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ST. LOUIS

*5th Convening on
Financial Capability and Asset Building*

Whiplash: Recessions Always Hit Vulnerable People the Hardest

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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 → Incomes decline → 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.**

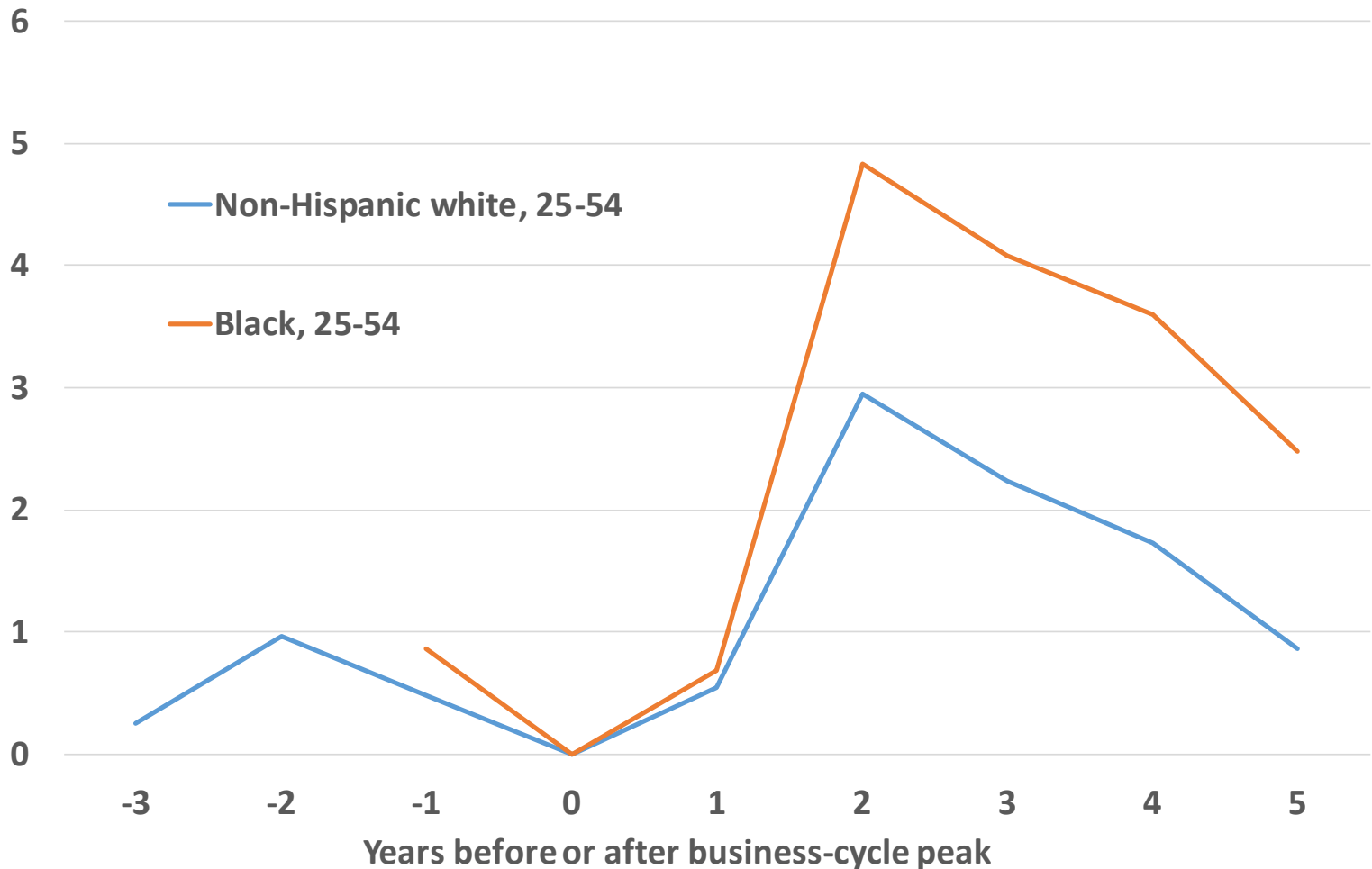


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Recessions Raise Prime-Age Black Unemployment Twice As Much As White Rate

Difference in Unemployment Rate from 1973 Business-Cycle Peak

Percentage
points



Source:
Bureau of
Labor
Statistics

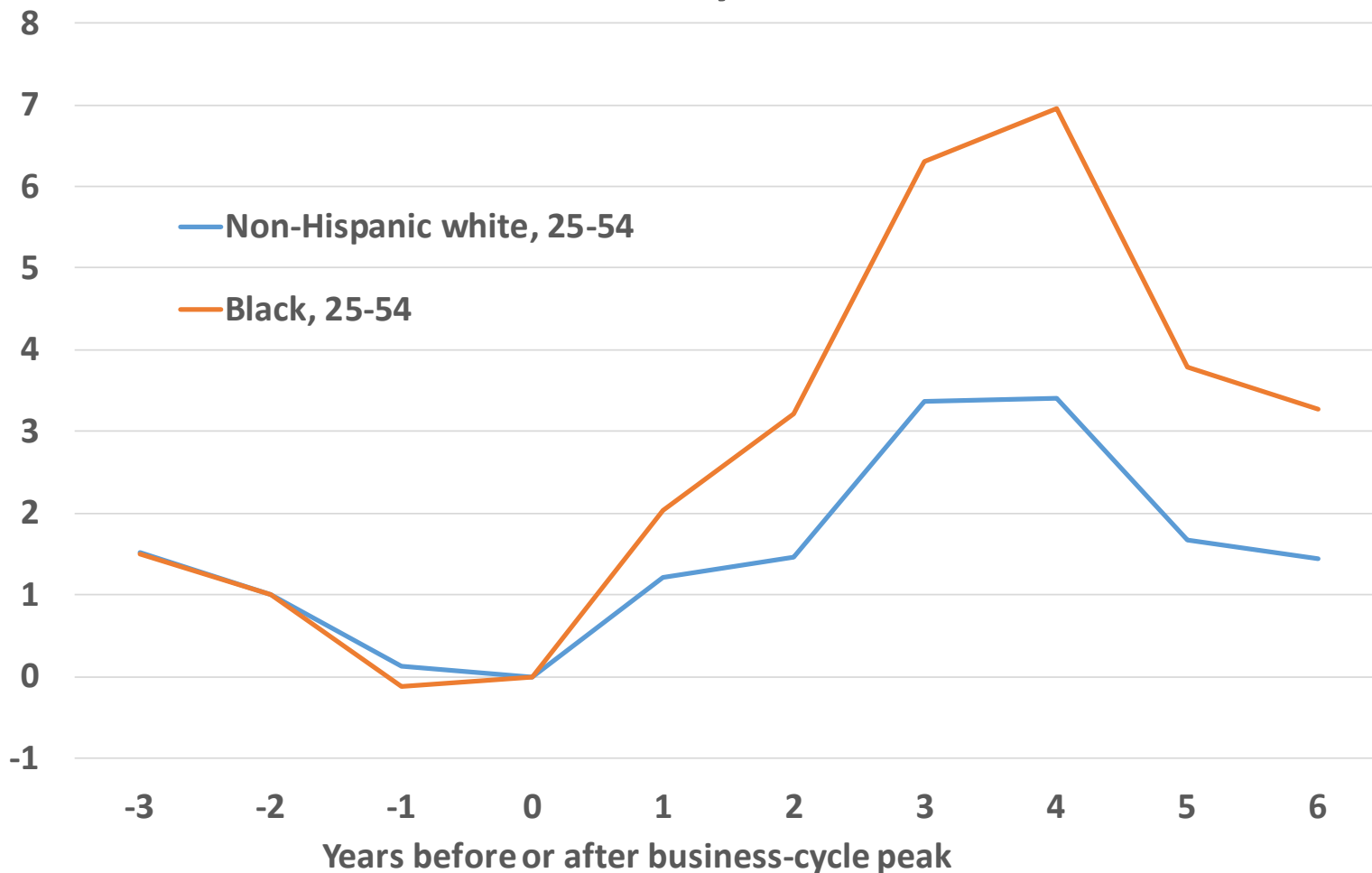


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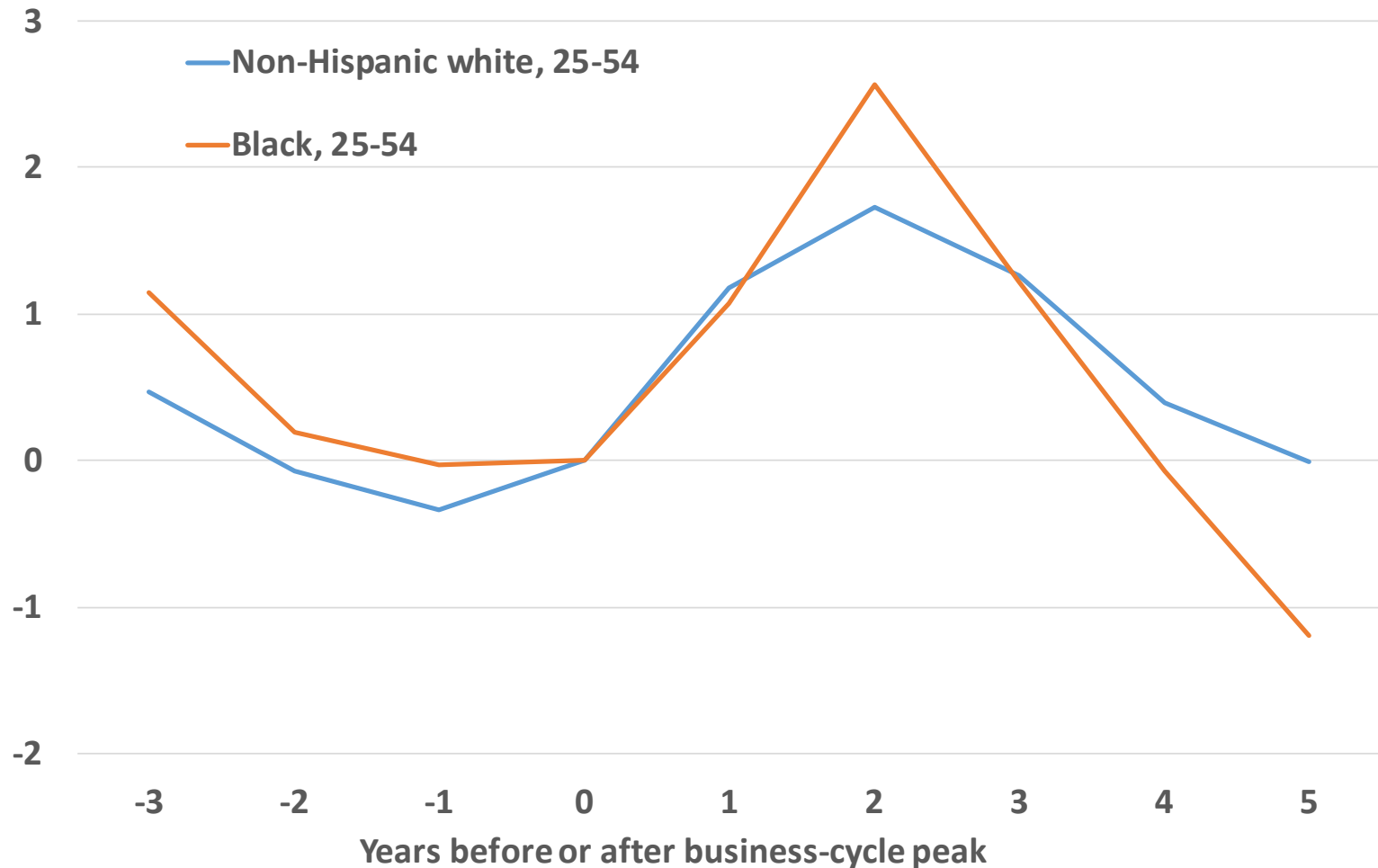


