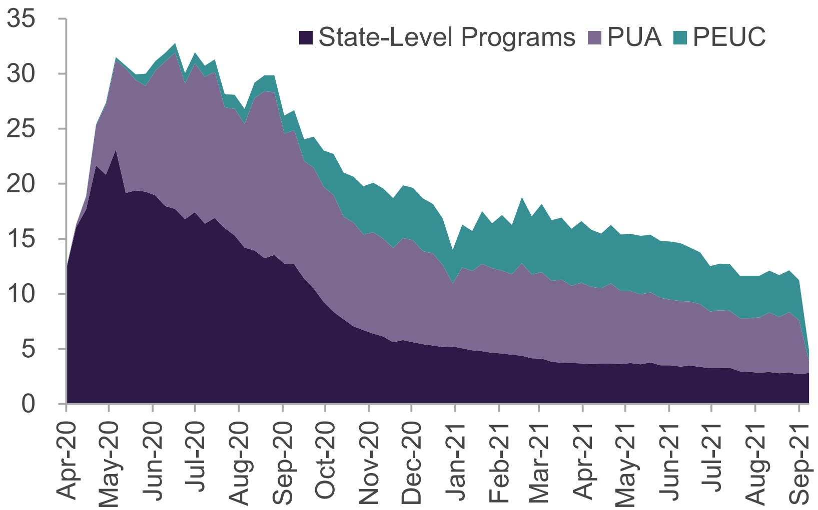
Bottom line

The expiration of pandemic-related jobless programs will likely push more people towards the millions of open jobs. Most will return to higher wages, which will boost overall growth. On the other hand, those wage gains will contribute modestly to inflation, which we believe will come down from current levels, but remain above the pre-pandemic pace.

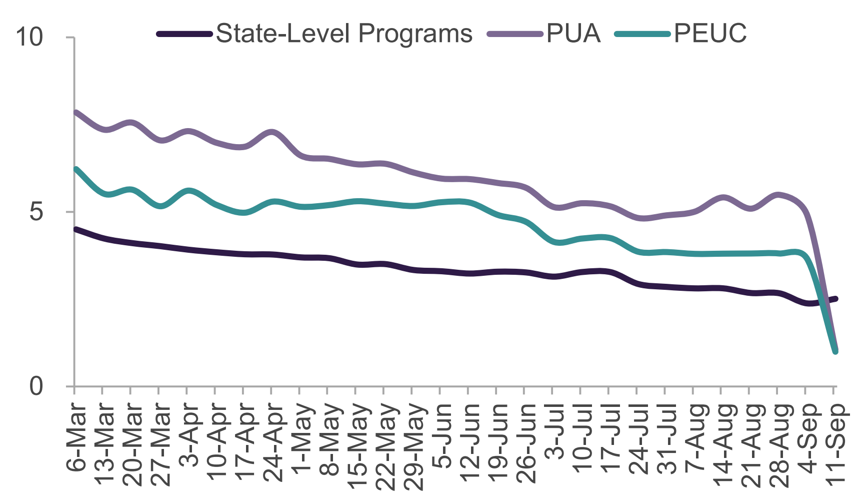
Pandemic-related jobless programs expired in early September

The number of people receiving jobless benefits was cut in half by the start of 2021 from 32.8 million at the peak in June 2020, with roughly half on pandemic-related jobless programs – the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC), and the rest on traditional state-level programs. The total declined another 35% by mid-August 2021. Now, as pandemic-related jobless programs expire, the total is about 4.9 million with nearly 60% on state-level programs.

