

# The Uneven Burden Of COVID-19

Sri Thanabalasingam, Senior Economist | 416-413-3117

March 18, 2020

## Highlights

- The coronavirus outbreak continues to escalate in the United States, posing a heavy burden on the U.S. health system as well as the economy.
- The economic burden is uneven, however, with low wage industries disproportionately affected. As a result, low income households are facing a squeeze to their finances.
- Without work, households cannot afford the essentials such as groceries or meet ongoing financial obligations such as mortgage/rent, car, credit card or utility payments.
- Policymakers have moved to support the population, but more needs to be done. Paid sick leave for all, supplementary monthly income, and monetary support for impacted businesses are some of the measures fiscal authorities can take to support low income households during these trying times.

The novel coronavirus, COVID-19, has hit the United States fast and hard. The number of persons testing positive for the virus has increased from just 62 cases on March 2nd to more than 6,000 cases now.

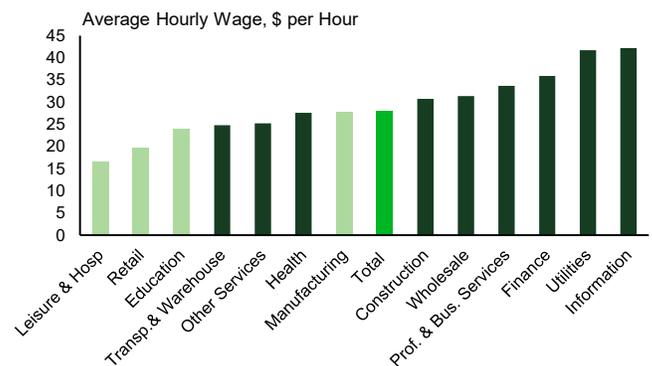
Due to the potential significant health risks posed by the virus, authorities have moved to contain the spread. President Trump declared a national emergency on March 13th, while state authorities have shutdown schools, restaurants, bars, among other social hotspots.

These actions imply sudden stops in activity in various industries that will begin to show up in the economic data in the months ahead. Some industries have been hit harder than others, specifically leisure and hospitality, retail, education, and manufacturing industries.

On this list are generally high employment, below-average wage industries, implying an even larger fall in working hours relative to aggregate income. In most of these areas, telecommuting is not an option, making workers more vulnerable to income losses during the shutdown period. Shutdowns in these industries will mean that low income households will bear the brunt of the impact created by COVID-19.

Government policies to cushion the impact of the virus must include safeguards for this vulnerable population. Indeed, we have already seen a bill that includes paid sick leave, and increased unemployment insurance pass the House this past weekend. Assuming the legislation is enacted, it is merely the first step. Ad-

**Chart 1: COVID-19 Disproportionately Impacts Low Wage Industries**



Source: Bureau of Labor Statistics, TD Economics

ditional policies, such as temporary income support for low income households and monetary support for most-affected industries, could be implemented to limit the negative shock brought on by the coronavirus.

## Lower Wage Industries Disproportionately Impacted by COVID-19

COVID-19 began as a material, but relatively small shock mainly affecting the manufacturing and tourism and travel sectors. However, as it spread at a rapid pace across the country, it has evolved into a much larger threat to the economy.

To contain the virus and ease the burden on the health system, government authorities have shut down schools, businesses, and tightened border controls. While all industries have come under stress due to these measures, they disproportionately impact leisure and hospitality, retail, education, and manufacturing industries.

In the case of manufacturing, it is possible that employers could introduce measures to ensure safety in the work place, i.e. safely distancing workstations to limit the spread of the virus. However, with schools closed, many parents in the industry have to stay at home to look after their children.