Source:
Bureau of
Labor
Statistics

An Exception: 1990-91 Recession

Difference in Unemployment Rate from 1990 Business-Cycle Peak

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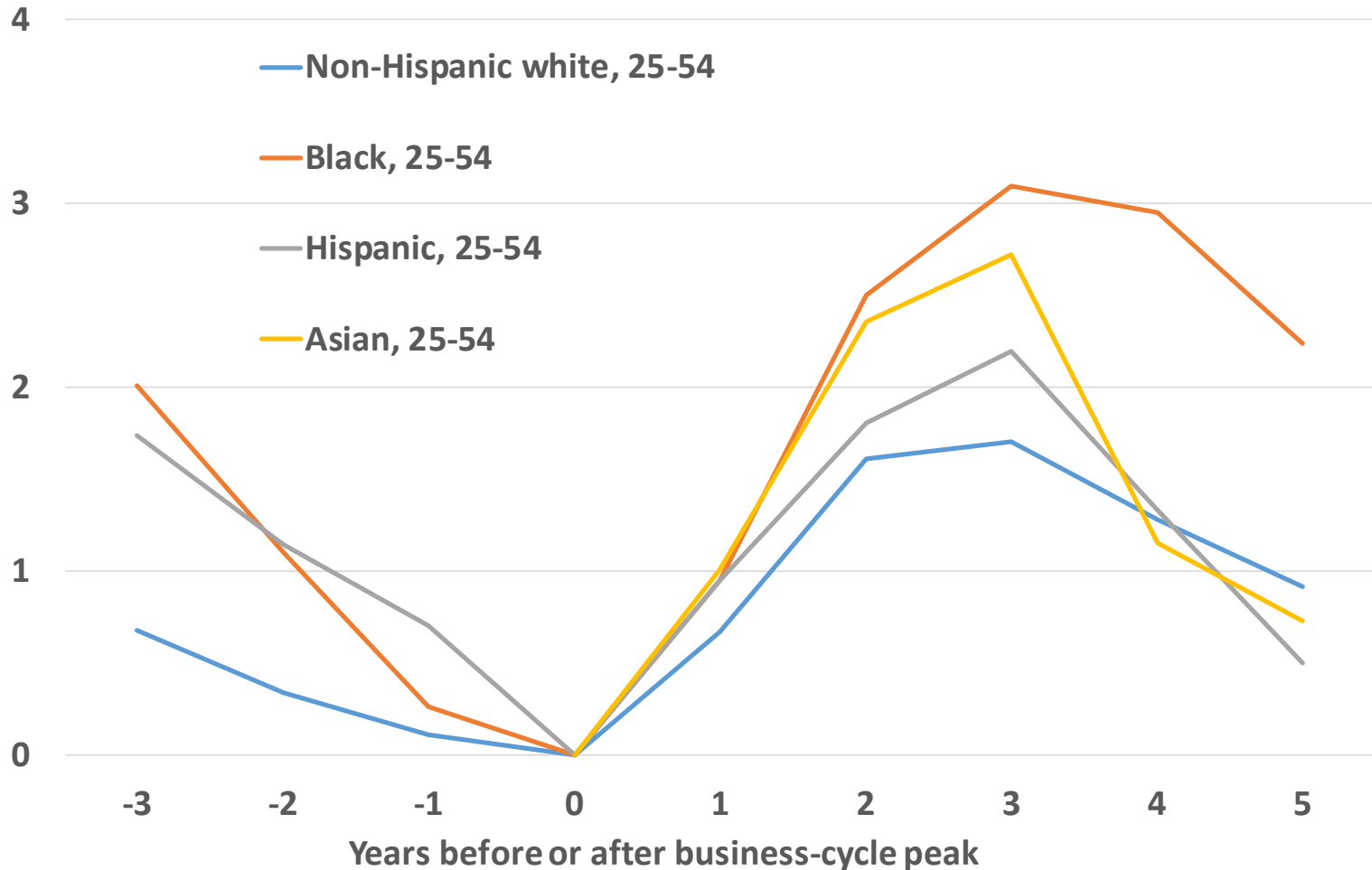


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Recessions Raise Prime-Age Black Unemployment Twice As Much As White Rate

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

Percentage
points



Source:
Bureau of
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Statistics

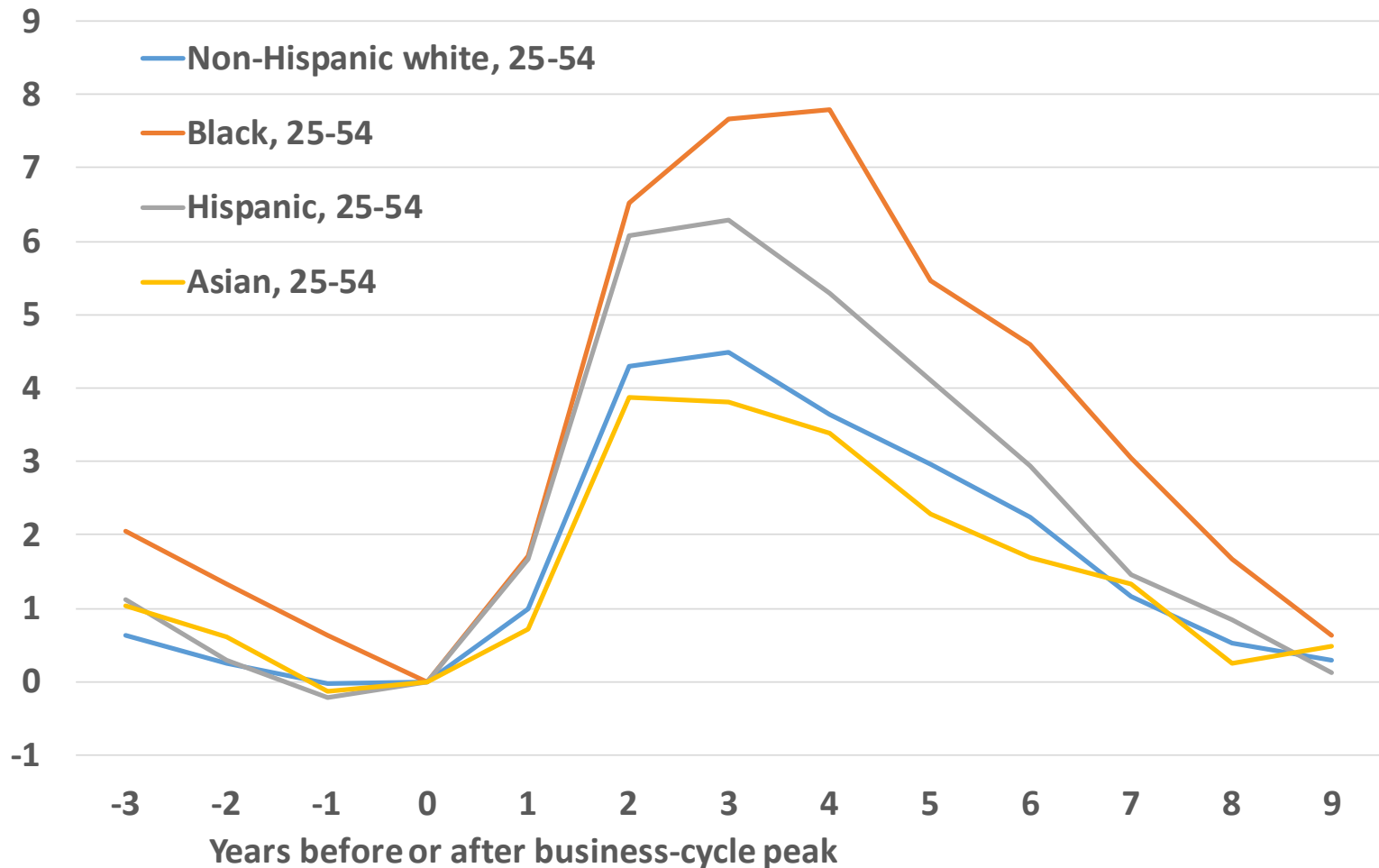


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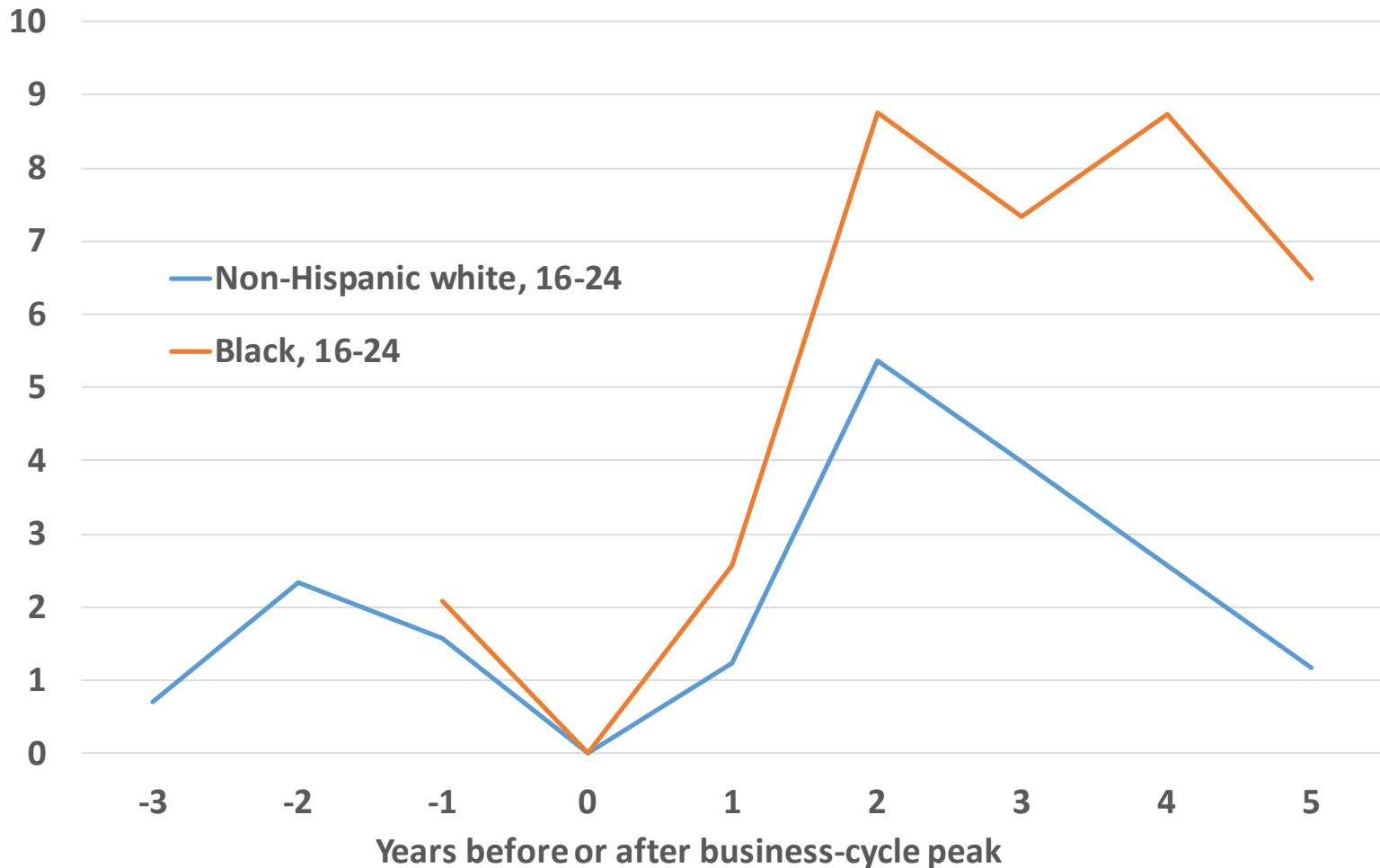
Percentage
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Source:
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Statistics

