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Struggling Through: Household Finances In the Pandemic

INTRODUCTION

The coronavirus has precipitated an unprecedented health and economic crisis, creating unprecedented challenges for households and businesses. A critical question is how this may be changing how Americans make important economic decisions. Morning Consult and Moody's Analytics have teamed up, conducting an in-depth survey of 5,000 adults in mid-September, to examine how the pandemic is impacting decisions over household finances, parenting, starting a business, employment, and moving.

Struggling Through: Household Finances In the Pandemic

BY JOHN LEER, DANTE DEANTONIO, RYAN SWEET, CRISTIAN DERITIS AND MARK ZANDI

The coronavirus has precipitated an unprecedented health and economic crisis, creating unprecedented challenges for households and businesses. A critical question is how this may be changing how Americans make important economic decisions. Morning Consult and Moody's Analytics have teamed up, conducting an in-depth survey[1] of 5,000 adults in mid-September, to examine how the pandemic is impacting decisions over household finances, parenting, starting a business, employment, and moving.

In this paper, we explore the impact of the pandemic on household finances. The key findings are as follows:

- More than six months into the pandemic, households remain highly dependent on stimulus payments and unemployment insurance benefits to pay for everyday expenses.
- Nearly 12 million households are unsure they can make timely mortgage payments.
- The pandemic has prevented well over one-third of unemployed workers from conducting a job search.
- Almost one-third of workers are concerned they will lose their job or hours, or suffer a pay cut, in the near future.
- There are significant differences across income groups, highlighting the diversity of economic experiences during the pandemic, with lower-income adults faring worse than high-income adults.
- Given how tenuous households' finances are, policymakers need to quickly provide additional financial support or risk undermining the precarious economic recovery.

Who is suffering?

A high share of survey respondents indicated that they have suffered financially since the onset of the coronavirus pandemic. Among the respondents, 15% have been laid off or lost their job since the onset of the pandemic, and 29% have lost pay or income, including those who were laid off or lost their job.

The severity of the economic, financial and employment effects of the pandemic and the ongoing recession differs across the income spectrum. Among respondents living in households with annual incomes below $50,000, 18% reported being laid off or fired during the pandemic, compared with only 9% of respondents living in households with annual incomes above $100,000.

The differences across the income cohorts narrow when considering pay cuts and furloughs. Among lower-income respondents, 30% reported suffering a loss of pay or income during the pandemic, compared with only 24% of higher-income respondents. There is virtually no difference across income groups in terms of the incidence of furloughs.

Lower-income households have disproportionately suffered financial hardship, as a smaller share of lower-paying jobs can be performed at home. Among respondents who were actively working when the survey was taken, 54% of lower-income respondents said that they leave their home to work, compared with only 48% of middle-income respondents and 36% of high-income respondents.

Differences in employees' tenure also help explain why lower-income respondents have disproportionately suffered financially since the pandemic hit. Businesses tend to fire, furlough, and cut the hours of their least tenured employees during the early phases of a recession, and these employees live in households with lower annual incomes. Among currently employed respondents living in households with annual incomes over $100,000, 60% have worked for their current employers for five years or longer, compared with just 33% of respondents living in lower-income households. That workers living in lower-income households tend to have shorter tenures with their current employers makes them more vulnerable to financial downturns.

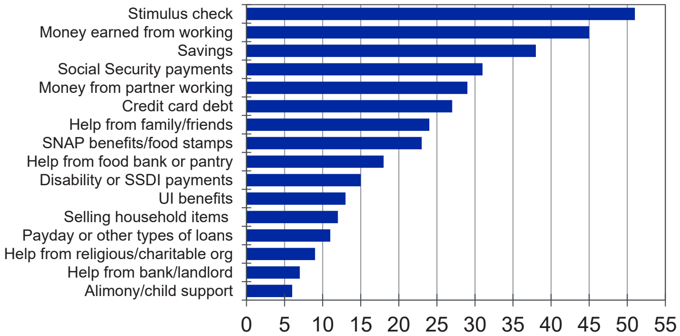
How are households getting by?

