MOODY'S ANALYTICS

ANALYSIS
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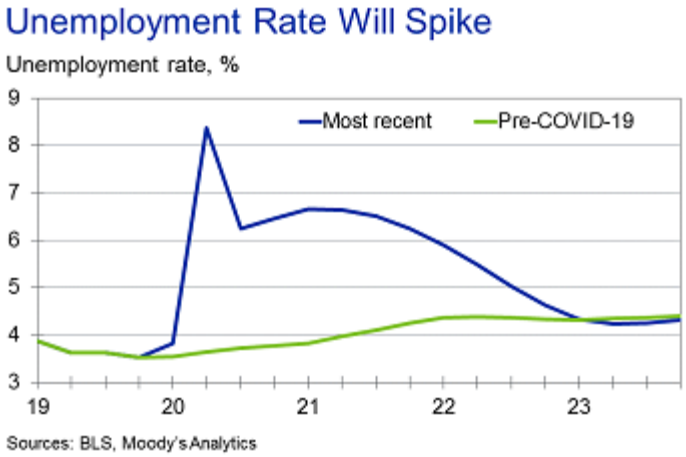
What the Stimulus Can Do

Introduction

The need is great because affected U.S. workers are concentrated in industries paying the lowest wages.

The Senate passed an enormous $2 trillion stimulus package that will now go to the House for approval. The bill includes a number of provisions to help the millions of workers who were laid off in the wake of social distancing requirements that nearly shut down whole industries, including at a minimum hotels, entertainment, most personal services, and all but essential retail. Restaurants in most states have been ordered to close their dining rooms, severely restricting their business, and a much larger swath of "nonessential" industries was ordered to temporarily shut down physical locations in a growing number of states.

The need for assistance is particularly great because the affected workers are overwhelmingly concentrated in industries that pay the lowest wages: restaurants, hotels, retail and personal services. Moody's Analytics expects that the number of unemployed workers will shoot up from around 6 million in 2019 to nearly 14 million, or 8.4%, in the second quarter of this year.



Without the expected stimulus, an additional 2 million to 3 million workers would likely lose their jobs, with the unemployment rate topping out above 10% in short order.

As Congress finalizes the third phase of stimulus, there has already been an unprecedented surge in initial unemployment insurance filings of 3.6 million during the past two weeks. This surge amply demonstrates the pain being felt around the country. Moreover, the figure likely understates the actual number of layoffs because of likely delays in handling such an enormous number of claims at one time.

As part of the stimulus package passed by the Senate, laid-off workers will receive $600 each week in addition to their regular state benefits through the end of July. This means that the extra benefits will be available for only four months and idled workers who are receiving benefits now and will be out of work for four months will receive the extra income. However, workers laid off in two months, for example, will receive the extra amount for only two months.

Sizable boost to income

The $600 provides a sizable boost to income by more than doubling the average benefit for even the most generous state of Massachusetts, where average benefits in January amounted to $546. The average benefit across the country is only $385 a week.

The generosity of the additional $600 benefit was met with some opposition in the Senate, raising concerns about employers laying off workers more readily knowing that benefits will more fully support them and concerns that workers will not look for new jobs as quickly given the availability of such generous benefits.

However, this concern should be weighed against the very low average payments, which nationally replace less than 40% of average weekly wages for a full-time worker. Even in the most generous states, the replacement rate falls below half of weekly income and in some states such as Alaska as low as one-quarter of income. Further, the benefit will be available only for a limited period and the possible disincentive will vanish quickly.

The legislation also tacks on 13 weeks of emergency benefits after the state's regular benefits expire. This will be particularly helpful for workers in states that have cut back benefit duration from the 26 weeks that have traditionally been available, such as North Carolina and Florida, which currently offer only 12 weeks of benefits. Most states, including those that have curtailed standard benefit duration, will extend them during periods of high unemployment.