Recessions Raise Young Black Unemployment Twice As Much As White Rate

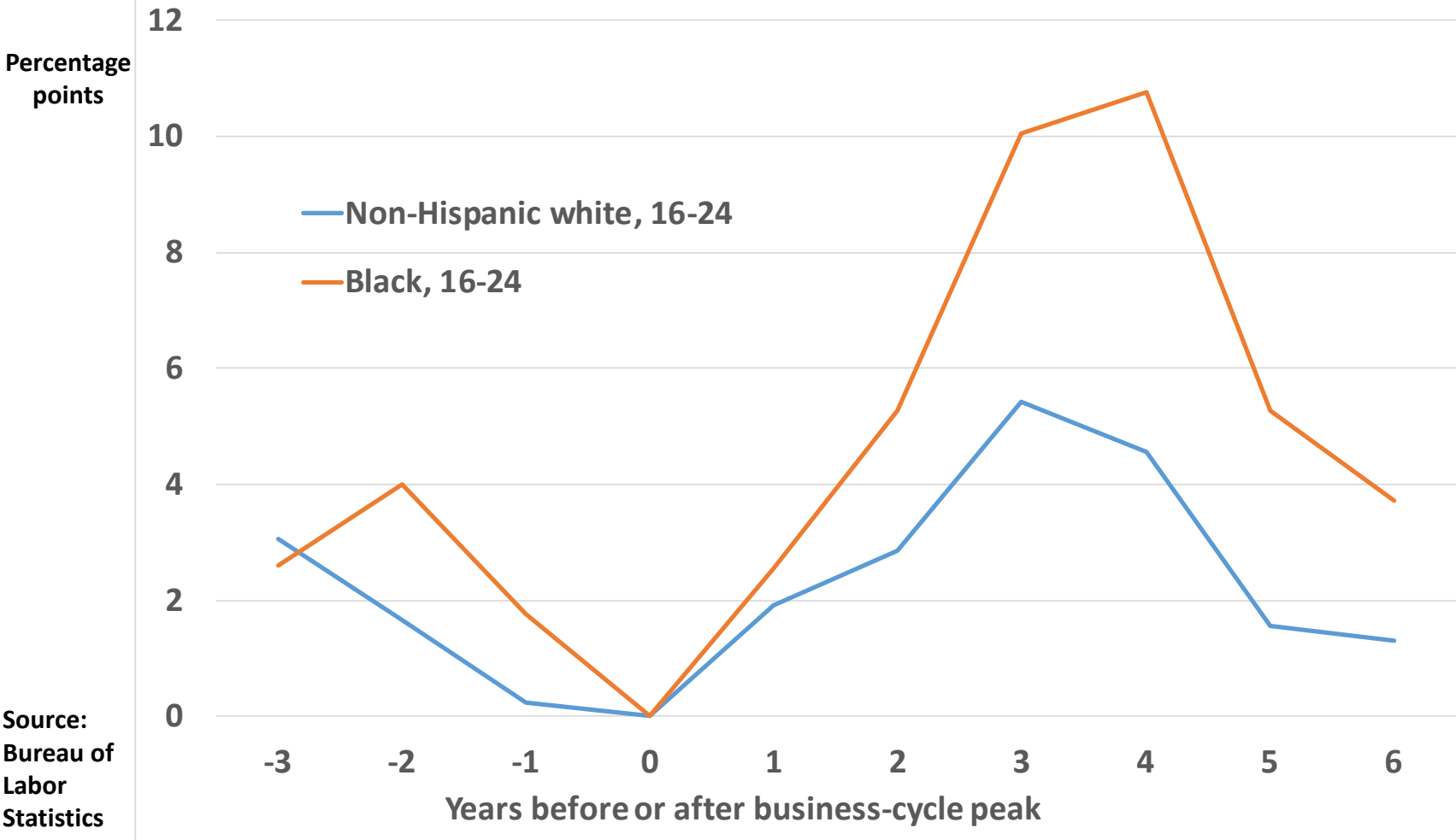
Difference in Unemployment Rate from 1973
Business-Cycle Peak



Source:
Bureau of
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Statistics

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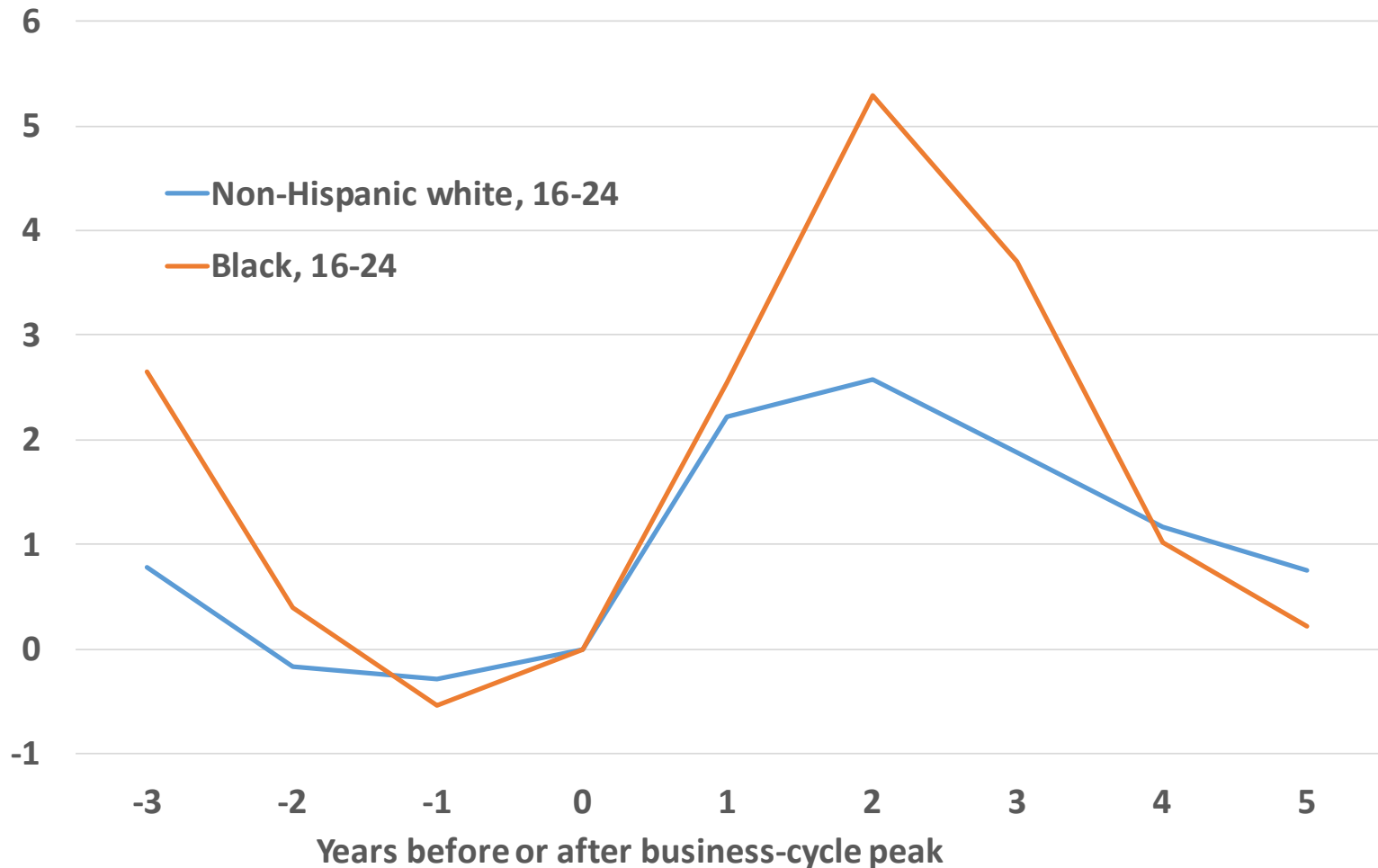


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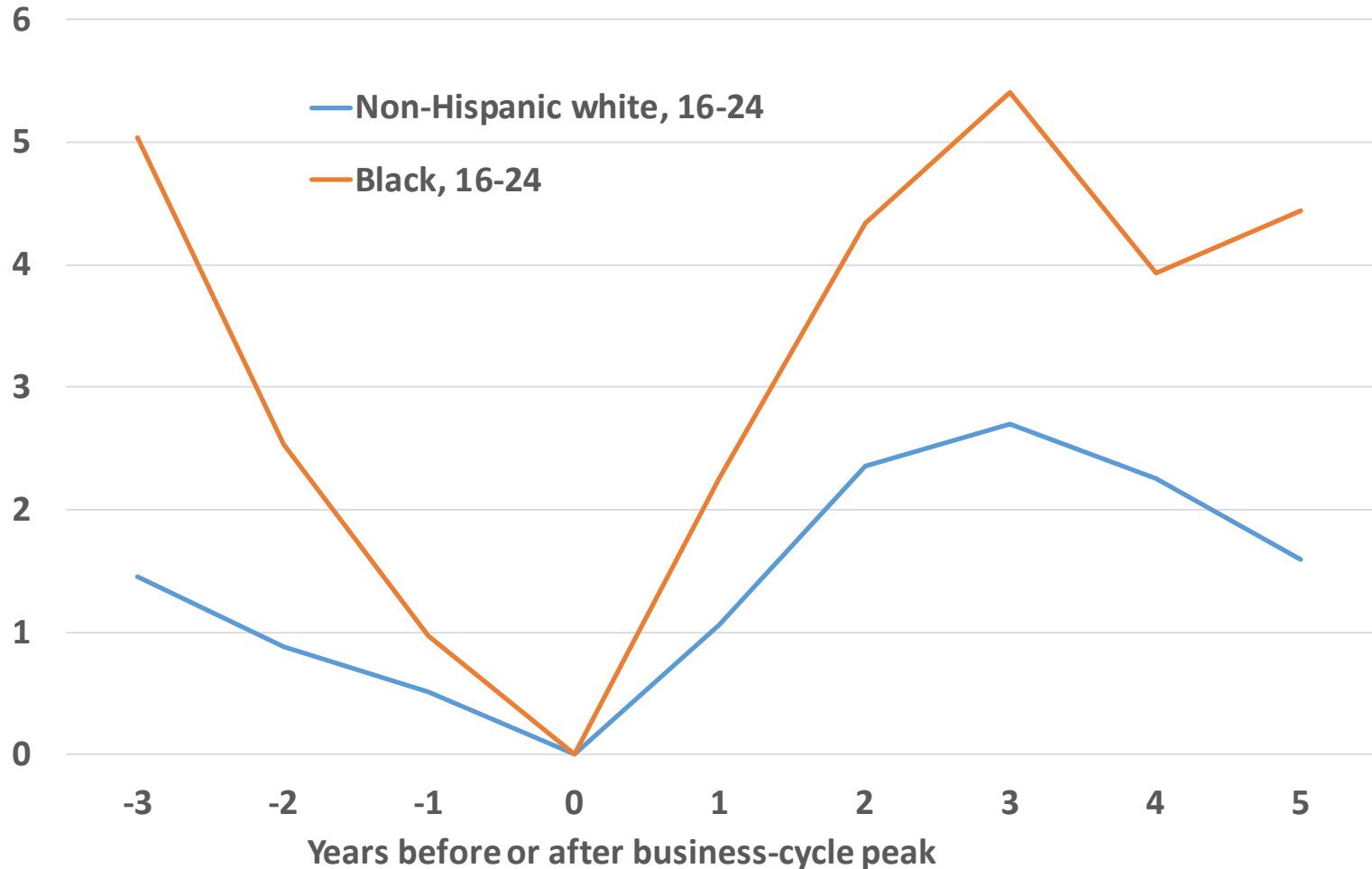


