MACRO STRATEGY

U.S. Economic Outlook

A Jobs Recession

April 2020

Key Takeaways

- The Covid-19 recession is hitting employment harder than GDP: we are losing less output than the job numbers suggest.
- Low income workers will be hardest hit, and the CARES Act will mitigate some, but not all, of the effects.

Significant attention has been focused on the devastating loss of jobs in recent weeks. There are clear losses to restaurants, in-person entertainment, and travel and tourism. But focusing on the employment figures yields a more negative outlook than looking at the overall economic picture.

Sectors Have Differing Responses

The effects of the Covid-19 virus and the subsequent lockdowns are likely to differentiate among sectors. Expected to be the hardest hit will be those sectors that are negatively affected by social distancing: public transportation and air travel; retail services in bricks and mortar stores; and leisure services, including hospitality and entertainment. Other sectors that could be hard hit include construction and mining, including oil and gas.

Other sectors should be far less vulnerable than average. Federal workers and the education and health care sector are unlikely to shed as many workers. Production of food and beverages along the supply chain should also have lower vulnerability to layoffs.

And there are sectors that are likely to be moderately affected, such as financial services. Still other categories are mixed at the available reporting level, such as general merchandise, which includes both department stores (shedding workers) and online retailers (hiring thousands).

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Labor Intensity, Value Added and Wages

The U.S. Bureau of Economic Analysis provides data on the value added by each sector; this is each sector's contribution to economic activity, or GDP. Sectors vary in their value added per worker. For example, financial, oil and gas, and internet companies typically yield high value added per worker, while arts and entertainment and food services yield relatively low value added per worker. Sector value added is generally positively correlated with sector average wages.

The low value-added sectors are also often those that are labor intensive. For example, food services contribute 2.26% of GDP while employing 8.8% of private nonfarm workers.[1]

The Most Vulnerable Sectors are Relatively Small but Labor Intensive

Below, we have combined the impact on sectors — high, low, and mixed levels of vulnerability to the Covid-19 lockdown — and the value-added and payroll share by group.[2] We find that sectors that are highly vulnerable make up a relatively small share (11 percent) of total GDP, but nearly double the share of workers (19 percent).

Sector Vulnerability	Value Added, share	Payrolls, share	VA per person, $000
Low	35	32	153
Mixed	55	49	161
High	11	19	79
Total	**100**	**100**	**143**

Columns may not add to 100 due to rounding.
Source: Bureau of Economic Analysis, Moody's, Oxford Economics and MetLife Investment Management

As a result, employment is likely to be hit harder than economic growth and focusing solely on employment activity may cause observers to overestimate the impact of Covid-19 on the U.S. economy.

One countervailing issue is the disproportionate effect on these low-value-adding workers. They are among the lowest-wage workers. These vulnerable workers are most likely to face severe hardship. Although many will see income support from the CARES Act which provides increased unemployment benefits plus a stimulus check, there could still be some net loss to incomes. There will be several weeks' delay between the lockdown and the stimulus checks' arrival, and not all workers are covered by the CARES Act. Normally, the fact that low wage workers are more inclined to spend all their money (i.e. put their money straight back into the economy), means that they do not vary their consumption much. In the current environment, the income disruption means that they have more power to slow U.S. consumption growth than the average worker.

Endnotes

[1] Department of Commerce/Bureau of Economic Analysis, Department of; annualized Q4 2019 data.

[2] Sector categorization made with input from studies by Moody's and Oxford Economics.

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