Table 1: State Benefits

State	Current maximum UI duration	Avg weekly benefit (Jan 2020)	Replacement rate (2019Q3)
Alabama	14 weeks*	$237.56	38.0%
Alaska	26 weeks	$275.62	30.9%
Arizona	26 weeks	$234.04	36.7%
Arkansas	20 weeks	$277.70	39.7%
California	26 weeks	$341.65	45.0%
Colorado	26 weeks	$457.43	47.8%
Connecticut	26 weeks	$445.45	44.5%
Delaware	26 weeks	$291.34	39.2%
District of Columbia	26 weeks	$359.83	39.0%
Florida	12 weeks	$253.70	37.8%
Georgia	14 weeks	$318.41	43.4%
Hawaii	26 weeks	$540.98	54.0%
Idaho	21 weeks	$349.25	49.3%
Illinois	26 weeks	$419.42	38.5%
Indiana	26 weeks	$307.30	36.3%
Iowa	26 weeks	$426.64	52.8%
Kansas	16 weeks	$401.90	50.4%
Kentucky	26 weeks	$377.45	49.8%
Louisiana	26 weeks	$218.91	34.3%
Maine	26 weeks	$355.11	51.6%
Maryland	26 weeks	$353.36	46.5%
Massachusetts	26 weeks	$545.98	48.0%
Michigan	20 weeks**	$331.07	44.7%
Minnesota	26 weeks	$487.69	50.1%
Mississippi	26 weeks	$213.15	39.8%
Missouri	13 weeks	$267.83	41.0%
Montana	28 weeks	$400.60	49.2%
Nebraska	26 weeks	$360.15	46.5%
Nevada	26 weeks	$378.49	49.5%
New Hampshire	26 weeks	$333.42	37.8%
New Jersey	26 weeks	$470.88	51.2%
New Mexico	26 weeks	$347.47	52.4%
New York	26 weeks	$388.60	39.2%
North Carolina	12 weeks	$272.41	37.7%
North Dakota	26 weeks	$485.79	49.9%
Ohio	26 weeks	$387.13	41.6%
Oklahoma	26 weeks	$408.13	53.1%
Oregon	26 weeks	$422.49	49.0%
Pennsylvania	26 weeks	$405.77	52.1%
Rhode Island	26 weeks	$383.46	42.5%
South Carolina	20 weeks	$257.56	40.9%
South Dakota	26 weeks	$361.02	48.2%
Tennessee	26 weeks	$241.32	37.0%
Texas	26 weeks	$434.23	49.9%
Utah	26 weeks	$428.73	49.8%
Vermont	26 weeks	$400.76	48.2%
Virginia	26 weeks	$312.80	41.3%
Washington	26 weeks	$488.15	49.6%
West Virginia	26 weeks	$341.01	38.4%
Wisconsin	26 weeks	$331.33	42.9%
Wyoming	26 weeks	$416.76	51.8%

Source: Moody's Analytics

Notes for states not providing the standard 26-week maximum (https://www.cbpp.org/research/economy/policy-basics-how-many-weeks-of-unemployment-compensation-are-available)

Massachusetts provides up to 30 weeks of UI except when a federal extended benefits program is in place or in periods of low unemployment; in either case, the maximum drops to 26 weeks
Montana provides up to 28 weeks of UI
**Michigan normally provides up to 20 weeks, but given the COVID-19 emergency, that has risen to 26 weeks for eligible individuals filing an initial claim before April 14, 2020
Arkansas and South Carolina provide up to 20 weeks of UI
Missouri provides up to 13 weeks of UI
Idaho currently provides 21 weeks of UI (sliding scale between 20 and 26 weeks depending on state unemployment rate)
Kansas currently provides 16 weeks of UI (sliding scale between 16 and 26 weeks depending on state unemployment rate)
*Alabama currently provides 14 weeks of UI with five-week extension given to those enrolled in a state-approved training program (sliding scale between 14-20 weeks depending on state unemployment rate)
Georgia currently provides 14 weeks of UI (sliding scale between 14 and 20 weeks depending on state unemployment rate)
Florida currently provides 12 weeks of UI (sliding scale between 12 and 23 weeks depending on state unemployment rate)
North Carolina currently provides 12 weeks of UI (sliding scale between 12 and 20 weeks depending on state unemployment rate)

In contrast to the emergency assistance to workers during past recessions, the stimulus bill also provides unemployment insurance benefits to idled self-employed, contract, nonprofit and part-time workers, workers who typically are not eligible for benefits. In addition, workers who had not been employed long enough to receive benefits would now qualify, as will workers who quit their job or were not able to get to work because of the COVID-19 restrictions. These workers would receive the $600 provided in the bill and half of the average regular state benefit amount.

Finally, unemployed workers will likely be able to receive benefits immediately without having to wait the usual one week, since the bill provides an incentive to states to waive the waiting period by fully covering the first week of benefits with federal dollars.

Additional extensions

The door is left open for additional federally funded extensions to unemployment insurance benefits if the all-but-certain recession were to last longer or deeper than expected. Currently, we expect the recession to last through the second quarter. However, as with all recessions, it will take some time for unemployment to recede, as many businesses will surely fail as a result of the measures being taken to contain COVID-19.

Additionally, rising uncertainty, battered consumer confidence, and the negative wealth effect from huge losses in the equity market will suppress consumer spending and lead to more business failures, lost income and layoffs. For example, in the wake of the Great Recession, the number of firms in the U.S. shrank by about 330,000, or more than 6%.

In addition to the UI boost, workers will be aided directly by onetime payments of $1,200 to individuals earning less than $75,000, phasing out at $99,000, and $2,400 to married couples earning twice that, plus $500 per child. About 90% of Americans would be eligible. Further, workers will get an indirect benefit from small-business loans being made available to companies in the hopes of preventing mass business closures. These loans will be forgiven if firms retain their workers instead of resorting to layoffs.