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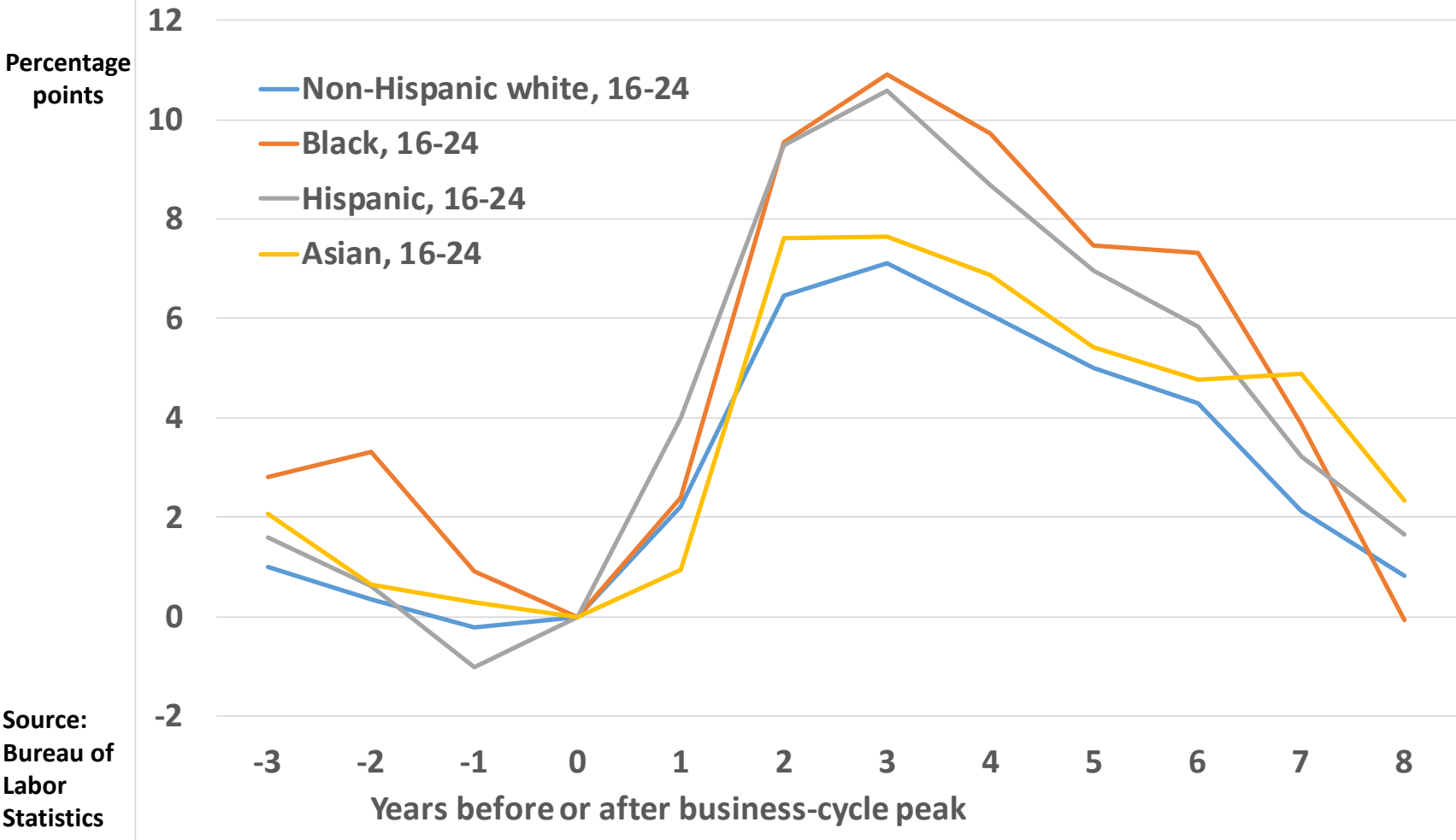
Percentage
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Source:
Bureau of
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Statistics

The Great Recession Hammered All Young Workers

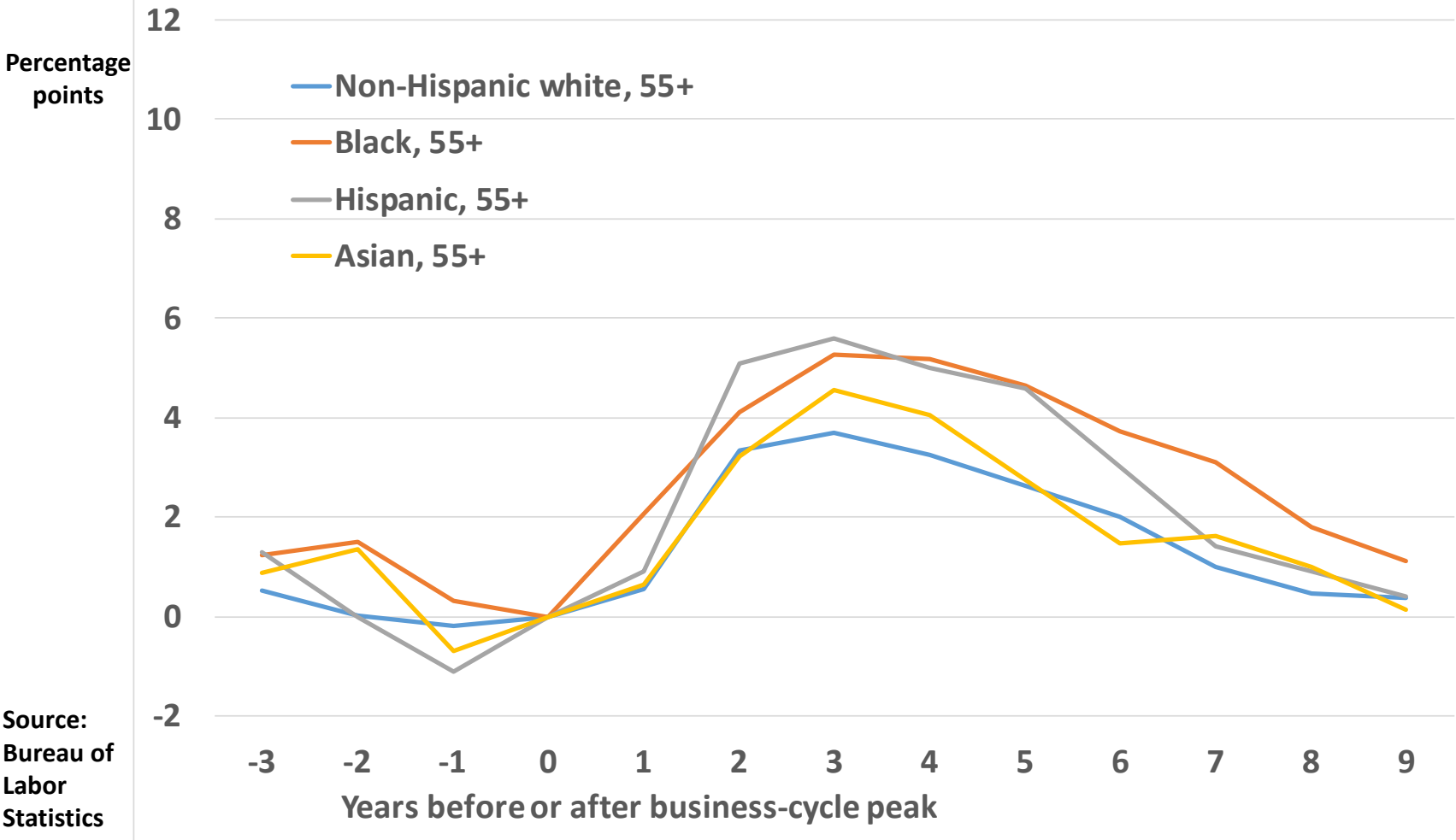
**Difference in Unemployment Rate from 2007
Business-Cycle Peak**



