FEDERAL RESERVE BANK PHILADELPHIA
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The Lingering Economic Effects of COVID-19

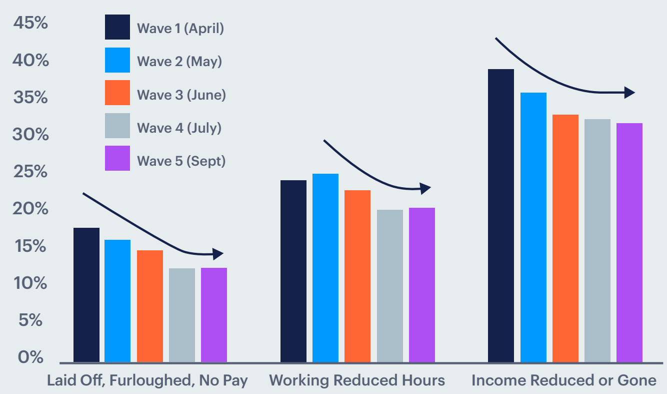
Scientists are discovering that some patients infected with COVID-19 suffer from medical issues well after the virus is gone (Mayo Clinic Staff, 2020). Similarly, economists and sociologists have previously observed that people who suffer temporary disruptions to their employment or income may have to deal with the aftereffects (including lower lifetime earnings, weaker career advancement, and degraded mental health) for some time afterward.[1]

The latest in the Consumer Finance Institute's (CFI) series of *COVID-19 Surveys of Consumers*, conducted in September 2020, examines the proportion of survey respondents who are currently and who have at any time during the pandemic experienced an employment disruption in the form of income loss, job loss, or reduced hours worked (e.g., a measure of cumulative disruptions). This analysis provides a view into the totality of families who, because of the pandemic, may be experiencing immediate and lingering financial stress. The survey results show that cumulative disruptions are greatest for lower-income, younger, and minority workers, and, perhaps unsurprisingly, the data also show that these workers feel less confident and expect to need more assistance in the near future.

The survey data show that the percent of respondents currently experiencing a disruption leveled between the last survey (fielded in July) and the current survey (fielded in September) after having improved steadily since April: 12.6 percent reporting a job loss and 20.6 percent reported reduced working hours (Figure 1). Respondents reporting reduced income show a similar pattern. As sobering as these numbers are, they still do not tell the whole story.

The latest survey asked respondents whether they had experienced any disruption — job loss, income loss, or reduced working hours — since the start of the pandemic (March 1, 2020). The results show that more than half (52.1 percent) of respondents reported experiencing some type of disruption. Specifically, 27.6 percent of currently working respondents reported an interruption in their employment at some point during the pandemic, an increase from 24 percent in the last survey. When asked about income losses, the number of respondents reporting a lower income earlier in the crisis was 35.9 percent, an increase of almost 3 percent from the last survey. These data shed light on the currently increasing portion of the population that may still be dealing with the aftereffects of a temporary disruption even though in real time they appear to have recovered.

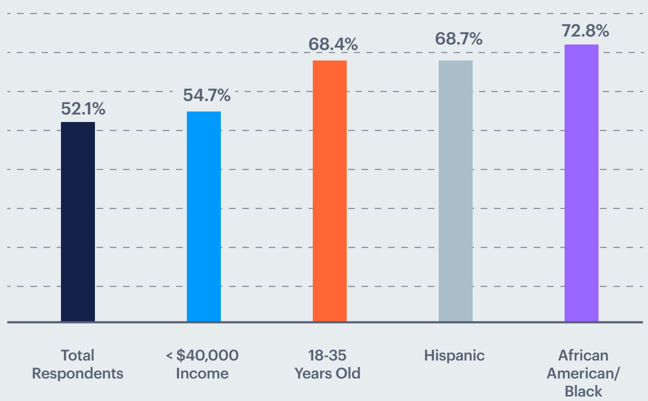
Figure 1 – Job and Income Disruptions Reported in Each Survey Wave



When divided into population segments, cumulative disruptions generally follow patterns that we have seen in previous surveys, with lower-earning, younger, and non-White populations reporting cumulative disruptions at higher rates (Figure 2). Lower-income earners reported a disruption 3 percent to 5 percent more frequently than higher-income earners; 68.4 percent of younger respondents (between 18 and 35 years old) reported a disruption during the pandemic — 11 percent to 31 percent higher than older respondents; and non-White respondents reported the highest rates of disruption — 72.8 percent of Black respondents and 68.7 percent of Hispanic respondents reported having had a disruption during the pandemic, while less than 50 percent of White respondents reported one.

[1] Extensive literature exists that analyze the effect of job loss and unemployment on future outcomes for economic, social, and health categories. In general, the literature supports that interruptions in employment and income result in measurable effects even as much as 10 years in the future (Stevens, 1995; Eliason and Storrie, 2006; Lepage-Saucier, 2016). Brand (2015) provides a detailed overview of the economic and sociological work in the field; while some researchers note that unemployment events coinciding with widespread economic issues (e.g., a pandemic) may result in lower social-psychological effects for the individual, there remains general agreement that medium- and long-term effects are common.

Figure 2 – Percentage of Respondents Experiencing Disruptions Since March 1



The lasting impact of a job or income loss depends on many factors, including the length of the disruption, the amount of income lost, prior savings, and the presence of other household income. In addition, through late August, the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided an unusual degree of support, particularly the Economic Impact Payments and supplemental Unemployment Insurance funds, which replaced lost income for many households.

The expiration of those benefits in late summer, however, and the lack of any immediate replacements appears to have led to an increase in financial insecurity among respondents. The recent data show that by September, uneasiness was increasing with more respondents expressing concern about making ends meet and an increasing share of respondents saying that they had sought to bridge their budget gaps by seeking new loans, government assistance, or deferrals. Moreover, lower-income, younger, and non-White respondents are reporting greater concerns about making ends meet over the next three-, six-, nine-, and 12-month horizons, and most are feeling less secure. Additionally, younger and non-White respondents are far more likely to say they'll need help soon.

The lingering financial setback of a layoff or reduced hours suggests that job growth captured in the headline-grabbing monthly employment report may mask the hardships many families are still facing. While job and income recovery may continue slowly, it will be important for policymakers to be aware that the effects of earlier losses may persist into the future.

References

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