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Early Evidence on the End of Expanded Federal Unemployment Benefits

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Summary

Beginning in May a number of states announced that they would be ending participation in the federal enhanced and expanded unemployment benefit programs instituted during the COVID-19 pandemic. In total, 26 states decided to end their participation in these programs before their scheduled expiration in September. Due to limited data, this report focuses on the first four states that ended benefits on June 12, and the additional eight states that ended them on June 19.

Data on continued claims, counting the total number of workers claiming unemployment benefits on the regular state unemployment insurance programs, is available through July 17, four or five weeks after expiration of the enhanced benefits in these states. I find that the first four states experienced a substantial drop of 26.3% in continued unemployment claims since June 5, the next eight states saw a decline of 15.1%, and the rest of the US dropped only 0.1%. Moreover, Alabama (in the group of eight) had an anomalous spike in benefits the week after expiration, which has since faded. Excluding Alabama, the other seven states in the second group saw a 21.3% drop. Since the week ending May 8, the week before program most of the terminations were announced, the first four states saw a 31.4% drop in continued claims, the next eight had a decline of 27.3% (31.3% excluding Alabama), and the rest of the US dropped by 10.2%.

Initial results suggest that the announcement and expiration of expanded unemployment benefits were accompanied by a decline in initial unemployment claims, followed by a decline in continued claims. Thus, in addition to the direct impact of reducing unemployed claimants on the enhanced and extended federal benefits programs, the terminations also reduced the number of unemployed workers filing for the regular state unemployment insurance programs, whose effective benefits were cut but whose eligibility was unaffected.

Continued Claims

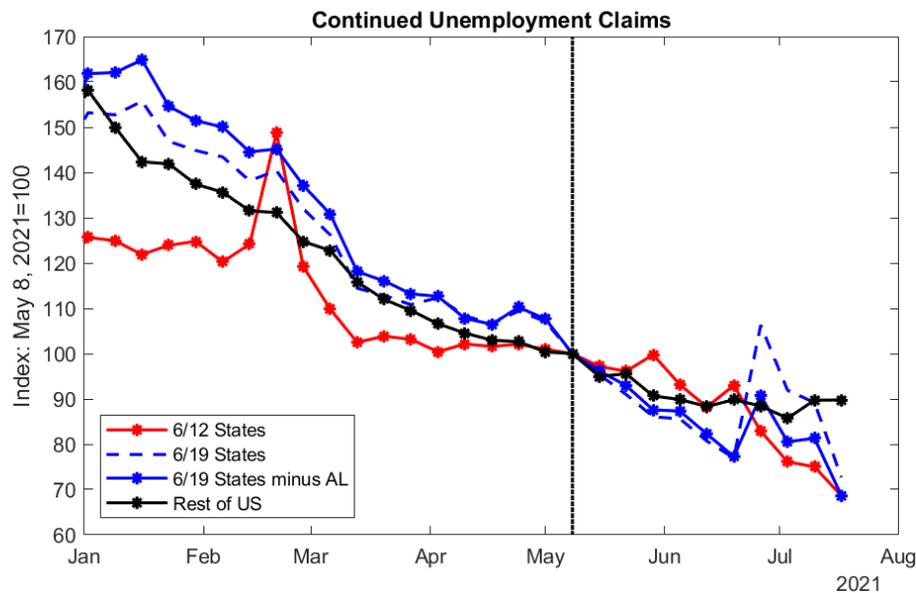


Figure 1: Continued unemployment claims in the states ending unemployment benefits on June 12 (red) and June 19 (blue) along with the rest of the United States (black). Indexed so May 8, 2021 = 100. The vertical line in the right panel is May 8, the week before the terminations were announced.

In what follows, I separate states into three groups: the first four states (Alaska, Iowa, Mississippi, and Missouri) ended benefits on June 12, the next eight (Alabama, Idaho, Indiana, Nebraska, New Hampshire, North Dakota, West Virginia, and Wyoming) who ended benefits on June 19, and the rest of the US. While there were additional groups of states ending benefits in the following weeks, there are fewer data points after termination for these states.

Figure 1 shows data on continued unemployment claims, representing the total number of people claiming unemployment insurance benefits in the regular state system. This data is released with a one-week lag, and so is available through July 17, the five weeks after the expiration of the expanded federal benefits in the first four states and four weeks after expiration for the second group. The data are indexed to be equal for the week ending May 8, which is the week before the states first announced the termination of benefits. Of the total group of 12 states, 11 of them announced the termination of benefits between May 10 and May 18, with Nebraska announcing on May 24. Further, many of the states terminating benefits on June 19 made their announcements around the same time as those ending a week earlier.

The figure shows that all of the groups of states experienced a drop in continued unemployment claims after May 8, but the decline was larger in the states ending federal benefits early. Moreover, continued claims in the rest of the US has remained relatively flat over the past seven weeks since June 5, while the states ending benefits have seen a notable unemployment drop. In

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particular, the first four states experienced a substantial drop of 26.3% in continued unemployment claims since June 5, the next eight states saw a decline of 15.1%, and the rest of the US dropped only 0.1%.

Moreover, Alabama (in the second group of 8 states) had an anomalous spike in continued claims on June 26, the week after federal benefit expiration, with continued claims nearly tripling to a level not seen since the fall of 2020. Initial unemployment claims in the state showed no such spike, so this was not a result of a wave of layoffs. Potentially it could represent backdated filings which came in around the date of the expiration. Whatever the case, it did not seem to represent a surge in current unemployment, and has since faded. Indiana and Missouri saw similar short-lived jumps on June 26, but of smaller magnitude. Excluding Alabama, the other 7 states in the second group saw a 21.3% drop in continued claims since June 5.

Since the week ending May 8, the week before program most of the terminations were announced, the first four states saw a 31.4% drop in continued claims, the next 8 had a decline of 27.3% (31.3% excluding Alabama), and the rest of the US dropped by 10.2%.

Conclusion

While it is still relatively early, these results suggest that the announcement and actual expiration of expanded unemployment benefits were accompanied by a substantial decline in continued unemployment claims. Moreover the relative declines in unemployment occurred in the weeks around the expiration of benefits. This is consistent with previous research which has shown that re-employment rates are relatively constant over the duration of an unemployment spell, but increase sharply with benefit expiration.

Thus, in addition to the direct impact of reducing unemployed claimants on the enhanced and extended federal benefits programs, the terminations also reduced the number of unemployed workers filing for the regular state unemployment insurance programs, whose effective benefits were cut with the end of the federal \$300 per week top-up, but whose eligibility was unaffected.