Survey respondents highlighted the importance of UI benefits and stimulus checks in covering everyday expenses. Among respondents, 13% said they were

1 A detailed description of the survey methodology and composition can be found in the appendix.

Chart 1: Household Finances Strained

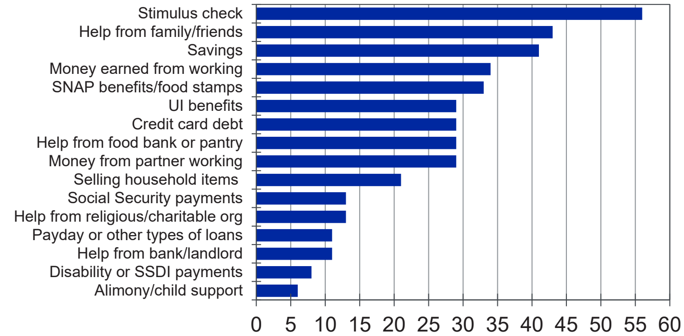
% of total respondents paying for expenses using…



Sources: Morning Consult, Moody's Analytics

Chart 2: Unemployed Exhausting Options

% of unemployed respondents paying for expenses using…



Sources: Morning Consult, Moody's Analytics

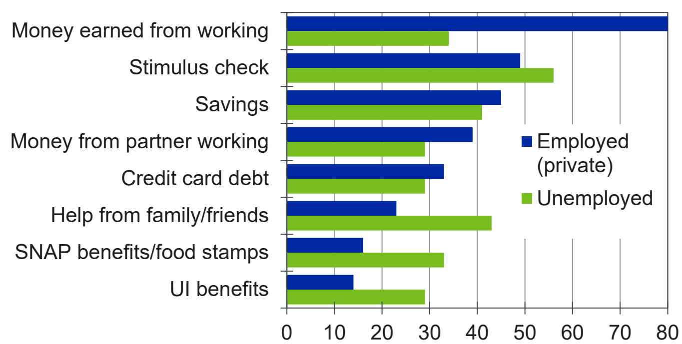
using UI benefits to pay for expenses while 51% noted that they were using the $1,200 stimulus payments to pay for expenses (see Chart 1). This is especially notable, as the bulk of the stimulus checks were mailed in April and May. Also of note, 38% of respondents were drawing down savings to meet their expenses.

Of those who were unemployed at the time of the survey, 56% were still relying on the stimulus checks to pay for expenses, while SNAP benefits/food stamps were being used by one-third of the unemployed to pay expenses. More than 40% were relying on help from family and friends, and nearly 30% of those unemployed were using UI benefits to pay for expenses (see Charts 2 and 3). UI benefits were key to helping pay for expenses regardless of education, but this is skewed toward younger workers. Those who are older and laid off likely have more savings and additional sources of income to pay for expenses.

The use of UI benefits to pay for expenses by race highlights the disproportionate impact of layoffs on minorities. Nearly 25% of black and Hispanic respondents between ages 18 and 34 reported using UI benefits to pay for expenses, compared with less than 20% of white respondents (see Chart 4).

Chart 3: Unemployed Need More Help

% of respondents paying for expenses using…



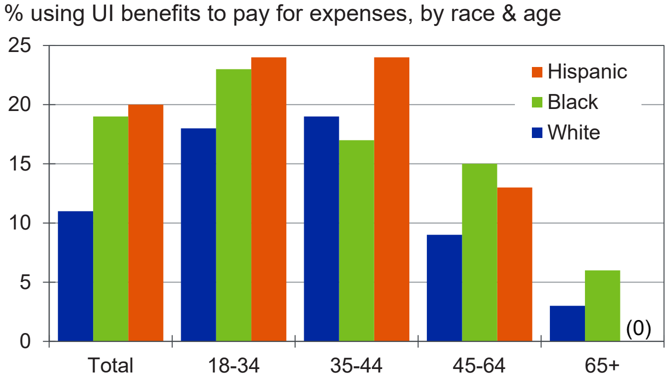
Sources: Morning Consult, Moody's Analytics

The survey highlights the importance of past rounds of fiscal stimulus and the need for additional support, particularly for lower-income households. Survey responses show that those earning less than $50,000 rely more on government support and less on savings, since they have less if anything in savings (see Chart 5).