Source:
Bureau of
Labor
Statistics

Older Workers Suffered Less

Difference in Unemployment Rate from 2007 Business-Cycle Peak



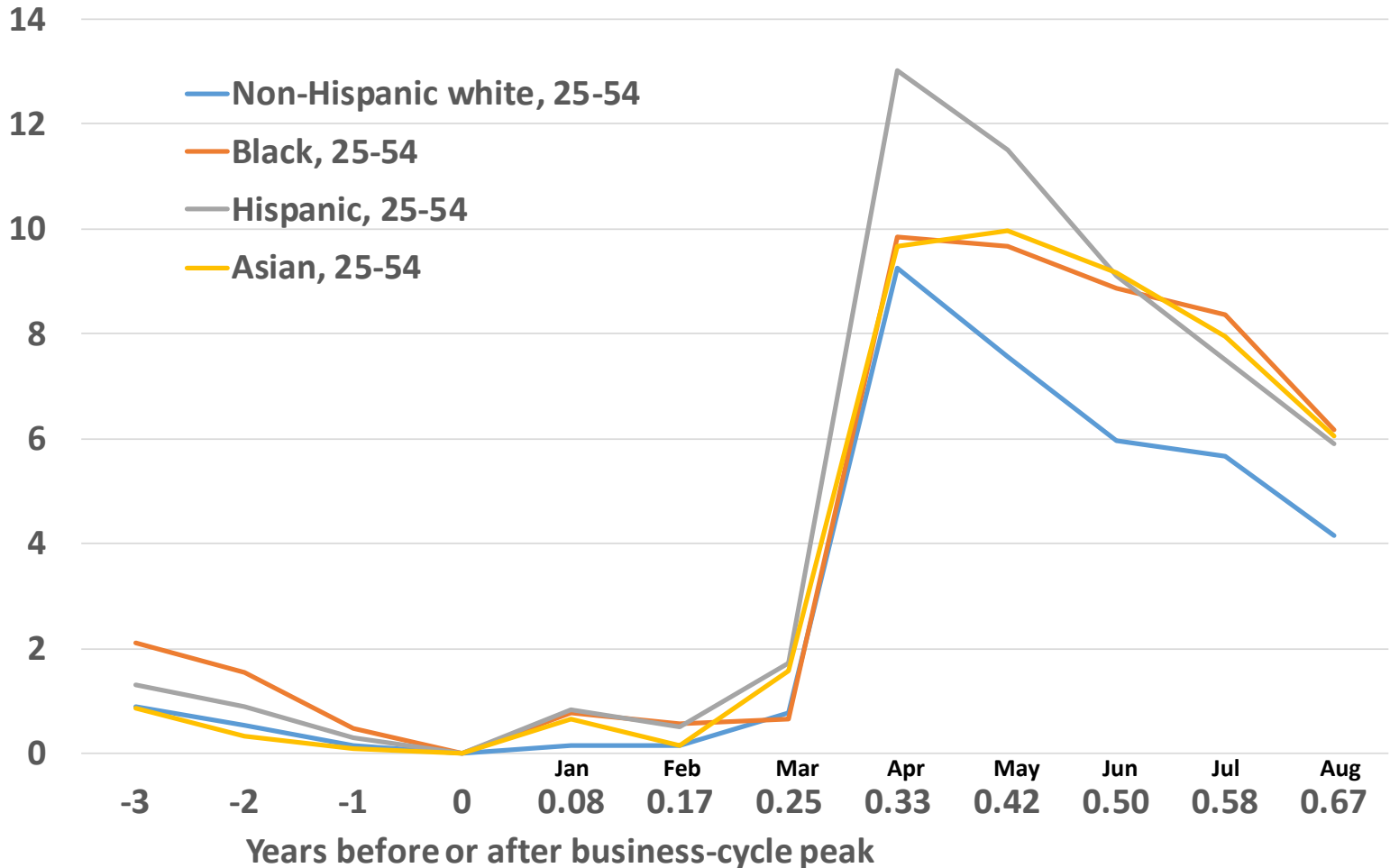
Source:
Bureau of
Labor
Statistics

The Unemployment Shock So Far in 2020: Prime-Age Workers

Difference in Unemployment Rate from 2019 Business-Cycle Peak

Percentage
points

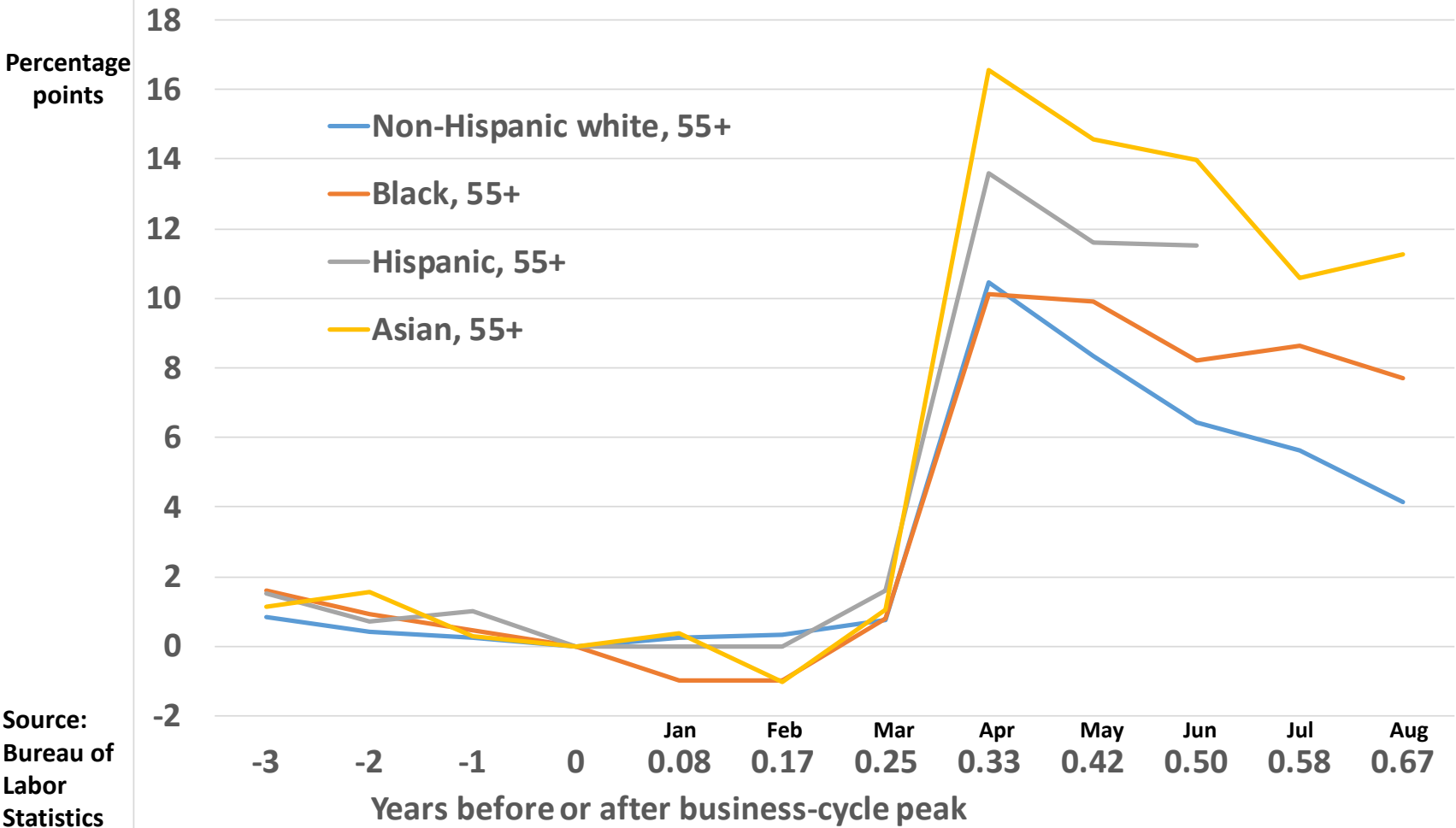
- Non-Hispanic white, 25-54
- Black, 25-54
- Hispanic, 25-54
- Asian, 25-54



Source:
Bureau of
Labor
Statistics

The Unemployment Shock So Far in 2020: Older Workers

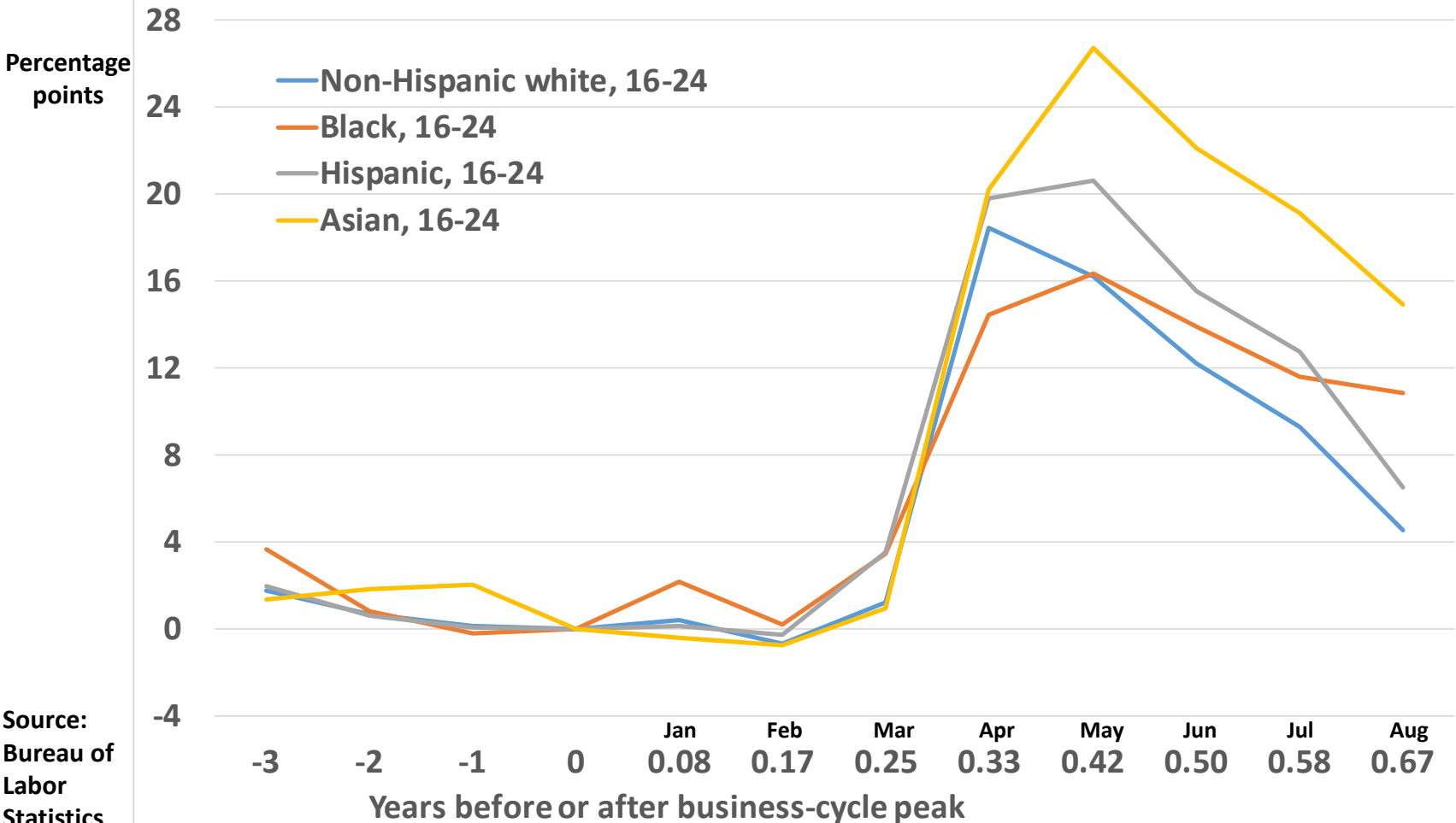
Difference in Unemployment Rate from 2019 Business-Cycle Peak



