More 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. This note uses data from the Bureau of Labor Statistics monthly household and payroll employment surveys, which now includes data through July. Due to this data limitation, I focus on the 22 states that ended federal benefits in June.

Most of these states announced the end of the enhanced federal unemployment benefits at least one month prior to their expiration, with the earliest announcements starting in mid-May. Since the reference week for the BLS surveys is the calendar week including the 12th of the month, I take the May survey as the baseline. Grouping the states into those terminating benefits in June and the rest of the US, I then compare the growth rates of various employment indicators over the two months following May to that of the preceding two months.

While caution should be exercised given the very short data sample, the results suggest that ending enhanced benefits had a positive impact on the labor market. Across all indicators I find that the terminating states experienced improved labor market outcomes relative to the rest of the US. Employment growth accelerated by more in these states in both the household and payroll surveys, and the labor force grew more rapidly. The relative gains in private employment were even more than total employment, and employment growth in the leisure and hospitality sector was especially strong in the terminating states. This is notable since this sector was hit hard by the COVID-19 pandemic recession, and due to its low average wages, was likely most affected by disincentive effects of the enhanced unemployment benefits.

Results

As discussed above, there were 22 states that ended their participation in the enhanced federal unemployment benefits during the month of June. These were the following:

- June 12: Alaska, Iowa, Mississippi, and Missouri
- June 19: Alabama, Idaho, Indiana, Nebraska, New Hampshire, North Dakota, West Virginia, and Wyoming
- June 26: Arkansas, Georgia, Ohio, South Dakota, Texas, Utah
- June 27: Florida, Montana, Oklahoma
- June 30: South Carolina

Table 1 below reports the results. For each indicator, I look at the 2-month growth rate from March-May 2021 and the 2-month growth rate from May-July 2021 in both the terminating states and the rest of the US. The difference between these growth rates shows whether the particular indicator accelerated or decelerated after May in comparison to the previous two month period. Finally, the difference between these differences across groups ("diff in diff") shows whether the terminating states grew relatively faster or slower than the rest of the US. Of course, given the short post-termination sample these results must be read with caution as only indicative, not definitive or necessarily causal. Nonetheless, all of the indicators in the table suggest that there was an improvement in the labor market in the states which ended their participation in the enhanced federal benefits program.

Overall, the labor markets in the terminating states were already in better shape in March 2021, with lower unemployment rates and employment that had recovered more from the COVID-19 recession. From March-May, the rest of the US recovered relatively faster. That is, the labor markets in the rest of the US were catching up with the terminating states. However after May, the terminating states saw a relative improvement. For example, employment in the household survey grew half a percentage point faster and total nonfarm payroll employment grew nearly a full percentage point faster over the last two months. By contrast, while the labor markets in the rest of the US continued to improve, and some indicators saw an acceleration, the differences were smaller. Employment growth accelerated by more in the terminating states in both the household and payroll surveys, and the labor force grew more rapidly. Unemployment continued to fall in both groups of states, but declined at a slower rate in the last two months. However the deceleration was slower in the terminating states.

The relative gains in private employment were even more than total employment, and employment growth in the leisure and hospitality sector was especially strong in the terminating states. The acceleration of employment growth in this sector is illustrated in Figure 1. These results are notable since this sector was hit hard by the COVID-19 pandemic recession, and due to its lower average wages, was likely most affected by disincentive effects of the enhanced unemployment benefits. In addition, the relative increase of 1.8 percentage points in leisure and hospitality employment in the terminating states was very similar to the magnitude of the increase in employment that I estimated in previous work, Williams (2021), using data on small business employment.

		Mar-May Growth	May-Jul Growth	Difference	Diff in Diff
Household: Employment	Terminating	0.11	0.61	0.50	0.49
	Rest of US	0.39	0.39	0.00	
Household: Unemployment	Terminating	-2.04	-1.35	0.69	-2.59
	Rest of US	-6.08	-2.80	3.28	
Household: Labor Force	Terminating	0.00	0.51	0.51	0.27
	Rest of US	-0.05	0.19	0.24	
Employment: Total	Terminating	0.17	1.13	0.95	0.38
	Rest of US	0.52	1.10	0.57	
Employment: Private	Terminating	0.18	1.15	0.97	0.61
	Rest of US	0.59	0.95	0.36	
Employment: Leisure & Hospitality	Terminating	1.60	3.80	2.20	1.81
	Rest of US	3.96	4.34	0.38	
Employment: Retail Trade	Terminating	-0.28	0.61	0.89	0.41
	Rest of US	-0.19	0.29	0.48	

Table 1: Growth rates in the two months before and after the first announcements of the end of the federal enhanced unemployment benefits, along with the differences, and difference in differences.

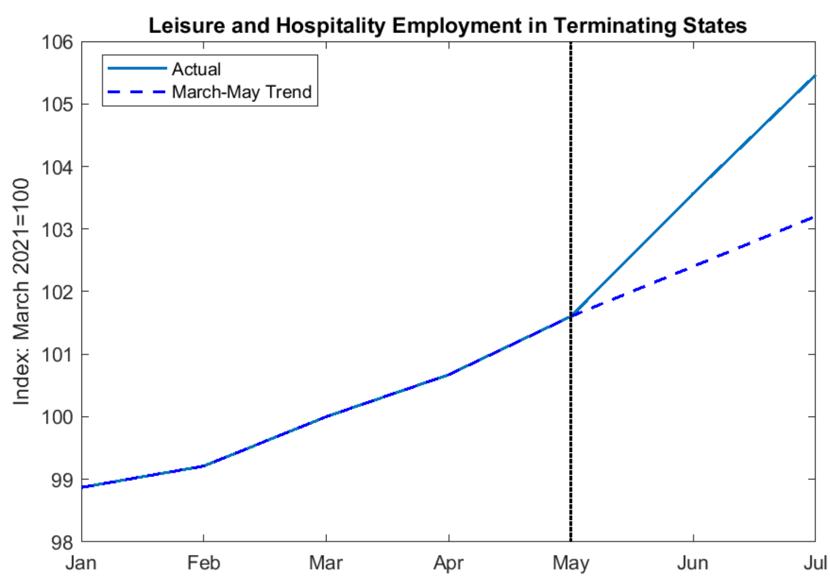

Figure 1: Leisure and hospitality employment during 2021 in the states terminating enhanced federal benefits in June. Indexed so March 2021=100. Also shown is the level if the March-May growth rate had continued.