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Changes In the Distribution of Economic Well-Being During the Covid-19 Pandemic: Evidence From Nationally Representative Consumption Data

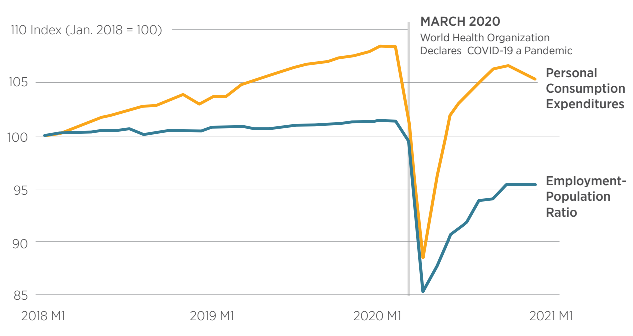
Based on BFI Working Paper 2022-46, "Changes In the Distribution of Economic Well-Being During the Covid-19 Pandemic: Evidence From Nationally Representative Consumption Data," by Bruce D. Meyer, UChicago's Harris School of Public Policy; Connacher Murphy, UChicago's Harris School of Public Policy; and James X. Sullivan, University of Notre Dame

The decline in consumption among those at the higher end of the consumption distribution largely explains the sharp decline in aggregate consumption during the pandemic.

The economic fallout from the COVID-19 pandemic was swift and severe. However, this was no typical economic downturn. The pandemic impacted consumption beyond the normal recessionary channel of income shocks and employment uncertainty. Outlets and opportunities for leisure travel, dining, and entertainment (e.g., movie theaters) were greatly restricted. Many individuals, especially those shifting to remote work, spent far less time outside of their residence.

These and other effects came amid a large and sustained response from the federal government. The $1.7 trillion CARES Act, passed in March 2020, included provisions for direct stimulus payments of up to $1,200 per adult and $500 for each qualifying child. In addition, unemployment insurance (UI) benefits expanded by $600 per week amid relaxed eligibility criteria. These UI and stimulus benefits were partially extended by further legislation, which contained another $2.7 trillion of spending. Taken together, households received just over $800 billion in stimulus payments, while spending on UI jumped from $28 billion in 2019 to $581 and $323 billion in 2020 and 2021, respectively.

Figure 1 • Employment and Personal Spending During COVID-19 Pandemic



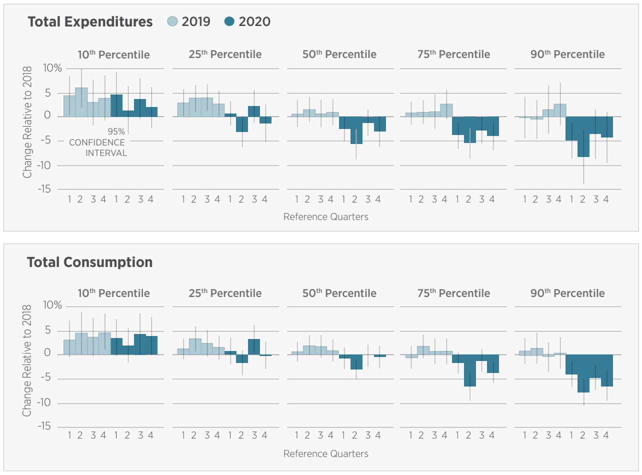
Source: Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis

Notes: Figure reports seasonally adjusted values, indexed to January 2018 value.

Understanding how the countervailing forces of pandemic-related economic disruption and the associated policy responses affected the economic circumstances of households is critically important for assessing the impact of relief efforts and shaping future policy during economic and epidemiological crises. This paper examines changes in consumption and expenditures before and after the start of the pandemic using data from the Consumer Expenditure Interview Survey (CE) through the end of 2020. The authors find the following:

- After the onset of the pandemic, those at the bottom of the consumption distribution experience modest or no reduction in consumption, while those higher up see progressively larger and significant falls, concentrated in the second quarter of 2020. This decline at higher percentiles explains the sharp decline in aggregate consumption.

Figure 2 • Total Expenditures and Consumption from 2019–2020 (Seasonally Adjusted Changes Relative to 2018)



Notes: This Figure examines changes in the distribution of overall expenditures and consumption, by reporting estimates for various quintiles. For example, in 2019 the 10th percentiles of total expenditures and total consumption, and the 25th percentile of total expenditures, increased in multiple quarters of the year, and these increases were statistically significant. In 2020, the 10th percentiles of total expenditures and total consumption remained flat, relative to 2019, in all quarters. As we move up the distribution of consumption and expenditure, a different pattern emerges. The 75th and 90th percentiles of total expenditures and consumption do not increase in 2019. In 2020, we begin to see decreases, especially in the second quarter. (See working paper for more details.)

- The most pronounced decline is for high-educated families near the top of the consumption distribution and seniors in the top half of the distribution. The decrease in the top half is less evident for non-Whites than for White non-Hispanics, particularly for the 90th percentile during the latter half of 2020.

- The patterns for income are different than the patterns for consumption; incomes increase across the board in the first half of 2020, and this increase is larger for those at the bottom of the distribution.

- The changes in the composition of consumption are consistent with families spending more time at home, especially families with greater levels of material advantage. Food away from home, gasoline and motor oil, and other consumption decline throughout the distribution, but especially at the top, and housing consumption increases, especially at the bottom.

Importantly, the authors stress that their results do not imply that the pandemic did not have any negative impacts on economic well-being for disadvantaged families. Their finding that consumption did not fall at low percentiles might mask heterogeneity in the impact of the pandemic, where some families experience a sharp decline in economic well-being, while others experience gains.

Moreover, while consumption is arguably a better measure of economic well-being than income, it misses important dimensions of overall well-being. The profound disruptions from the pandemic such as the closures of schools, stores, churches, and other facilities, the uncertainty about future income streams, concerns about the health of family and friends, and other disruptions likely had adverse effects on the well-being of many families, and these disruptions are not directly captured by this paper's measures of consumption.

READ THE WORKING PAPER

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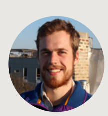

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