Continuing jobless claims in all programs (in millions)



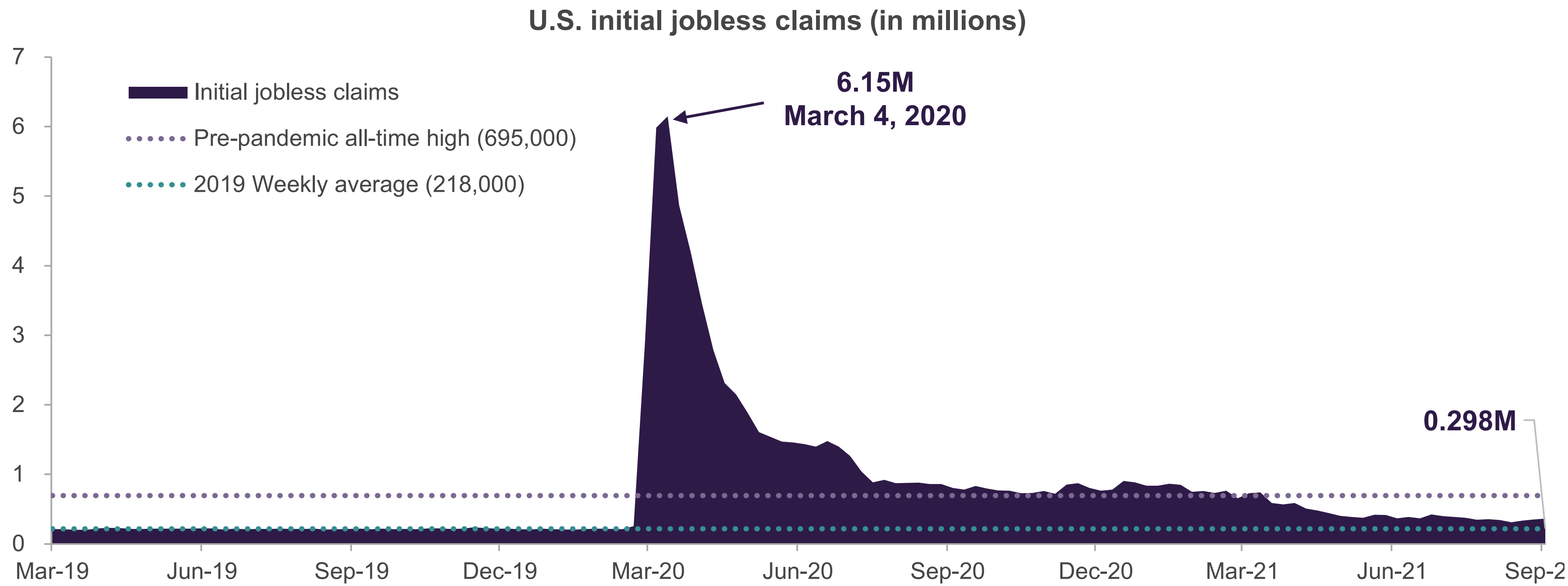
U.S. continuing jobless claims in all programs (in millions)



Data Sources: Truist IAG, Bloomberg, Department of Labor; data through September 25, 2021.

Initial jobless claims grinding lower, nearing pre-pandemic norms

Initial claims for state-level unemployment insurance benefits have fallen dramatically from the pandemic peak of 6.15 million to 298,300 in the most recent week. It is nearing the pre-pandemic average of 218,000 per week in 2019. This is a positive sign for employment.