Not all government support is created equal. Some policies have a higher impact, or multiplier, than others. A fiscal multiplier is defined as the dollar change in GDP for a

Chart 4: Losses Hit Blacks, Hispanics Hard

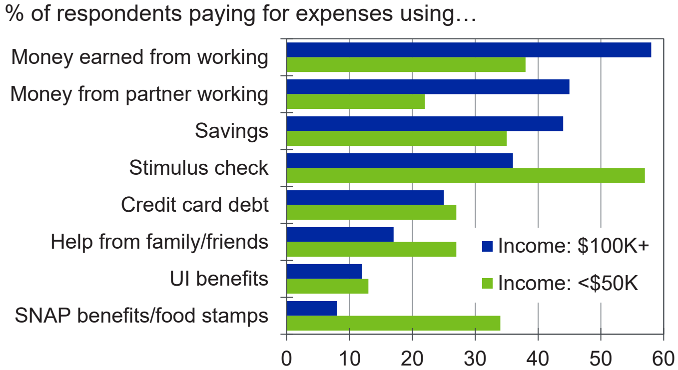
% using UI benefits to pay for expenses, by race & age



Sources: Morning Consult, Moody's Analytics

Chart 5: Low-Income Workers Need Help

% of respondents paying for expenses using…



Sources: Morning Consult, Moody's Analytics

given dollar increase in spending or decrease in taxes. Estimates of fiscal multipliers in the literature vary widely. Yet some consensus, especially after the Great Recession, has emerged surrounding which policies have the biggest bang for the buck (see Table 1).

Fiscal multipliers cannot be observed; they must be estimated. An extension of benefits for unemployed workers who exhaust their regular UI benefits has been a part of the federal government response to past recessions. Extending UI benefits is one of the most effective policies Congress can enact.

Moreover, the benefits go to individuals who will quickly spend any financial aid they receive given their lack of employment income. As a result, UI benefits exhibit one of the highest spending multipliers. Even at mature stages of an expansion, the multiplier is relatively high, since unemployed recipients will be financially strained no matter the state of the economy.

Government transfer payments were a critical support to personal income during the early stages of the COVID-19-fueled recession. Nominal personal income rose noticeably from March to April, which seems at odds with the significant employment and financial effects described in the first section of this paper. However, federal transfer payments were key, as excluding transfer payments, personal income dropped sharply in April and currently remains below its pre-COVID-19 level. In other words, the loss of income experienced by 70.7 million American adults was more than offset by the transfer payments.

Table 1: Ebb and Flow of U.S. Fiscal Multipliers

One-yr cumulative dynamic multipliers

	Recession and early-cycle expansion	Mid- to late-cycle expansion
Spending increases		
Unemployment insurance benefits	1.66	0.90
SNAP	1.64	1.23
General aid to state and local governments	1.39	0.86
Infrastructure	1.50	0.94
Tax cuts		
Payroll	1.33	0.86
Refundable tax credits	1.20	0.99
Personal	0.57	0.18
Corporate	0.51	0.29

Source: Moody's Analytics

Fading fiscal support and the significant stress in the labor market have respondents worried about making debt payments.

Heavy debt burden

Despite historic fiscal stimulus and an improving economy, we have shown that many households are using extraordinary means to pay for everyday expenses. This naturally leads to concerns about the ability of households to make timely debt payments as the pandemic continues to rage on.

Consumers' confidence in making minimum payments varies substantially by debt type (see Chart 6). Rent/mortgage debt is prioritized in most household budgets, but nonetheless just over 20% of respondents who have mortgage debt report being not that confident or not confident at all that they can make minimum payments moving forward. Given the current rates of homeownership and the share of homeowners with a mortgage, the implication is that nearly 12 million households[2] are not confident they can make their mortgage payments. This is an uncomfortably large number of households given the slowing economic recovery and fading fiscal support.

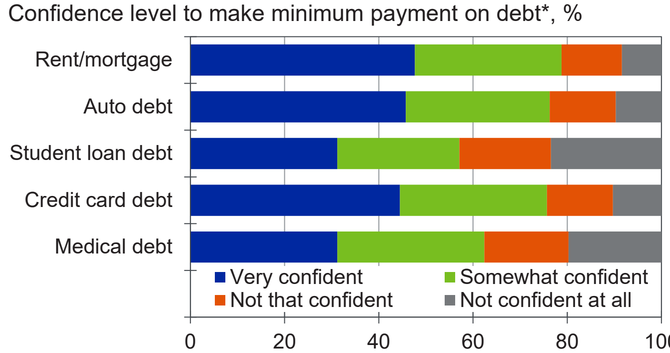
While mortgage forbearance programs are currently mitigating much of the potential fallout, risks are intensifying for a rash of defaults when the clock runs out early next year.