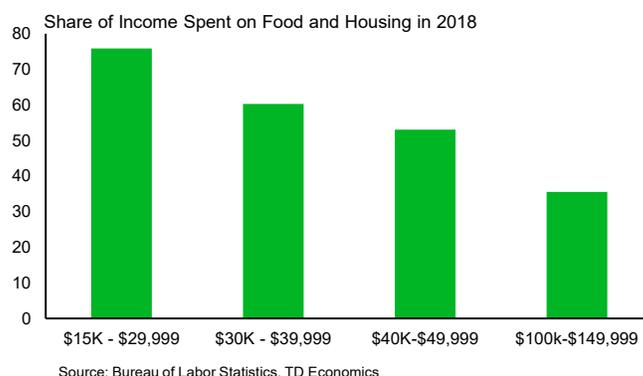
Several of the industries most impacted by COVID-19 pay relatively low wages (Chart 1). Leisure and hospitality, retail, education, and manufacturing all pay wages that are below the national average. The hourly wage in the leisure and hospitality sector is less than two-thirds of what is paid to the average worker in the United States.

As a result, the coronavirus is having an uneven impact on workers from different industries. Low income households depending on pay from the aforementioned industries, will face the steepest challenges.

## Low Income Households Face Steep Challenges

The coronavirus outbreak introduces a number of challenges for vulnerable households. Without work, households may not be able to afford the essentials such as groceries or meet ongoing financial obligations such as mortgage/rent, car, credit card or utility payments. As

**Chart 2: Lower Income Households Spend a Greater Share of Income on Food and Housing**



a share of income, the lowest income households spent over 50% of their income on food and shelter (Chart 2). This share is only 35% for households making between \$100,000 to \$150,000.

In addition, many members of low-income households do not have health insurance in the event they require treatment for the coronavirus or any other ailment. In 2018, 15% of people making less than \$50,000 a year did not have health insurance.<sup>1</sup> Despite the availability of free COVID-19 testing, if treatment is needed, it may be unaffordable for this segment of the population.

## Government Policies Should Safeguard This Population

Given the uneven shock faced by low income households, fiscal policies should focus on safeguards for this population.

The recent bill passed by the House, which embeds paid sick leave for a segment of workers and increased unemployment insurance, is a good first step. But, not all workers have access to paid sick leave, especially the workers in industries most directly impacted by COVID-19 (Chart 3). Moreover, companies with over 500 or more workers are not included in the legislation, and companies with less than 50 employees can apply for exemptions. Although many large employers tend to provide sick-leave benefits, it is voluntary. In the face of a deep negative shock like coronavirus, coverage should be expanded to all workers.

**Chart 3: Industries Impacted by COVID-19 Have Less Access to Sick Days**



Source: Bureau of Labor Statistics, TD Economics

In addition to this bill, other policies should be considered to cushion the impact on low income households. The most effective policy would be to provide supplementary income. Temporary cash payments could alleviate debt pressures, cover utility bills and allow for purchases of food and other necessities while without an income. Legislation should also cover potential health-related costs for those without health insurance. This would ease the challenges faced by the vulnerable population.

Currently, there are reports that the U.S. administration is considering cash payments to households, and some policymakers have suggested \$1,000 checks might suffice. According to our calculations, however, low income households, spend, on average, around \$1,700 on housing and food per month. Stimulus measures would be most effective if they cover all necessary expenditures.

Fiscal initiatives should also include policies supporting businesses severely impacted by the coronavirus. Measures to assist businesses with maintenance costs that arise in the form of utility bills, rent, and debt servicing payments.<sup>2</sup> This would enable businesses to “hibernate” until the shutdown is lifted.

Moreover, this policy would stop the coronavirus shock from biting into the production capacity of the U.S. economy by limiting the number of business bankruptcies, ensuring a speedy economic recovery once the virus is contained.

### Bottom Line

COVID-19 poses a worrying risk to people as well as the economy. Social distancing will help contain the virus, but it will weaken the economy. Low income households stand to bear the brunt of the impact. Policymakers have moved to support the population, but more needs to be done to safeguard those most vulnerable. The earlier policies are enacted, the better the economy will fare when COVID-19 is finally behind us.

---

## Endnotes

1. U.S. Census Bureau. "Health Insurance Coverage in the United States: 2018". <https://www.census.gov/content/dam/Census/library/publications/2019/demo/p60-267.pdf>.
2. Emmanuel Saez and Gabriel Zucman. "Keeping Business Alive: The Government Will Pay". <http://gabriel-zucman.eu/files/coronavirus2.pdf>.

## Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.