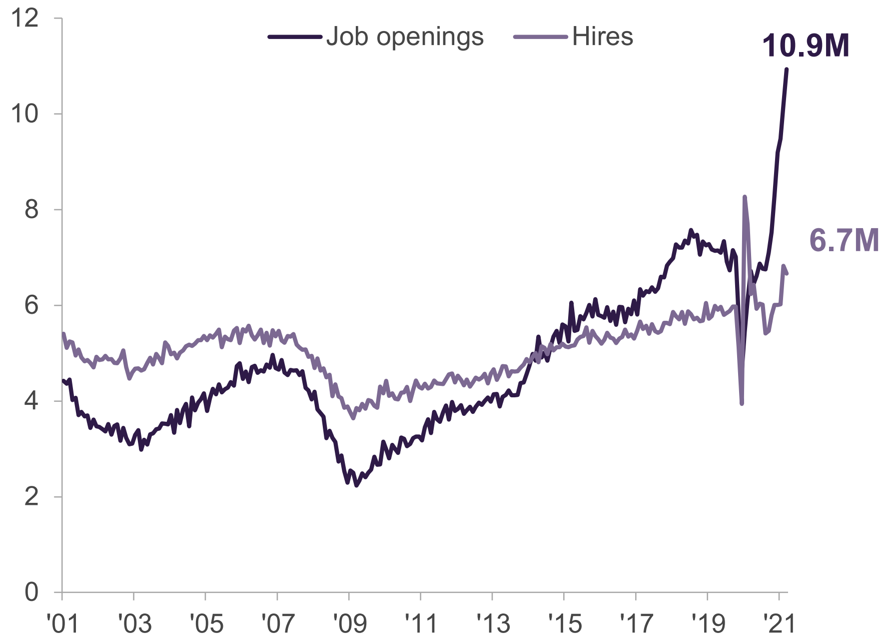


Data Sources: Truist IAG, Bloomberg, Department of Labor; data through September 25, 2021. Figures are not seasonally adjusted.

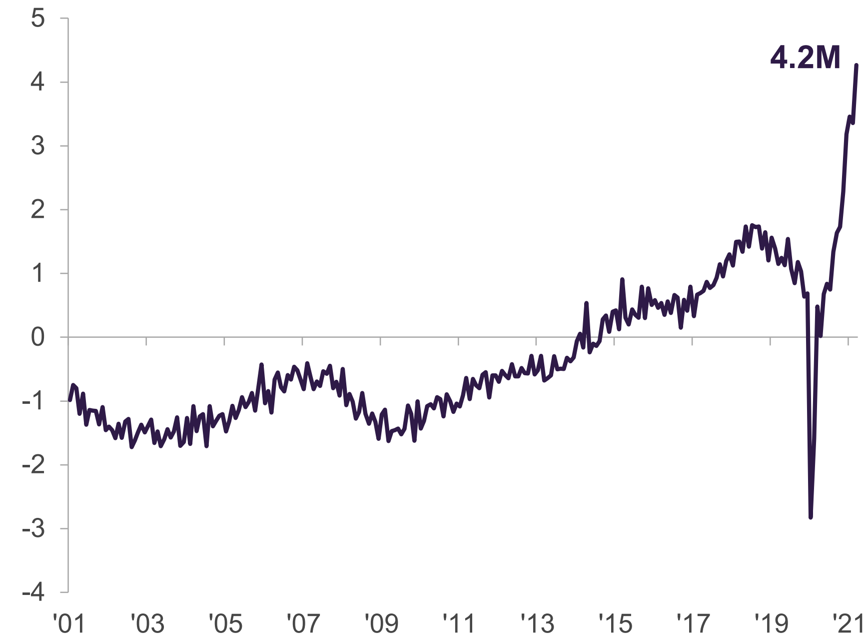
Massive gap between job openings & hiring

There are 4.2 million more job openings than hires in July 2021 (the latest figures), which is more than 3.5 times the level in July 2019. We believe this gap is due to a combination of factors, including job-pay differences, COVID-related issues such as child care, fear of infection, and vaccine hesitancy. By job-pay difference, we're referring to workers unwilling to take jobs paying under $12-$15 per hour or quitting other jobs.

