New Boston Fed studies see grim economic consequences of COVID-19 pandemic in New England

Economic fallout includes major job loss, struggles to pay for housing, likely steep tax revenue drops

By Lawrence Bean
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Massive job loss, widespread difficulty making rent or mortgage payments, and the prospect of steep declines in state tax revenues are among the key economic consequences New England is facing from the COVID-19 outbreak and the public-health efforts to stop the spread of the disease. Preliminary findings from forthcoming New England Public Policy Center studies of the fallout confirm that the impact has been severe for the region's businesses, workers, and households. The findings also indicate that New England state governments will suffer major losses of tax revenues.

The full extent of the economic damage will depend on how long the pandemic forces New England businesses to remain closed and how well economic stimulus efforts, including the federal CARES Act and state expansions of unemployment insurance, offset the shutdown's impacts.

Unemployment insurance claims in New England states higher than U.S. average

The NEPPC's unemployment analysis finds that the number of initial unemployment insurance claims from late March and early April was equal to 16.6 percent of the total workforce in New England. The analysis of the pandemic's impact on housing estimates that, due to the wide-scale job loss, 36 percent of the region's renters and 18 percent of its homeowners are at risk of not being able to pay their rent or mortgage. This equates to $1.5 billion in monthly payments (slides 15 through 18). However, state and federal unemployment insurance expansions and direct payments to households through the CARES Act are likely to bolster households' ability to meet monthly housing payments (slide 19).

Each of the New England states has seen a dramatic surge in claims on unemployment insurance, or UI. As a share of the labor force, the average number of claims for a New England state was higher than the U.S. average. Across the region, initial claims spiked in the second half of March, and as of mid-April, they were much higher than they were at the worst point of the Great Recession. Furthermore, in contrast to the way the number of UI claims rose steadily over a 12-month period during the Great Recession, they quickly soared due to the COVID-19 outbreak and the ensuing policy actions (slides 8 through 11).

Service sector hit hardest, unlike during Great Recession

The New England states that report industry-level breakdowns of weekly UI claims show that the majority of initial claims came from the services sector. In Vermont, 77 percent of the claims in March were from the services sector. This presents another contrast with the Great Recession, when UI claims were spread more evenly among the different sectors in the New England states. In Vermont, for example, only 29 percent of claims came from the services sector in March 2009 (slide 12). In

Massachusetts, 53 percent of claims in March 2020 came from the services sector, compared with 36 percent in the Great Recession.

As noted, unemployment implied by the number of UI claims was already greater than 16 percent in mid-April, but the actual rate could be even higher. This is because limited capacity slowed the processing of claims, even as companies continued to lay off workers. Meanwhile, other companies that shut down early in the epidemic are exhausting the resources needed to keep staff on the payroll.

Tourism, job losses among factors leading to likely steep tax revenue declines

In addition to unprecedented job loss and housing instability, the NEPPC analyses indicate the pandemic will likely lead to sharp declines in state tax revenues. Among the reasons:

- The cratering of tourism creates a drop-off in room and meal taxes
- Employment losses result in falling personal income taxes
- Decreased business activity reduces business income taxes
- Falling consumption leads to a downturn in sales taxes.

The NEPPC estimates that Massachusetts's tax revenues for fiscal year 2020 will be $3.3 billion to $3.9 billion lower than they were in 2019, depending on how high unemployment rises. The NEPPC provides estimated state tax revenue losses for each New England state (slides 21 through 23). The magnitude of the tax revenue losses will depend on the depth and the duration of the economic downturn as well as the elements of the state tax system, but the losses likely will continue into fiscal year 2021 (slide 24).

The NEPPC will present the complete findings from its studies of the economic impact of the COVID-19 epidemic in New England in forthcoming reports.

Please visit www.BostonFed.org/neppc for the associated slide deck.

Questions?
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