Consistent with the uneven job and income losses endured during the pandemic, financial strain and concern about making rent/mortgage payments show clear fault lines. Homeowners without a college degree are at much greater financial risk, as the share of those not confident to make their minimum payments is nearly 50% higher than for respondents with a college degree or more (see Chart 7). A similar dichotomy exists across racial lines, with black

2 This calculation assumes 128.58 million total households, a homeownership rate of 67.9%, and a share of homeowners with a mortgage of 63.1%.

Chart 6: Debt Problems Mount

Confidence level to make minimum payment on debt*, %

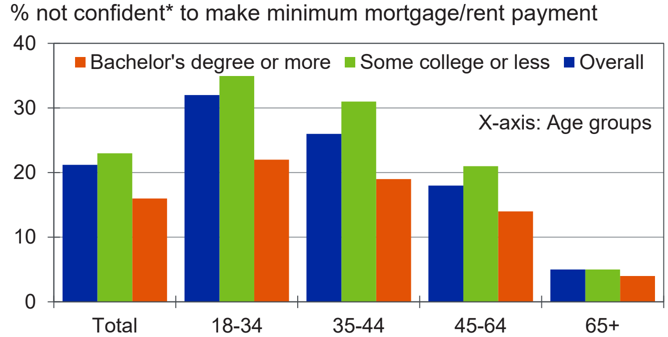


*Among those who have each type of debt

Sources: Morning Consult, Moody's Analytics

Chart 7: Uneven Job Loss & Financial Hit

% not confident* to make minimum mortgage/rent payment

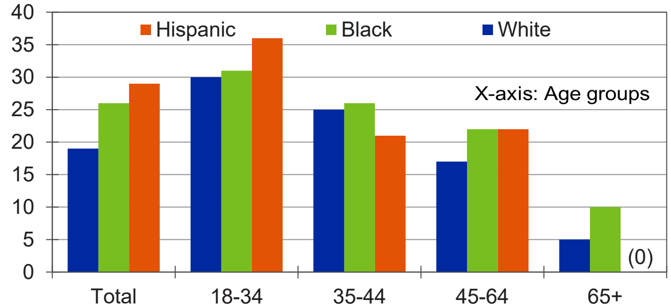


*Less educated more vulnerable

Sources: Morning Consult, Moody's Analytics

Chart 8: Blacks, Hispanics Bear Burden

% not confident* to make minimum mortgage/rent payment

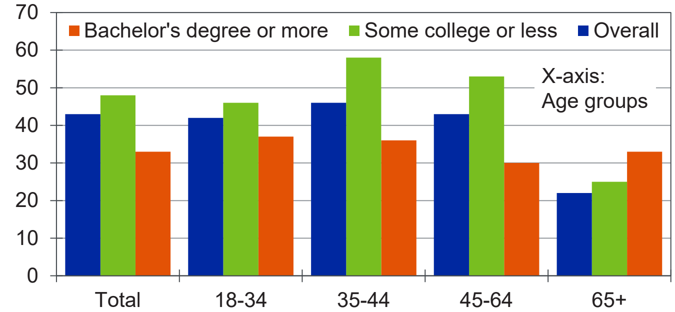


*Fearful of missing a housing payment

Sources: Morning Consult, Moody's Analytics

Chart 9: Student Debt Takes a Back Seat

% not confident* to make minimum student loan payment



*Missing student loan payments

Sources: Morning Consult, Moody's Analytics

and Hispanic respondents much less confident in their ability to make housing payments than their white counterparts (see Chart 8).

Contrast this with student loan debt, which is the most at-risk debt category. About 43% of respondents with student loan debt are not confident that they can make their minimum payments. Confidence has waned considerably for those without a college degree (see Chart 9). This group is often most vulnerable, as any accrued debt can be more difficult to pay off without the boost to income typically provided by completing a college degree.

Although debt moratoriums will provide a temporary bridge for many households and postpone some of the financial fallout, improving economic conditions are the only long-term solution.

Difficult to dig out

Struggling households have fewer tools to mitigate the economic damage created by the pandemic. The virus itself, along with the economic chaos left in its wake, has made it more difficult for laid-off workers to find new opportunities. Just over one-fifth of survey respondents indicated that COVID-19 had prevented them from conducting a job search, and among the unemployed, that share jumps to 37%.