Source:
Bureau of
Labor
Statistics

The Unemployment Shock So Far in 2020: Young Workers

Difference in Unemployment Rate from 2019 Business-Cycle Peak

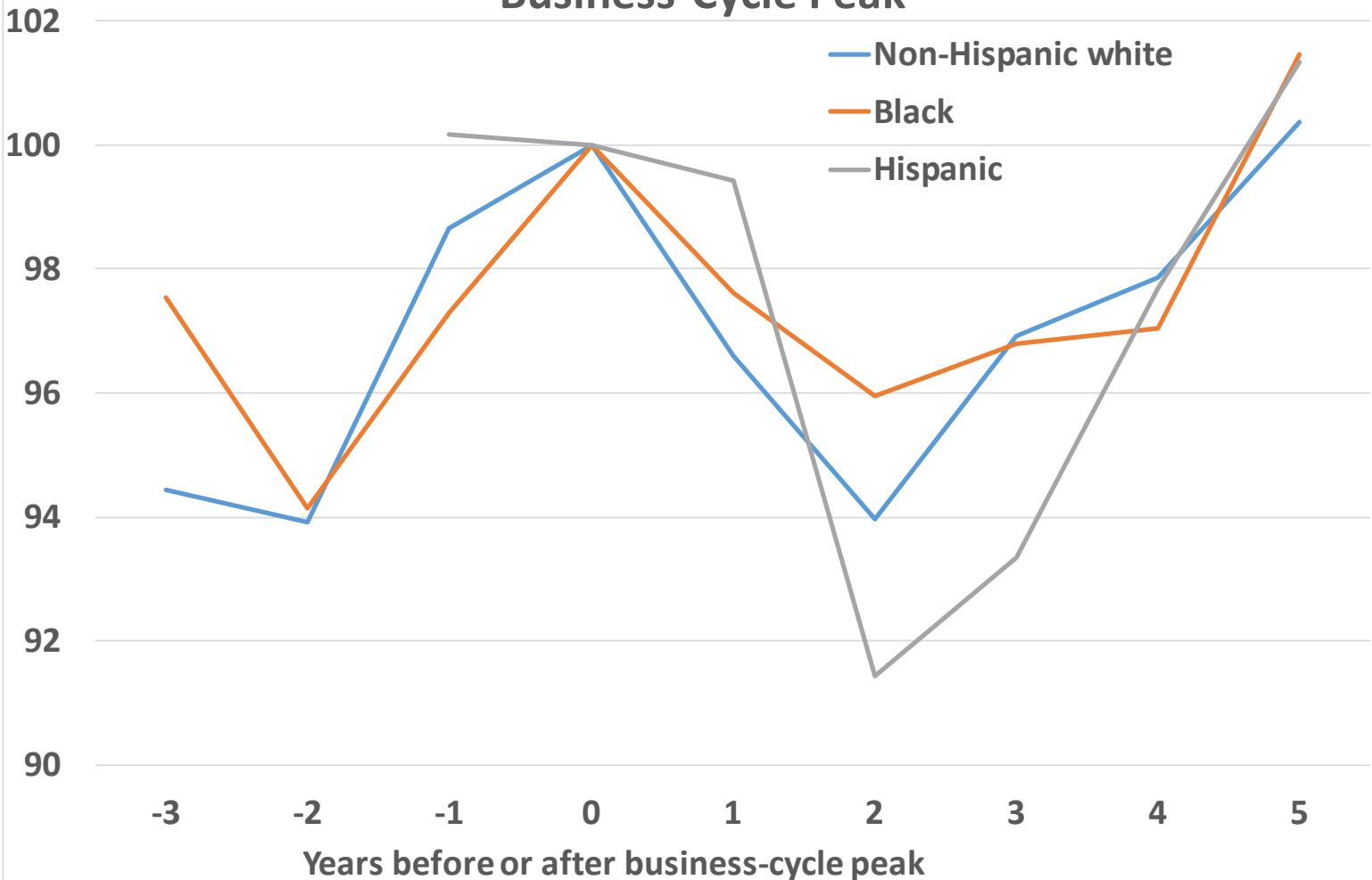


Source:
Bureau of
Labor
Statistics

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

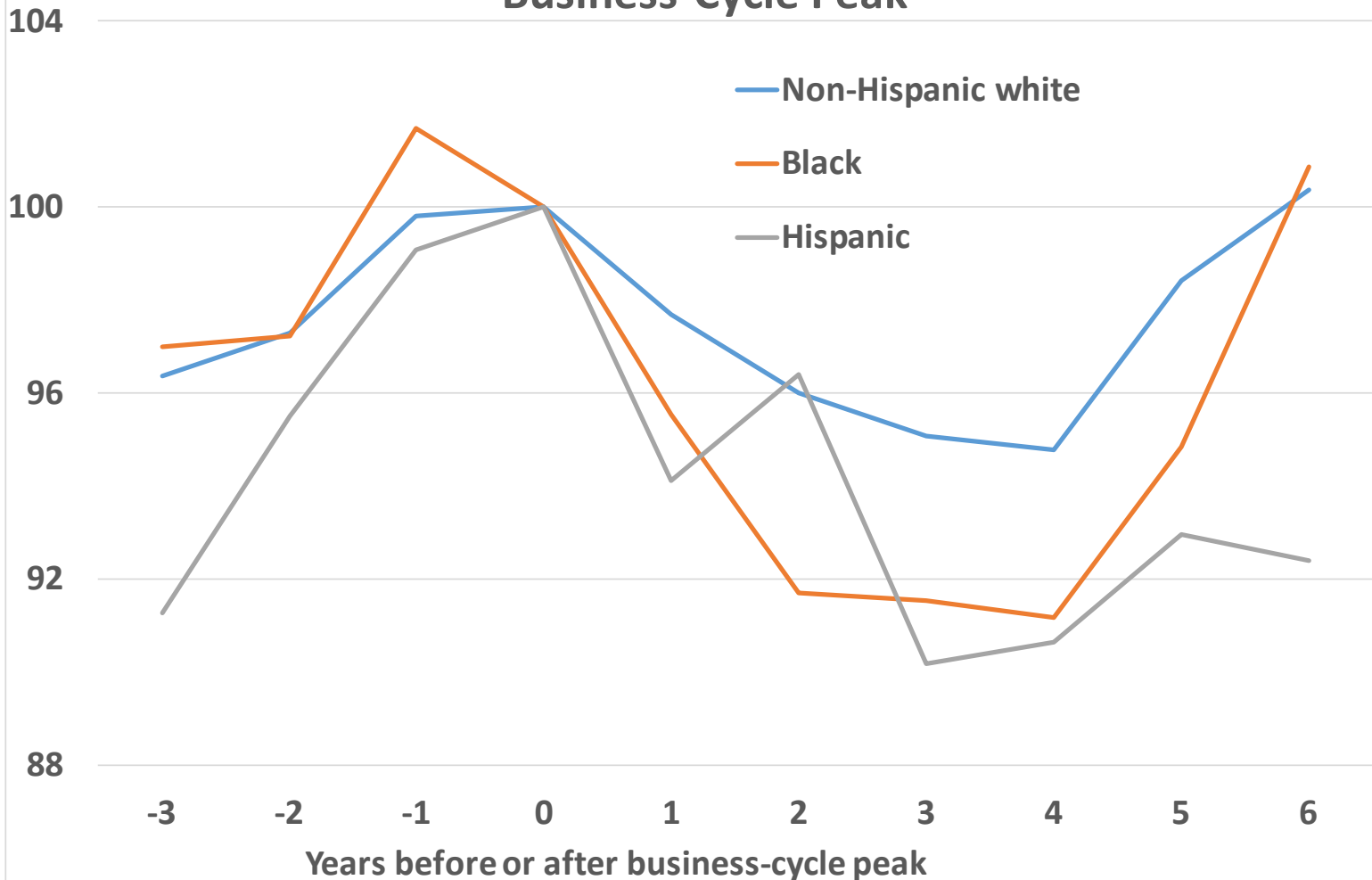


Source:
Census
Bureau

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

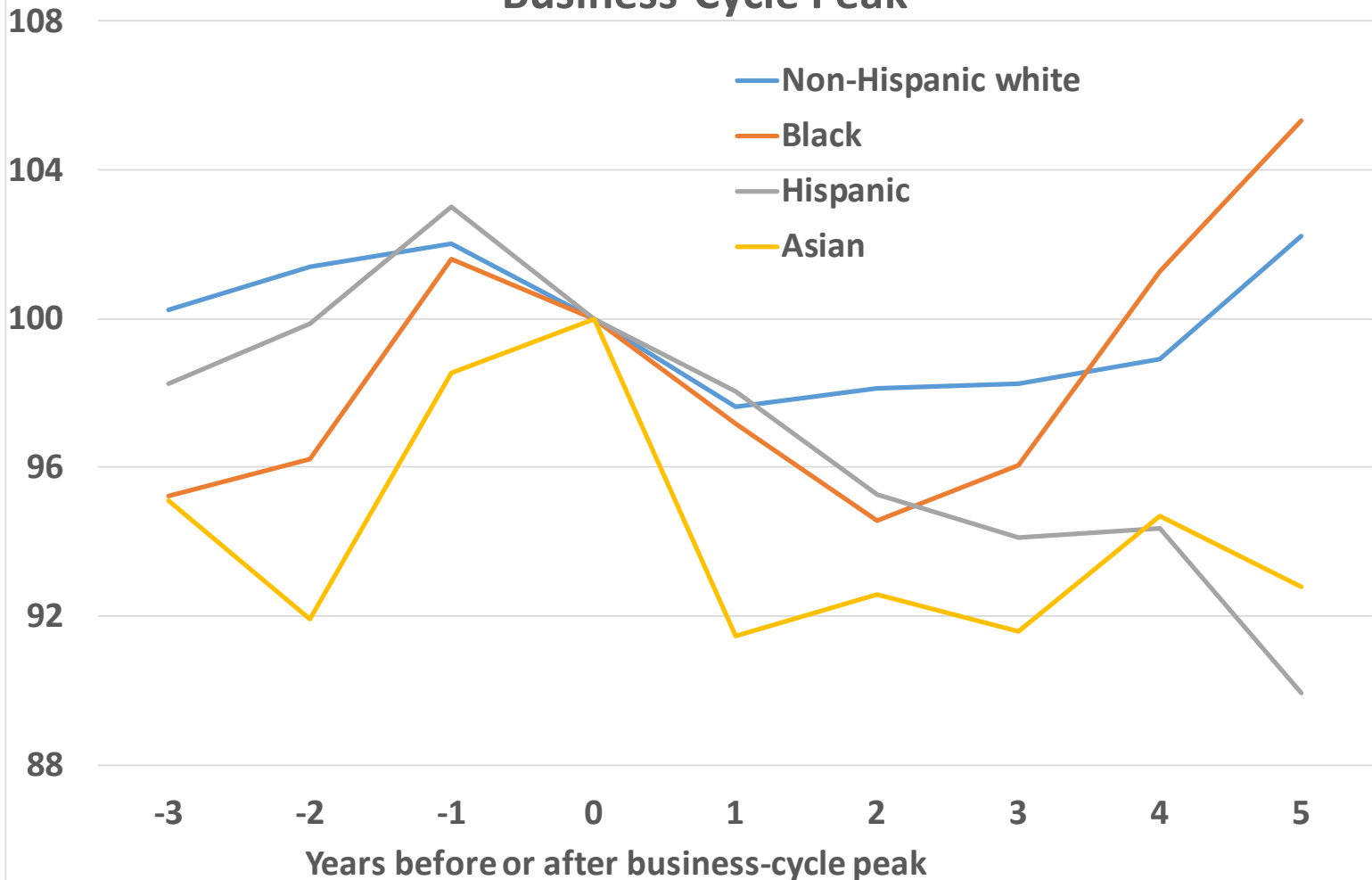


Source:
Census
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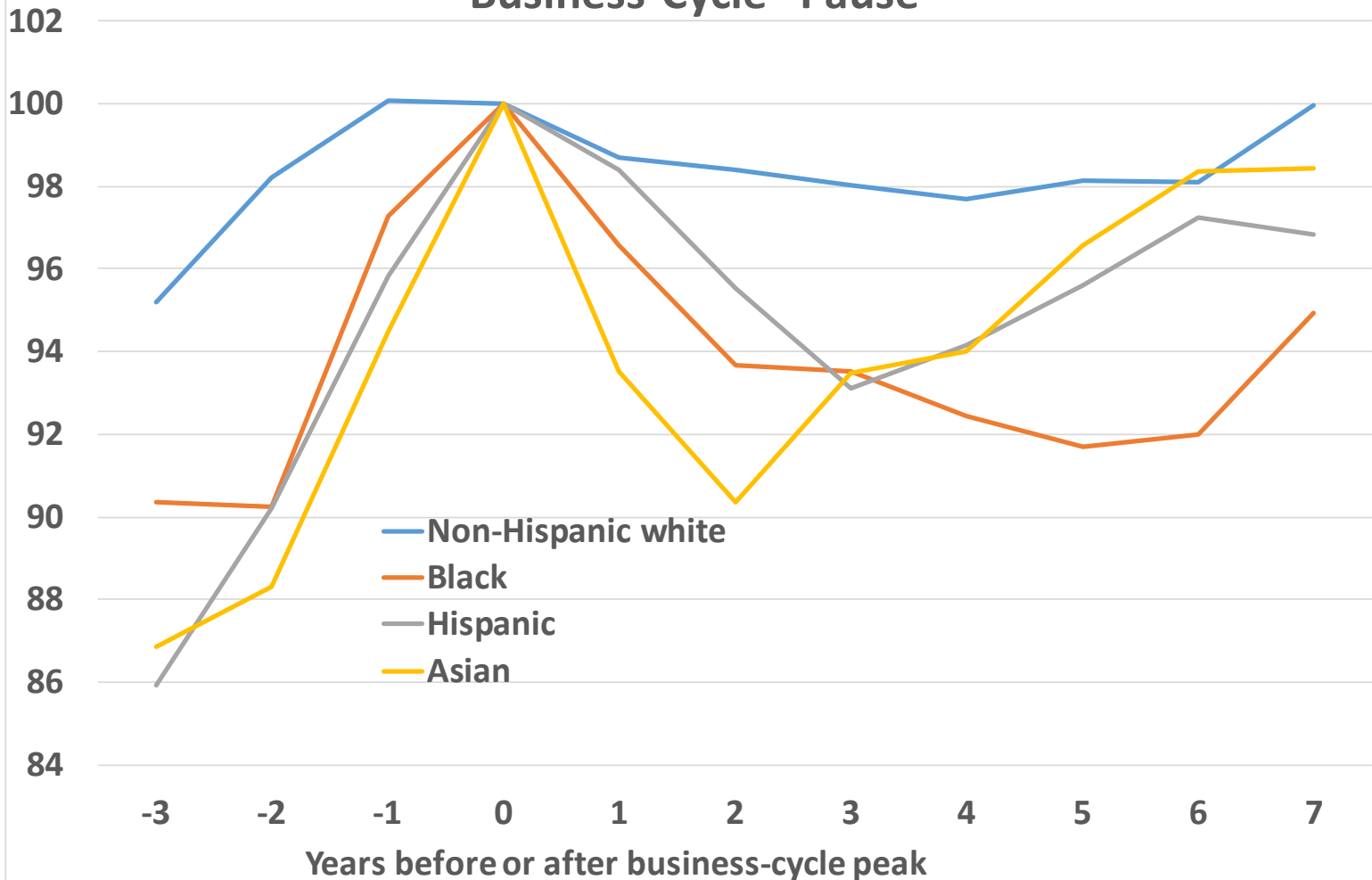


Source:
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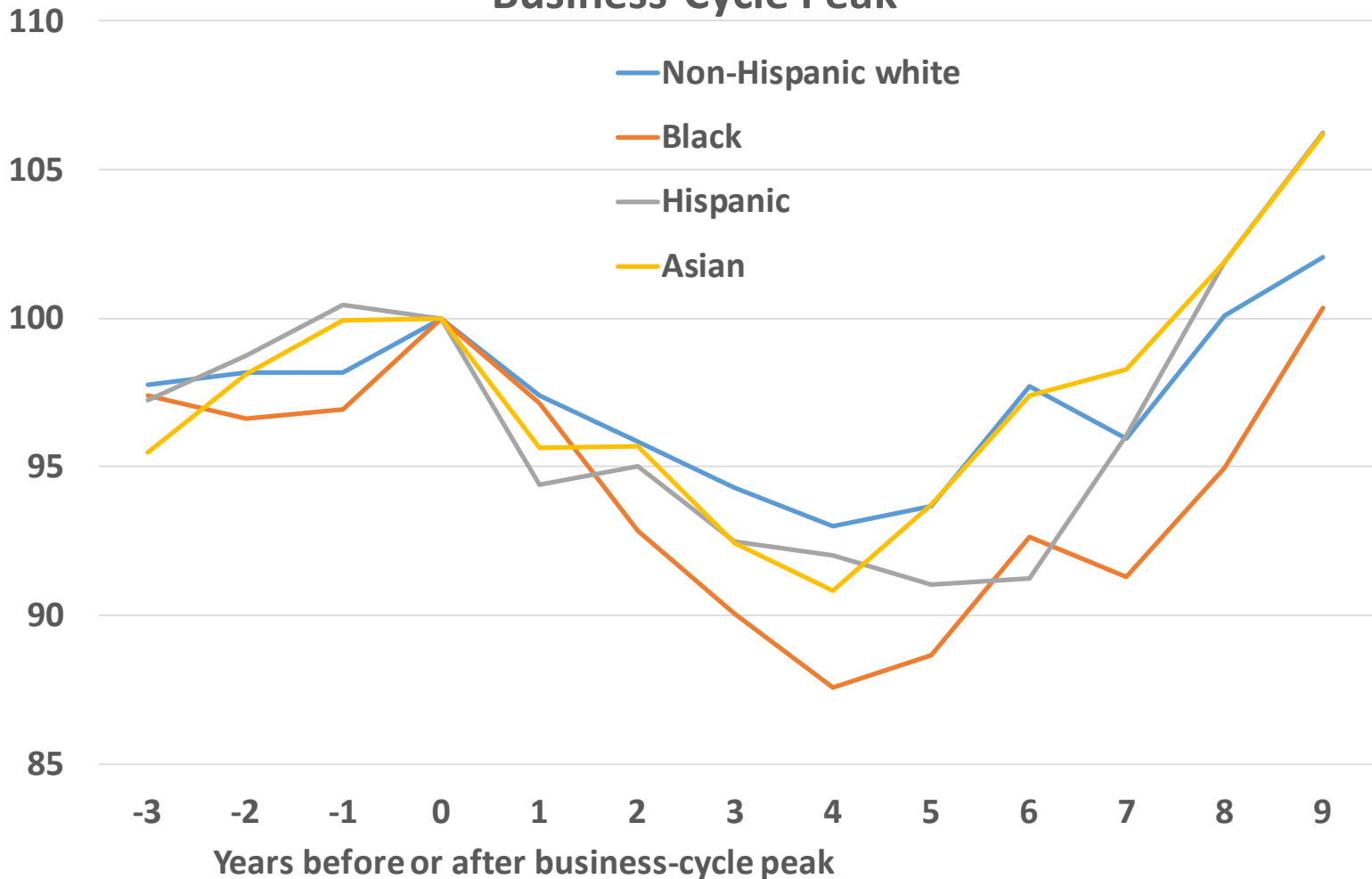


