

Research Briefing | US

Pandemic unemployment benefits ending for millions

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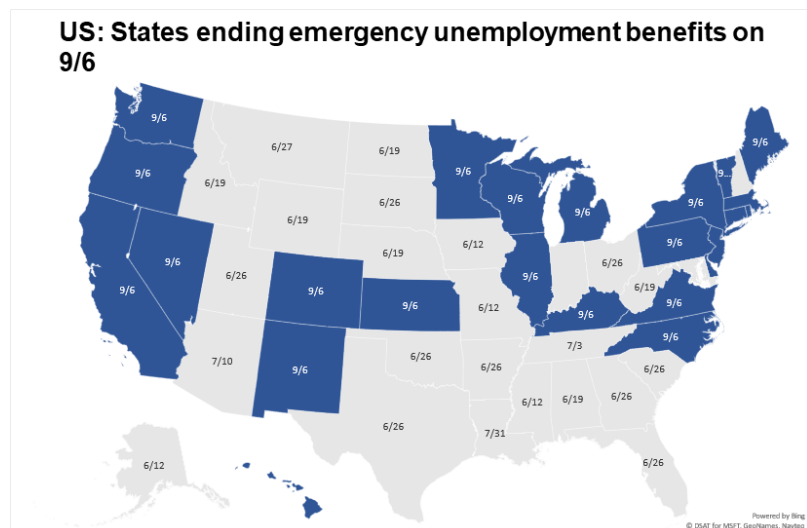
- More than 11 million individuals across 35 states, Washington D.C. and Puerto Rico will lose access to emergency unemployment benefits at the end of next week creating a headwind for personal income and consumer spending.
- This comes as 25 states had already terminated benefits for roughly 3.5 million individuals ahead of the original American Rescue Plan deadline of Sep 6.
- While states implementing an early termination argued that benefits were impeding labor supply, we only find a marginal effect. Other research confirms the limited impact of benefits on employment, but with wide uncertainty bands.
- As such, it appears the expiry of benefits will weigh more on the personal income ledger of the economy than it does to support employment growth.

The American Rescue Plan extended emergency unemployment benefits through Sep 6. The extension applied to the \$300 weekly federal top-off to regular benefits, the Pandemic Unemployment Assistance (PUA) program, and the Pandemic Emergency Unemployment Compensation (PEUC) program providing long-term benefits.

At the end of next week, we anticipate roughly 11.2mn individuals will lose benefit access:

- 2.1mn individuals collecting regular benefits losing the \$300 top-off only
- 5.0mn individuals losing PUA benefits & the weekly top-off (of which 440k had already lost the top-off)
- 3.9mn individuals losing PEUC benefits & the weekly top-off (of which 254k had already lost the top-off)

Figure 1: Expiring emergency unemployment benefits



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Larger economic drag than employment boost

Based on the benefits paid in the remaining states with expiring benefits on September 6, we estimate a reduction in household income of \$4.2bn per week in September, or \$210bn (annualized) for the month. This should represent a drag on personal income growth worth around 1.2% in September.

And, while states implementing an early termination argued that benefits were impeding labor supply, and that ending them would provide a significant boost to employment, we find that enhanced unemployment benefits appear to only represent [a marginal disincentive to work](#). The disincentive is greatest among lower-wage workers in states where unemployment benefits are the highest relative to prevailing wages.

These findings are corroborated by recent research by the [San Francisco Fed](#) showing that only one out of seven workers being offered a job would turn it down because of unemployment benefits. The [JPMorgan Chase Institute](#) also finds that while benefits had an impact on job-finding of unemployed workers, it was modest, and the government transfers didn't hold the labor market recovery back significantly.

Examining the latest July state unemployment data, we find that only 7 states out of the 25 that ended unemployment benefits through July 3 experienced a statistically significant decline in their unemployment rate while 9 states out of 35 and DC that didn't terminate benefits also experienced a decline (**Figure 3**). Similarly, [Ganon, Noel and Vavra \(2020\)](#) find that for every 100 people losing unemployment benefits, net employment varies between -14 and +8 people.

Examining real-time anonymous banking data from Earnin, [Stepner et al \(2020\)](#) find that for every 8 workers who lost their benefits after the early termination, only one found a new job (**Figure 4**). As a result, they find that for every dollar lost in benefits, only 7 cents were regained in compensation.

While these findings all point to a limited effect of unemployment benefits on employment, we must caution that there is still a large degree of uncertainty. Other factors, including health developments, access to childcare, and use of personal savings. over the coming months could lead to stronger effects on employment that are more in line with historical averages.

Figure 2: A map of states that ended emergency unemployment benefits early

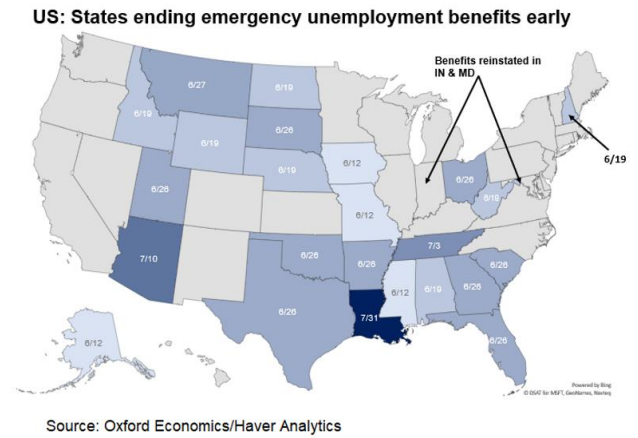


Figure 3: Early-expiry of unemployment benefits didn't provide a major employment boost in July

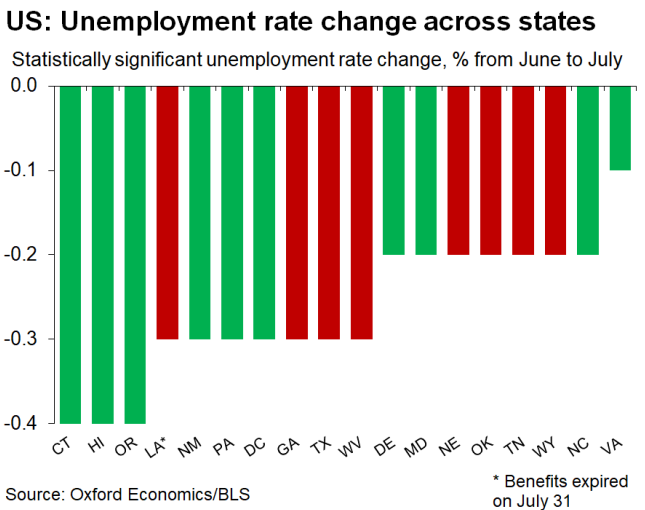


Figure 4: Marginal boost to employment from the early termination of UI benefits