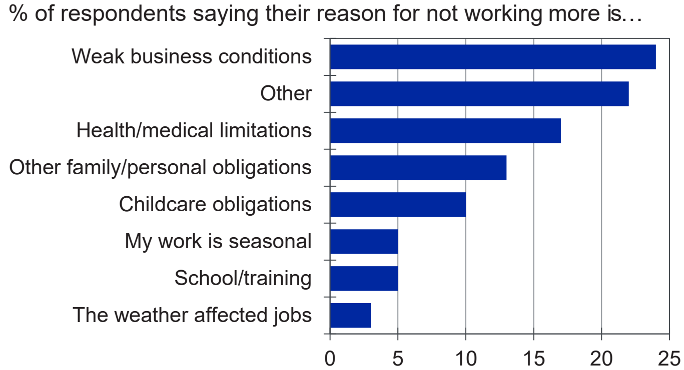
In addition, 13% of respondents who did not work and failed to look for work did so because of COVID-19. This group closely corresponds to those who are out of the labor force and provides some evidence as to why the labor force participation rate remains stubbornly 2 percentage points below its pre-pandemic level. Residents of urban areas, which were harder hit by the earlier breakouts of COVID-19, saw their job search affected more severely than those living in suburban and rural areas.

In addition to the barriers to finding new jobs, COVID-19 has made it more difficult for existing workers to work more to help alleviate their financial stress. As a result of the combination of a weak economy, health and safety concerns, and heightened family obligations, many workers do not have the wherewithal to add to their workload (see Chart 10). Weak business conditions topped the list of reasons why workers are not working more, but health and medical limitations as well as family and child care obligations are holding back a significant share of workers. Unfortunately, most of these issues will not be fully resolved until an effective vaccine is available, allowing the economic recovery to kick into gear and mitigating many of the health concerns and family obligations.

Despite the incredible amount of job loss experienced thus far, many workers are still concerned about the potential loss of employment income in the coming months, making additional fiscal stimulus and an expanded social safety net all the more important to bolster the economic recovery.

Chart 10: Reasons for Not Working More

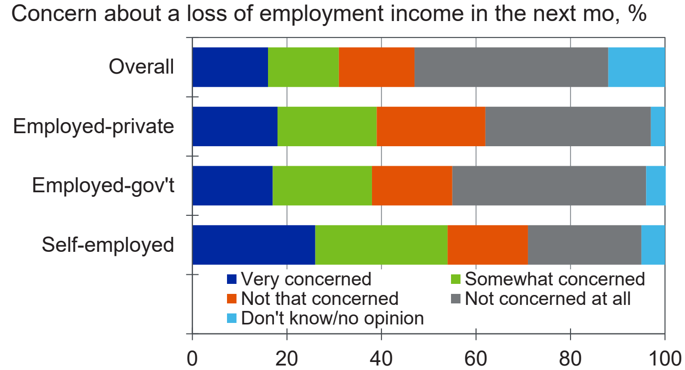
% of respondents saying their reason for not working more is...



Sources: Morning Consult, Moody's Analytics

Chart 11: Concern About the Future

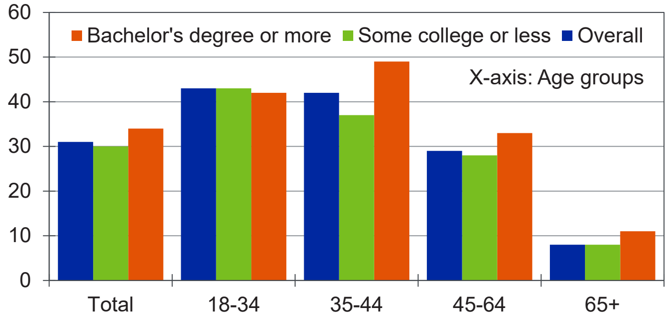
Concern about a loss of employment income in the next mo, %



Sources: Morning Consult, Moody's Analytics

Chart 12: Older Workers Feel More Secure

% concerned* about loss of employment income in next mo

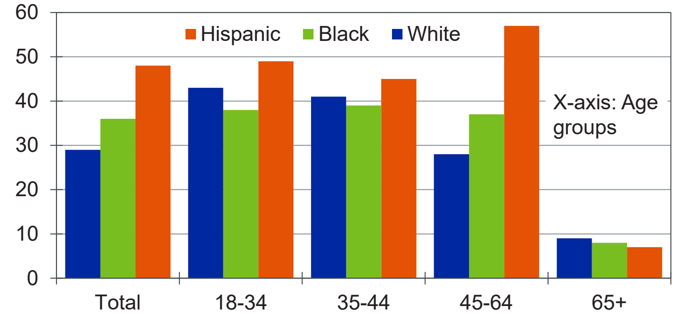


*Includes those very concerned and somewhat concerned

Sources: Morning Consult, Moody's Analytics

Chart 13: Hispanic Workers on High Alert

% concerned* about loss of employment income in next mo



*Includes those very concerned and somewhat concerned

Sources: Morning Consult, Moody's Analytics

More than 30% of survey respondents reported being at least somewhat concerned about the loss of employment income in the next month, and a stunning 54% of self-employed workers are concerned (see Chart 11). Younger workers—irrespective of their education—face heightened uncertainty, with around 40% of respondents age 18 to 44 being at least somewhat concerned about a loss of income (see Chart 12).

