



Economics Group

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What Happens When 30 Million People Lose the Boost?

In the absence of a new supplemental jobless benefit, the hit to aggregate U.S. household income will be somewhere in the neighborhood of \$72 billion and is likely to weigh meaningfully on consumer spending.

No One CARES Anymore?

Under the CARES Act passed in late March, recipients of unemployment insurance have been receiving an additional payment of \$600 per week. This emergency portion of benefits is slated to expire Saturday, however, leading to a substantial drop in household income if no new program takes its place. Gig workers, the self-employed and independent contractors also became eligible for unemployment insurance under the Pandemic Unemployment Assistance program. Between the wider net of eligible individuals and the abysmal labor market, more than 30 million Americans are currently receiving unemployment insurance.

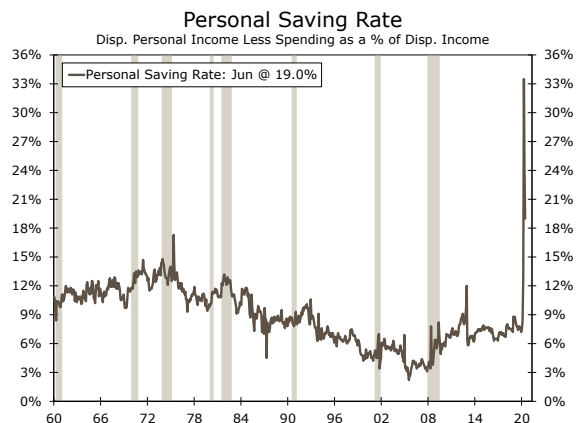
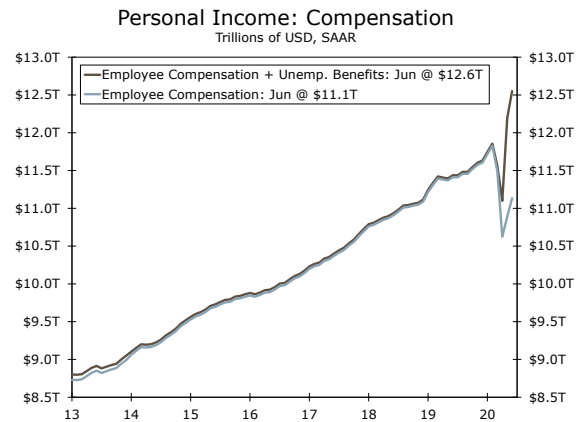
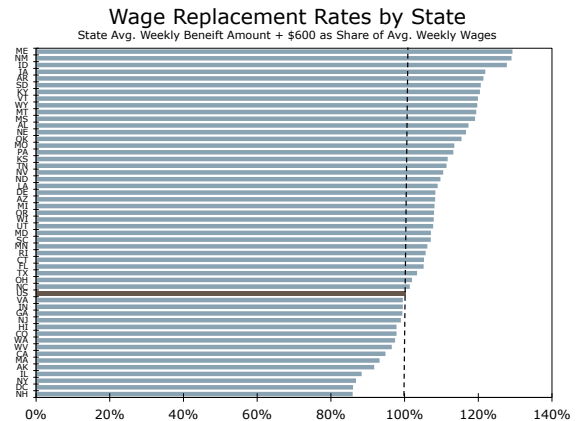
It is hard to overstate the scale of the emergency unemployment benefits. In 36 states, workers on average can earn more than the state's pre-pandemic wages (top chart). On the whole, the Congressional Budget Office (CBO) estimates five out of six laid off workers are earning more under enhanced benefits than when working. While the generosity of the emergency benefits creates a short-term financial disincentive to return to work, millions of workers do not have that option; currently there are only 5.4 million jobs available compared to 17.8 million unemployed workers.

How Bad Could the Hit to Household Spending Be?

Income from unemployment benefits has more than offset the drop in employee compensation in recent months (middle chart). Thus if we account for roughly 30 million unemployed Americans, the rough math works out to about \$72 billion per month of lost income when the additional \$600 weekly benefit expires. The June personal income and spending report showed total Pandemic Unemployment Compensation payments (where the temporary weekly supplemental payment is recorded) of about \$78 billion in June; so the rough estimate fits the reported figures.

If supplemental payments go to zero, we would expect to see a measurable hit to consumer spending. Over the past three months, consumer spending has averaged \$1.1 trillion dollars a month. Assuming all of the lost income were to translate into a commensurate drop in personal consumption, all else equal, spending for August could be about \$78 billion lower, a monthly decline in the neighborhood of 7%. Prior to the current crisis, the largest monthly decline on record was 2.1% in figures that go back to the 1950s.

Admittedly, it is probably unreasonable to presume that the entire amount of lost benefits will result in a cratering in spending of the same amount. A high rate of personal saving should cushion the hit to consumer spending in the event the \$600 weekly supplement is reduced or not renewed all together (bottom chart). More importantly, the CBO report found that the generous supplemental benefit was impeding a more swift labor market recovery. If people find new work, they might be emboldened to spend some of the massive savings households have built in recent months.



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