Source:
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Bureau

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Census
Bureau

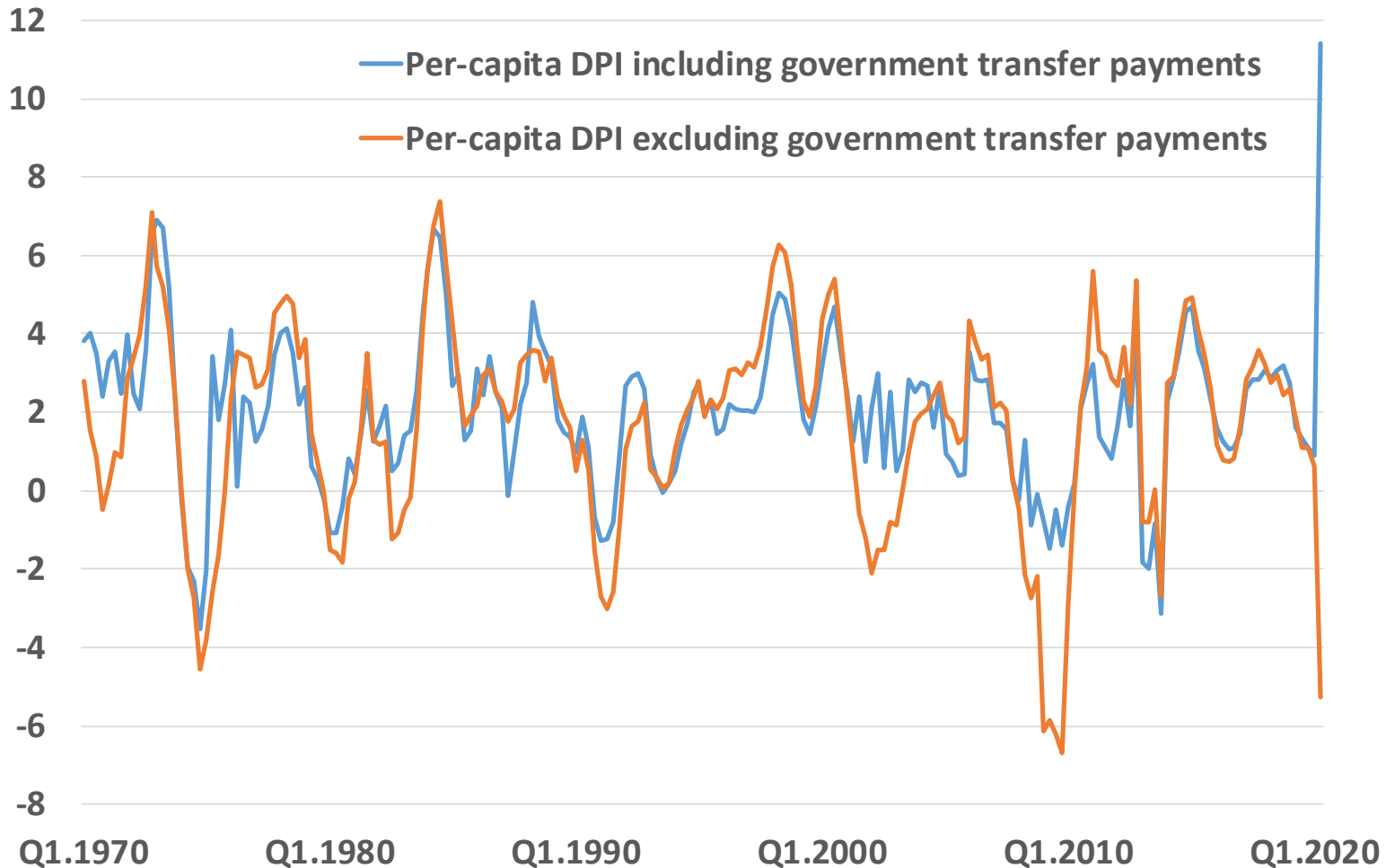


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Large Government Transfer Payments Boosted HH Incomes Temporarily in Mid-2020

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

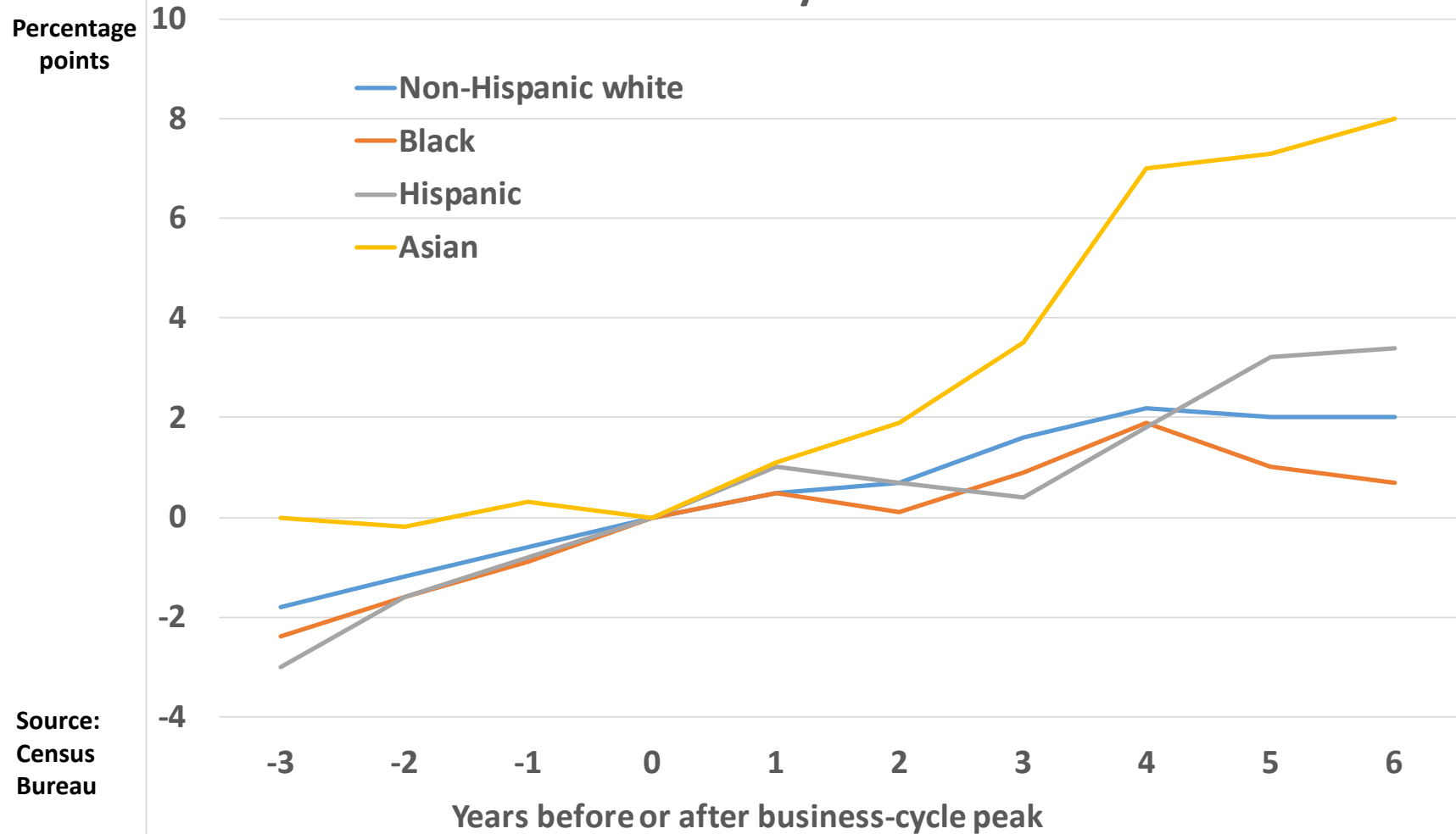
Percent
change from
year ago



Source:
Bureau of
Economic
Analysis

The Inflating Housing Bubble of the 2000s Obscured the Mild 2000-01 Recession

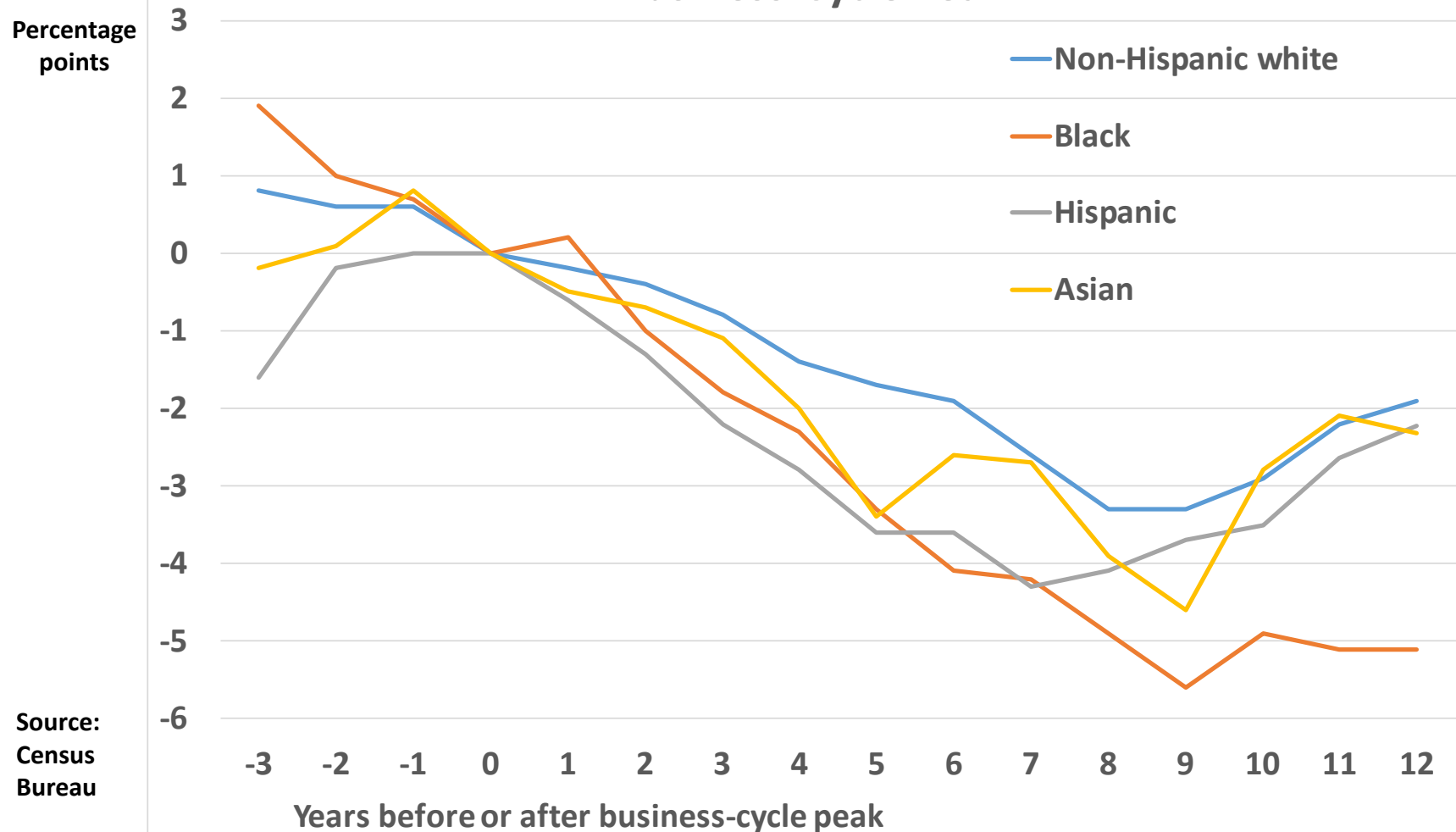
Difference in Homeownership Rate from 2000
Business-Cycle "Pause"