A clear racial divide also exists, which is not surprising given the disproportionate impact of the pandemic. After facing higher than average rates of job loss in March and April, black and Hispanic workers are also more concerned about near-term losses of employment income (see Chart 13).

Unfortunately, federal fiscal support is waning at a time when enormous financial strain is already being felt by households and downside risks are mounting in the labor market. After massive outlays to fund stimulus checks and enhance UI benefits, the economy has fallen off a fiscal cliff, as direct support has dried up since the end of July (see Chart 14).

Policy implications

The survey results underscore the need for policymakers to quickly provide additional income support to struggling households and small businesses. Based on the responses, an alarmingly large share of households are at high risk of defaulting on their rent, mortgage or other debt payments—in addition to having insufficient funds to cover their food, utility and other daily expenses.

When the CARES Act was passed in March, it was assumed that the spread of the coronavirus would be contained in short order. Stimulus checks, extended UI benefits, and loans to small businesses were viewed as stopgap measures as large portions of the economy were shut down to contain the spread of the virus.

Initially, the approach was effective, as the confirmed number of COVID-19 cases fell steadily through April and early May. However, the lifting of lockdown measures starting in late April, without the adoption of preventive measures such as mask wearing and social distancing, led to an even larger outbreak by the summer.

The limited economic gains that resulted from the reopenings were insufficient to overcome the anxieties of businesses and consumers. Without a substantial increase in confidence resulting from control of the coronavirus' spread, the economy will struggle to build the momentum necessary for a self-sustaining recovery.

The survey indicates that failure to deal with the spread of COVID-19 has had significant economic consequences that must now be addressed with additional emergency support. Given the current state of household and businesses finances and the still-weak labor market, an estimated $1.5 trillion to $2 trillion of additional support will be needed to buy additional time to contain the virus and support the fragile economic recovery.

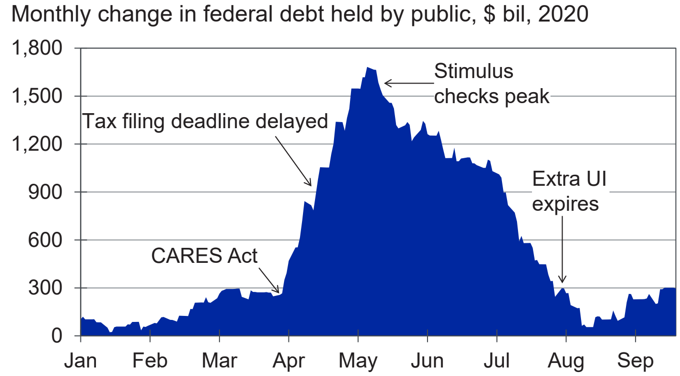
Though this cost is far from inconsequential, the potential cost of inaction is even greater. As evidenced by the survey, a large number of households are financially vulnerable. A rise in defaults on their payment obligations would not only have negative consequences for banks and other lenders, but missed rental payments will also have knock-on effects for mom-and-pop real estate investors and other local businesses.

Finally, the survey results underscore the need to act expeditiously. Any significant delay could lead to the need for even more financial support in the future should the economy enter into a vicious downward spiral where job losses and business failures beget additional losses and failures.

Longer term, policymakers should consider alternative mechanisms for pro-

Chart 14: Going Off the Fiscal Cliff

Monthly change in federal debt held by public, $ bil, 2020



Sources: U.S. Treasury, Moody's Analytics viding support to the economy in times of need without getting pulled into endless political dramas. One fix would be to tie unemployment benefits more directly to the labor market. As long as the unemployment rate remains abnormally high, then extended unemployment benefits should be in effect. As the job market improves, support would taper off automatically.

Although the survey results highlight the need for deeper policy reforms to shore up household finances for the future, this should not delay the passage of additional financial support for households and businesses in the near term.

