Whiplash: Recessions Always Hit Vulnerable People the Hardest

William R. Emmons
Federal Reserve Bank of St. Louis
September 24, 2020

These comments do not necessarily represent the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
Recessions Hit Vulnerable People Hardest

- Recession dynamics play out over several years.
  - Unemployment spikes $\rightarrow$ Incomes decline $\rightarrow$ Financial distress emerges.
  - Massive unemployment shock began in March.
  - CARES Act supported household incomes for many through July, but no replacement is in sight.
  - Large increases in debt delinquency and housing insecurity are likely delayed, not eliminated.

- Recessions always hit vulnerable people hardest.
  - Non-white, young, less-educated workers and families... people with disabilities... women...

- This could be worse than the Great Recession.
Recessions Raise Prime-Age Black Unemployment Twice As Much As White Rate

Difference in Unemployment Rate from 1973 Business-Cycle Peak

- Non-Hispanic white, 25-54
- Black, 25-54

Source: Bureau of Labor Statistics
Recessions Raise Prime-Age Black Unemployment Twice As Much As White Rate

Difference in Unemployment Rate from 1979 Business-Cycle Peak

- Non-Hispanic white, 25-54
- Black, 25-54

Source: Bureau of Labor Statistics
An Exception: 1990-91 Recession

Difference in Unemployment Rate from 1990 Business-Cycle Peak

- Non-Hispanic white, 25-54
- Black, 25-54

Source: Bureau of Labor Statistics

Years before or after business-cycle peak

-3 -2 -1 0 1 2 3 4 5
Recessions Raise Prime-Age Black Unemployment Twice As Much As White Rate

**Difference in Unemployment Rate from 2000 Business-Cycle "Pause"**

- Non-Hispanic white, 25-54
- Black, 25-54
- Hispanic, 25-54
- Asian, 25-54

Source: Bureau of Labor Statistics
Recessions Raise Prime-Age Black Unemployment Twice As Much As White Rate

Difference in Unemployment Rate from 2007 Business-Cycle Peak

- Non-Hispanic white, 25-54
- Black, 25-54
- Hispanic, 25-54
- Asian, 25-54

Years before or after business-cycle peak

Source: Bureau of Labor Statistics
Recessions Raise Young Black Unemployment
Twice As Much As White Rate

Difference in Unemployment Rate from 1973 Business-Cycle Peak

Source: Bureau of Labor Statistics
Recessions Raise Young Black Unemployment Twice As Much As White Rate

Difference in Unemployment Rate from 1979 Business-Cycle Peak

Source: Bureau of Labor Statistics
Recessions Raise Young Black Unemployment Twice As Much As White Rate

Difference in Unemployment Rate from 1990 Business-Cycle Peak

- Non-Hispanic white, 16-24
- Black, 16-24

Source: Bureau of Labor Statistics
Recessions Raise Young Black Unemployment Twice As Much As White Rate

Difference in Unemployment Rate from 2000 Business-Cycle "Pause"

- Non-Hispanic white, 16-24
- Black, 16-24

Source: Bureau of Labor Statistics
The Great Recession Hammered All Young Workers

Difference in Unemployment Rate from 2007 Business-Cycle Peak

- Non-Hispanic white, 16-24
- Black, 16-24
- Hispanic, 16-24
- Asian, 16-24

Source: Bureau of Labor Statistics
Older Workers Suffered Less

Difference in Unemployment Rate from 2007 Business-Cycle Peak

- Non-Hispanic white, 55+
- Black, 55+
- Hispanic, 55+
- Asian, 55+

Source: Bureau of Labor Statistics
The Unemployment Shock So Far in 2020: Prime-Age Workers

Difference in Unemployment Rate from 2019 Business-Cycle Peak

- Non-Hispanic white, 25-54
- Black, 25-54
- Hispanic, 25-54
- Asian, 25-54

Source: Bureau of Labor Statistics
The Unemployment Shock So Far in 2020: Older Workers