U.S. job openings & hires (in millions)



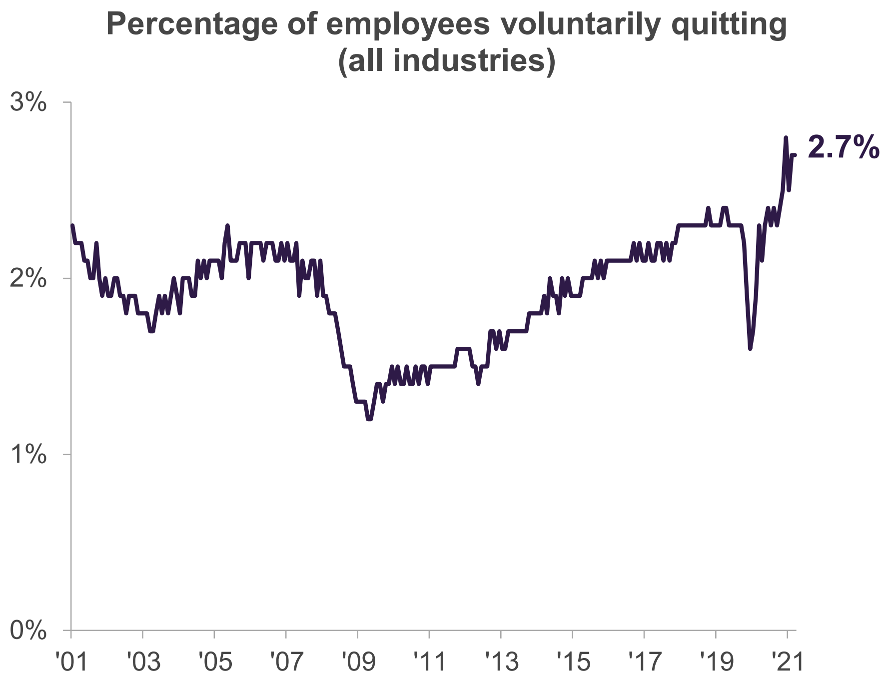
Gap between job openings/hires (in millions)

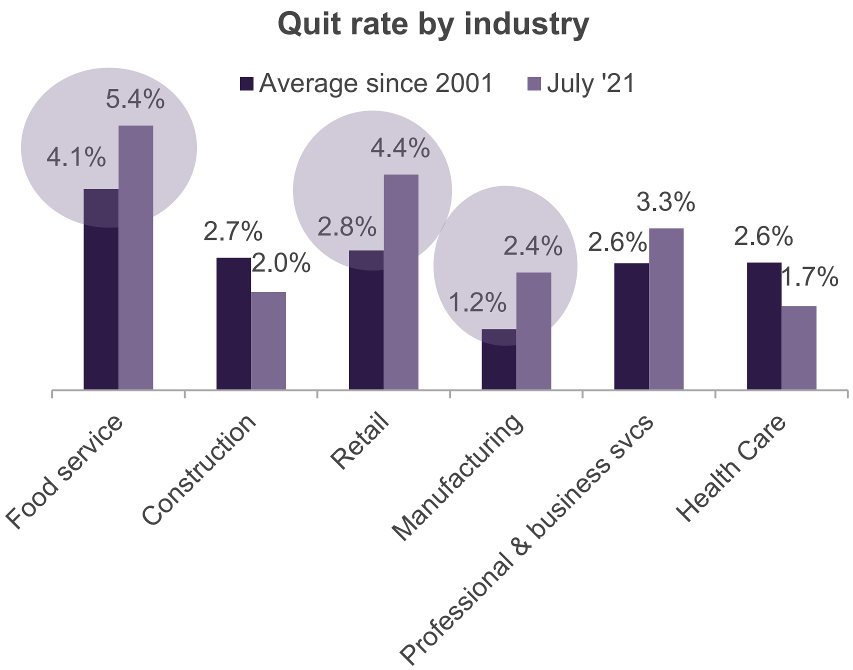


Data Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through July 2021.

Quit rates remain elevated, especially for food, manufacturing and retail

The rate employees are voluntarily quitting their jobs is at 2.7%, down slightly from 2.8% in the spring. However, the quit rate for three industries—food service, manufacturing, and retail—are significantly higher than their respective long-term average since 2001. Not surprising: the average hourly wages in all three are under $9 per hour, with pay within food service averaging as low $6.





Data Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through July 2021.

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CN2021-3501 EXP 12-2021