Appendix: Survey methodology

The survey interviews were conducted online September 10-14 among a representative sample of 5,000 adults in the U.S., weighted to match the characteristics of the U.S. population according to age, gender, race/ethnicity, educational attainment and region.

Morning Consult partners with more than 20 survey panel providers to conduct interviews in the U.S. This panel network provides access to tens of millions of Americans via recruitment from an extended network that includes thousands of websites, mobile apps, social networks, email lists, and publishers. The network ensures Morning Consult can reach a large, diverse, representative audience of Americans in a timely fashion.

Morning Consult used a stratified sampling process based on age and gender to reach a broad, nationally representative audience in the U.S. As part of its post-stratification phase, the data were weighted to reflect the demographic composition of the U.S. based on age, education, race/ethnicity, gender, and geographic region according to the 2017 five-year estimates of the American Community Survey. The margin of error for the survey is +/- 1 percentage point.

A high share of survey respondents reported annual household incomes of less than $50,000 per year. Among respondents, 56% reported an annual household income below $50,000, with 30% reporting annual incomes of $50,000 to $100,000 and 14% reporting annual incomes over $100,000.

Table 2: Distribution of Economic Impact

Event	Share of U.S. adults	# of adults (using 255 mil as base)
Laid off or lost a job	13%	34 mil
Loss of pay or income	28%	70.7 mil
Put on temporary leave	15%	38.1 mil
Returned to work from temporary leave	11%	28.1 mil

Sources: Morning Consult, Moody's Analytics

An overrepresentation of lower-income households is particularly useful for this study given that the incidence rate of financial hardship and uncertainty among this cohort is higher than it is for the broader population. The higher incidence rate makes it possible to measure heterogeneity across lower-income households, painting a richer picture of the ways in which lower-income Americans have suffered financially during the recession.

The true distribution of household incomes in the U.S. remains unknown, since the most recent measurement period uses 2019 as its reference period, prior to the onset of the pandemic and ensuing economic recession. According to the Census Bureau's 2020 Current Population Survey Annual Social and Economic Supplement, annual household incomes in 2019 exhibited a distribution of 37.1%, 28.8%, and 34.1% for households with annual incomes under $50,000, from $50,000 to $100,000, and over $100,000, respectively.[3]

By adopting the same distribution of households across income levels, we can extrapolate the results of this survey to the broader population (see Table 2). All of these datapoints are consistent with the monthly Employment Situation reports produced by the Bureau of Labor Statistics and the weekly unemployment insurance claims data released by the Department of Labor.

The survey results suggest that about 34 million Americans were laid off or lost their jobs during the pandemic through mid-September. The survey does not provide additional detail regarding when those firings occurred. From February to April, total nonfarm payrolls dropped by just over 22 million, which serves as a lower bound for the number of layoffs actually experienced by Americans. The monthly total nonfarm payroll values are net values, meaning that millions of Americans can be laid off even when payrolls increase from month to month. The relatively high number of weekly initial claims for unemployment benefits from April through September confirms that monthly increases in nonfarm payrolls can mask employment dislocations.

Since the pandemic hit, 28% of Americans have lost pay or income, roughly equating to 71 million Americans. During this same period of time, Americans have filed 62 million initial claims for unemployment insurance benefits. This suggests that many unemployed and underemployed Americans have not filed for unemployment insurance, potentially because of misperceptions regarding eligibility criteria. The gap between the number of Americans reporting a loss of pay or income and the number of initial claims is likely even larger than these numbers indicate, since Americans can file initial claims more than once if they find new work and are subsequently fired or have their pay reduced.

Finally, the data related to temporary layoffs are also consistent with government data. Among respondents, 14.9% report being put on temporary leave from their job, and 11% report returning to work from a temporary layoff, implying that about 73% of temporarily laid-off workers have returned to work.

These findings are consistent with data from the BLS's household survey showing that temporary layoffs rose by 17.3 million from February through April and have since fallen by 12.7 million. Similar to the survey, these figures imply that 73% of temporarily laid-off workers have returned to work.

Unfortunately for the U.S. economy, some of the temporary layoffs have become permanent, meaning that 73% is an upper bound for the share of temporarily laid-off workers who have returned to work.

3 https://www.census.gov/library/publications/2020/demo/p60-270.html

Appendix: Industry composition

The industry composition of employed workers in this survey closely matches the composition in the U.S. A comparison of the industry composition can be made between the Moody's Analytics/Morning Consult survey and the preliminary results reported by the BLS in its Employment Situation report for September. The industry composition from the BLS is based on the not seasonally adjusted number of employees on nonfarm payrolls in each industry sector.