Difference in Unemployment Rate from 2019 Business-Cycle Peak

Source: Bureau of Labor Statistics

- Non-Hispanic white, 55+
- Black, 55+
- Hispanic, 55+
- Asian, 55+

Years before or after business-cycle peak

Jan             Feb             Mar            Apr            May           Jun             Jul              Aug

0.08 0.17 0.25 0.33 0.42 0.50 0.58 0.67

The Unemployment Shock So Far in 2020: Older Workers

Difference in Unemployment Rate from 2019 Business-Cycle Peak

Source: Bureau of Labor Statistics
The Unemployment Shock So Far in 2020: Young Workers

Difference in Unemployment Rate from 2019 Business-Cycle Peak

Source: Bureau of Labor Statistics
Recessions Depress Incomes for Years

Real Median Household Income Around the 1973 Business-Cycle Peak

Indexes equal 100 in year 0, the business-cycle peak

Source: Census Bureau
Recessions Hit Non-White HH Incomes Hardest

Real Median Household Income Around the 1979 Business-Cycle Peak

Indexes equal 100 in year 0, the business-cycle peak

Source: Census Bureau
Recessions Hit Non-White HH Incomes Hardest

Real Median Household Income Around the 1990 Business-Cycle Peak

Indexes equal 100 in year 0, the business-cycle peak

Source: Census Bureau
Indexes equal 100 in year 0, the business-cycle peak

Source: Census Bureau

Real Median Household Income Around the 2000 Business-Cycle "Pause"

Years before or after business-cycle peak

-3 -2 -1 0 1 2 3 4 5 6 7
Recessions Hit Non-White HH Incomes Hardest

Real Median Household Income Around the 2007 Business-Cycle Peak

Indexes equal 100 in year 0, the business-cycle peak

Source: Census Bureau
Large Government Transfer Payments Boosted HH Incomes Temporarily in Mid-2020

Year-over-Year Growth Rate of Disposable Personal Income per Capita With and Without Government Transfer Payments

Source: Bureau of Economic Analysis

Percent change from year ago
The Inflating Housing Bubble of the 2000s Obscured the Mild 2000-01 Recession

Difference in Homeownership Rate from 2000 Business-Cycle "Pause"

Percentage points

Source: Census Bureau

Years before or after business-cycle peak

-3 -2 -1 0 1 2 3 4 5 6

Non-Hispanic white
Black
Hispanic
Asian
The Bursting Housing Bubble Led to the Great Recession, Hitting Non-Whites Harder

Difference in Homeownership Rate from 2007 Business-Cycle Peak

- Non-Hispanic white
- Black
- Hispanic
- Asian

Source: Census Bureau
Mortgage Distress Likely to Rise Much More Later in 2020 and Beyond

Share of Mortgages 90+ Days Delinquent or in Foreclosure

Serious mortgage distress in 2009:
- IL: 11.2%
- USA: 9.7%
- MO: 6.2%

Mortgage Distress Likely to Rise Much More Later in 2020 and Beyond

Source: Mortgage Bankers Association
Mortgage Distress Likely to Rise Much More Later in 2020 and Beyond

Share of Owners Not Current on Mortgage, by Race and Ethnicity: Week 13, August 19-31

Source: Census Bureau's Household Pulse Survey, calculations by Lowell Ricketts.
Renter Distress Is Much Greater

Share of Renters Not Current on Rent, by Race and Ethnicity: Week 13, August 19-31

Source: Census Bureau's Household Pulse Survey, calculations by Lowell Ricketts.
In Sum: Vulnerable People Will Suffer Greatly

- The employment shock in this recession was more regressive than usual, hurting lower-income people disproportionately.
- Unless a replacement for the CARES Act is created, household incomes are likely to decline for several years.
- Greater debt delinquency and housing insecurity may be a matter of when, not if.
- The economic and financial damage suffered by millions of vulnerable people and families could surpass that of the Great Recession.