

The direction which government policy will take regarding the unemployed is the focus of much attention

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Since May, US economic indicators have been improving as a re-starting of economic activities occurs in stages across all states. This is particularly noticeable when it comes to private consumption; retail sales hit record-high growth of 17.7% month-on-month in May and monthly private consumption (nominal) also rose by a significant amount (8.2% month-on-month). Nevertheless, it is important to keep an eye not just on spending, but also on income, in order to ascertain the trend of private consumption from now. Monthly disposable income statistics published alongside private consumption data reveal consumption rose considerably in April and it appears a large contributing factor to this was the Economic Impact Payments to households¹ resulting from a series of economic policies. Furthermore, the additional Federal Pandemic Unemployment Compensation benefits (an additional USD 600 per week for four months for those already receiving state unemployment benefits) also made a large, positive contribution to incomes (Chart 1).

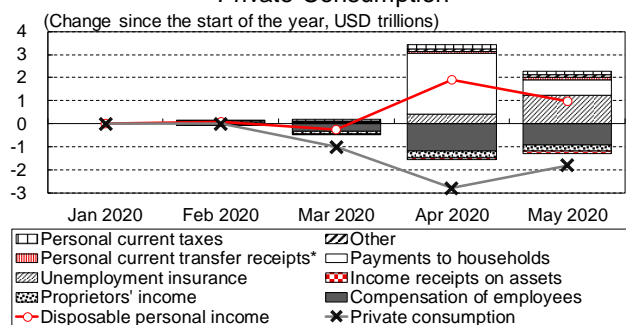
As cash benefits peak, it is important to consider to what extent unemployment insurance benefits will compensate for the loss in income caused by unemployment with regards to income in the near future. The average weekly wage of non-farm employees is just over USD 1,000 at present, and when USD 600 of additional benefits are added to the usual state unemployment insurance (half of income prior to unemployment), it is possible for the average jobless person to maintain their income before unemployment. On a macro basis, unemployment insurance benefits were seen to have covered the loss in employees' incomes in May. Additional benefits are set to expire at the end of July, but it is highly likely they will be extended² in light of the high level of continued jobless claims for unemployment insurance (Chart 2) and the existing uncertainty amongst employees.

That being said, there are those who are strongly opposed to additional unemployment benefits, particularly some Republicans who say it will reduce recipients' will to work. Amid mounting concern about COVID-19, it will become increasingly vital to address the deterioration in the labour market with swift and sound policies, such as benefits. Yet, rather than economic policies, there are hopes for a scheme which will not encourage unemployment.

¹Individuals with an annual salary of USD 75,000 or less receive benefits of USD1,200 per adult and USD 500 per child aged 16 and under. According to the Government Accountability Office, of a total USD 300 billion in benefits, USD 269 billion had already been issued by the end of May.

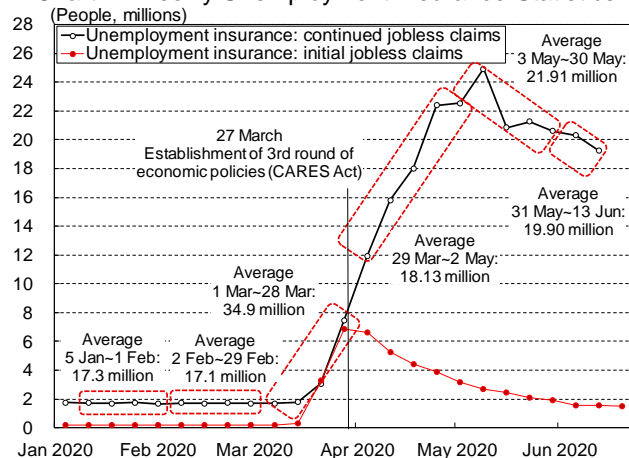
²In the statement he gave before the Financial Services Committee at the House of Representatives on 17th June, Federal Reserve Chairman Jerome Powell said the outlook for the economy is still uncertain and that it was necessary to continue to provide additional unemployment benefits of some kind beyond the end of July.

Chart 1: Disposable Income and Private Consumption



Note: 1. Reported amounts are annualised and seasonally adjusted
 2. "Personal current transfer receipts" is income less unemployment insurance benefits and payments to households. "Proprietors' income" is with inventory valuation and capital consumption adjustments
 Source: US Bureau of Economic Analysis, MUFG Bank Economic Research Office

Chart 2: Weekly Unemployment Insurance Statistics



Source: Bureau of Labor Statistics, MUFG Bank Economic Research Office

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