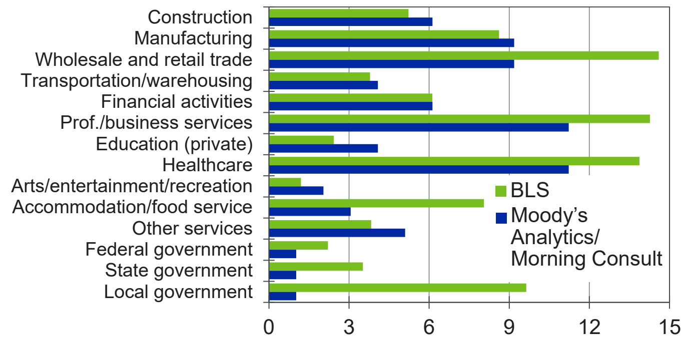
In order to directly compare results, Morning Consult/Moody's Analytics survey respondents who selected "agriculture" as their industry were filtered out of the results, since the BLS produces a monthly industry composition of nonfarm payrolls (see Chart 15).

Comparing these two datasets provides reasonable assurance that the distribution of nonfarm industries in the sample corresponds to the distribution in the population. The average absolute value of the difference in the industry composition between the Moody's Analytics/ Morning Consult survey and the BLS is 2.4%. In both surveys, wholesale and retail trade, professional and business services, and healthcare and social assistance are the top three industries.

The largest difference between the two surveys comes from the relatively low share of workers selecting that they work in local government. Only 1% of employed, nonfarm respondents said that they work in local government, compared with 9.6% in the BLS survey.

Chart 15: Survey Composition Aligned

Employment by industry, % of total



Sources: BLS, Morning Consult, Moody's Analytics

About the Authors

John Leer is an economist for Morning Consult, leading the global data intelligence company's economic research efforts. He is an authority on the effects of consumer preferences and purchasing patterns on economic and business trends as well as labor market dynamics.

Prior to Morning Consult, Leer worked for Promontory Financial Group, offering strategic solutions to financial services firms on a range of matters including credit risk modeling and management, corporate governance, and compliance risk management.

He earned his bachelor's degree in economics and philosophy with honors from Georgetown University and his master's degree in economics and management studies (MEMS) from Humboldt University in Berlin. Leer's graduate research assessed the effects of fluctuations in housing prices and credit flows on the European Commission's measure of the non-accelerating wage rate of unemployment (NAWRU). His analysis has been cited in The New York Times, The Wall Street Journal, Reuters, The Washington Post and more.

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Cristian deRitis is a senior director at Moody's Analytics, where he leads a team of economic analysts and develops econometric models for a wide variety of clients. His regular analysis and commentary on consumer credit, policy and the broader economy appear on the firm's Economic View web site and in other publications. He is regularly quoted in publications such as The Wall Street Journal for his views on the economy and consumer credit markets. Currently he is spearheading efforts to develop alternative sources of data to measure economic activity more accurately than traditional sources of data.

Mark Zandi is chief economist of Moody's Analytics, where he directs economic research. Moody's Analytics, a subsidiary of Moody's Corp., is a leading provider of economic research, data and analytical tools. Dr. Zandi is a cofounder of Economy.com, which Moody's purchased in 2005.

Dr. Zandi is on the board of directors of MGIC, the nation's largest private mortgage insurance company, and is the lead director of Reinvestment Fund, one of the nation's largest community development financial institutions, which makes investments in underserved communities.

He is a trusted adviser to policymakers and an influential source of economic analysis for businesses, journalists and the public. Dr. Zandi frequently testifies before Congress and conducts regular briefings on the economy for corporate boards, trade associations, and policymakers at all levels. He is often quoted in national and global publications and interviewed by major news media outlets, and is a frequent guest on CNBC, NPR, Meet the Press, CNN, and various other national networks and news programs.

Dr. Zandi is the author of Paying the Price: Ending the Great Recession and Beginning a New American Century, which provides an assessment of the monetary and fiscal policy response to the Great Recession. His other book, Financial Shock: A 360º Look at the Subprime Mortgage Implosion, and How to Avoid the Next Financial Crisis, is described by the New York Times as the “clearest guide” to the financial crisis.

Dr. Zandi earned his BS from the Wharton School at the University of Pennsylvania and his PhD at the University of Pennsylvania.

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