Source:
Census
Bureau

The Bursting Housing Bubble Led to the Great Recession, Hitting Non-Whites Harder

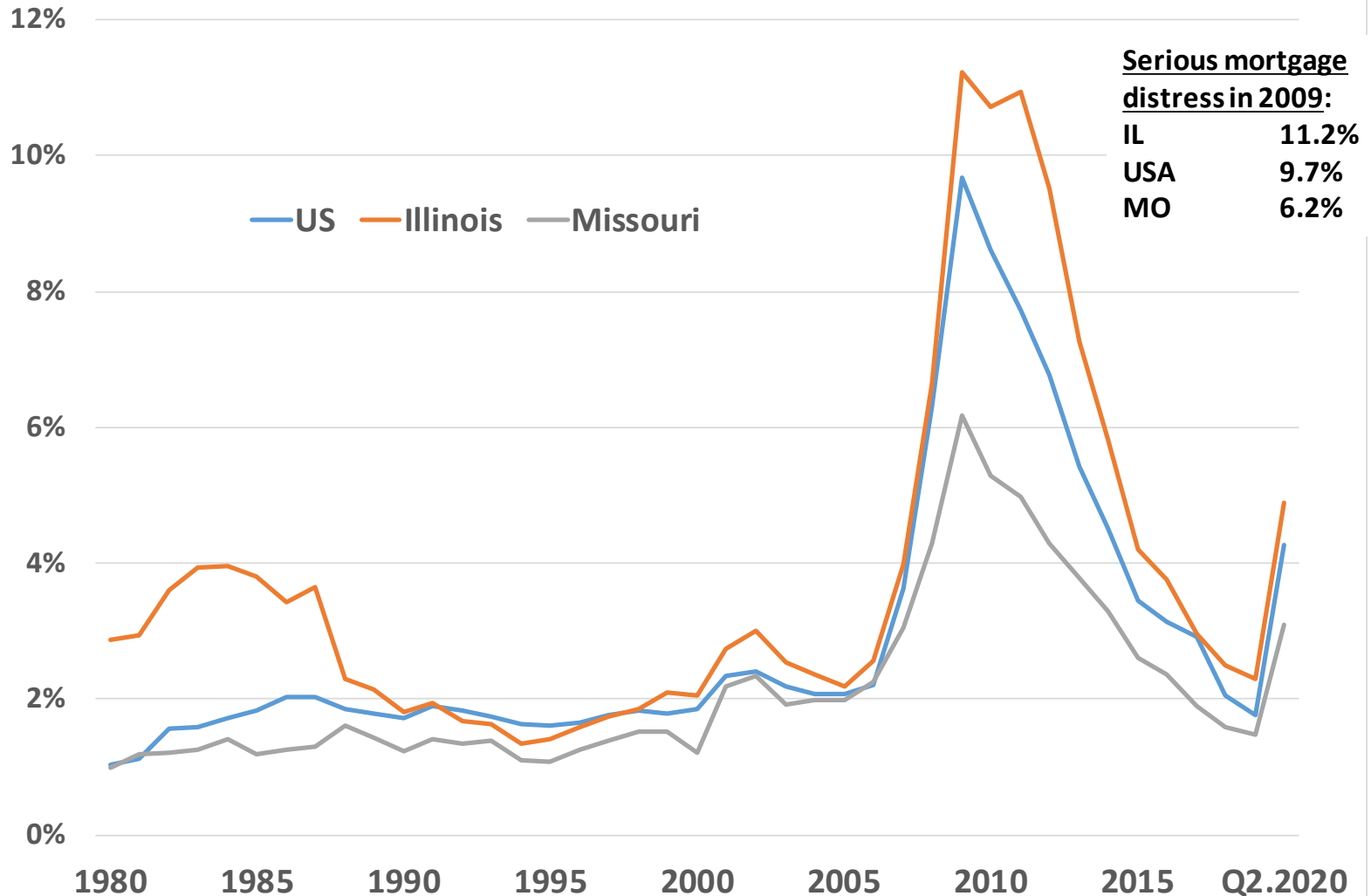
Difference in Homeownership Rate from 2007
Business-Cycle Peak



Source:
Census
Bureau

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

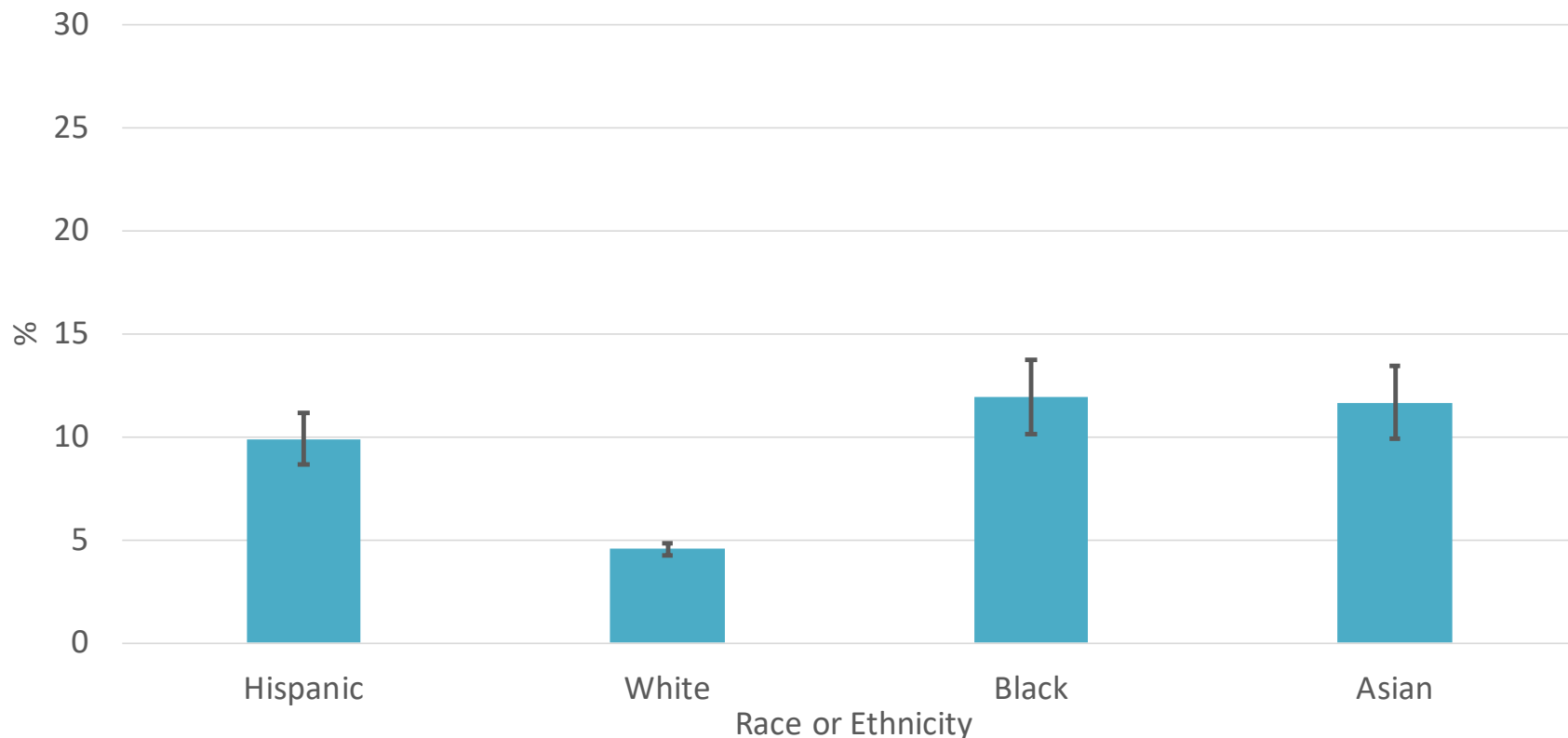
Share of Mortgages 90+ Days Delinquent or in Foreclosure



Source:
Mortgage
Bankers
Association

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

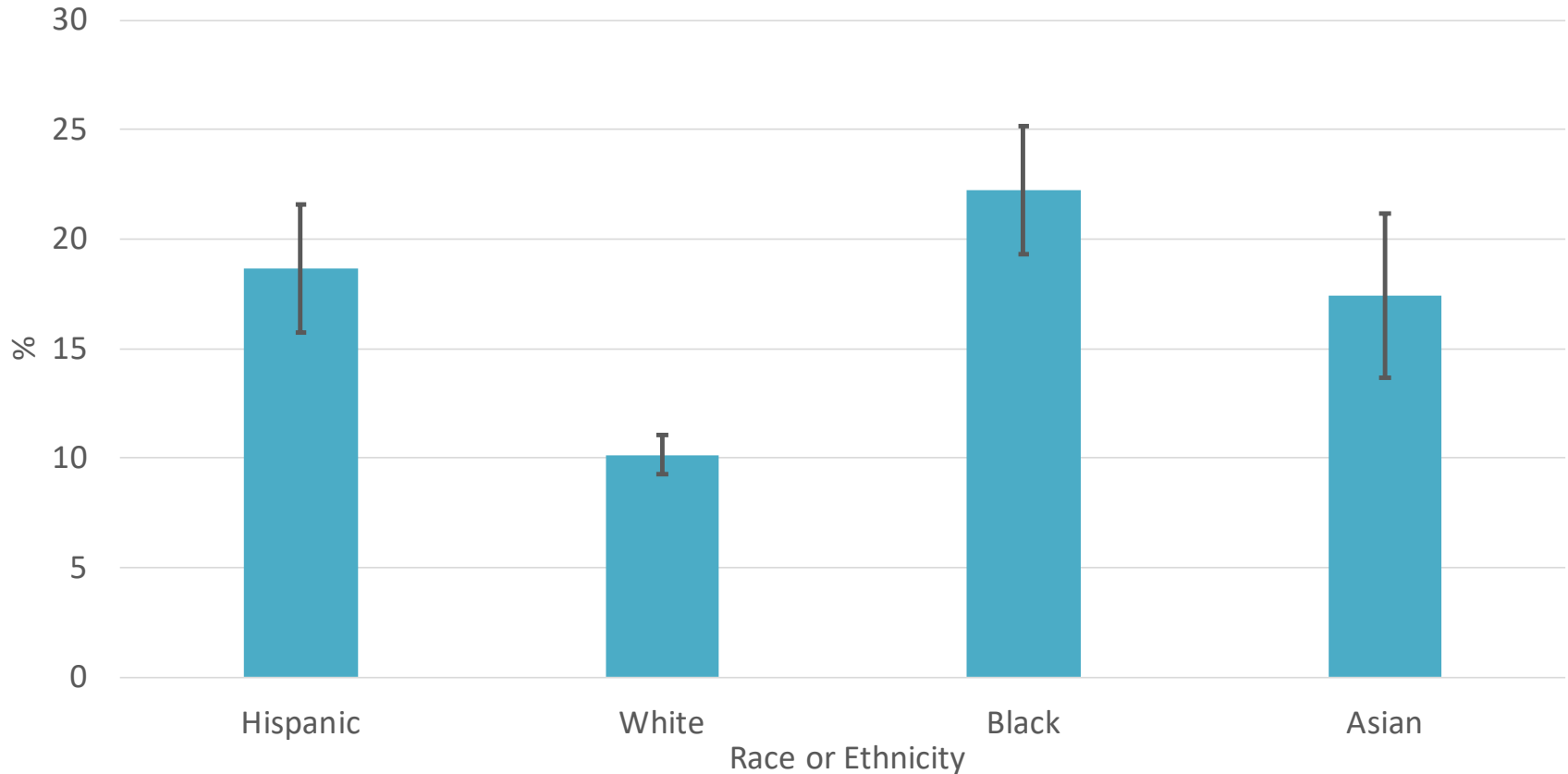
Share of Owners Not Current on Mortgage, by Race and Ethnicity: Week 13, August 19-31



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.**