MARCH 10, 2023

Closing The Books On The Pandemic Emergency

Ending pandemic relief programs will strain household budgets.

The photos app on my smartphone occasionally compiles collections of pictures I took years in the past. They are a pleasant diversion to start my day. I've found I'm most intrigued by the photos from three years ago, in early 2020: family outings and business trips that took place just before the world changed.

Those images offer little hint of the storm that was brewing. On January 31, 2020, the U.S. Department of Health and Human Services first declared a public health emergency related to COVID-19. The declaration expanded the federal government's power to provide relief to the nation, enabling a variety of emergency programs. Ever since then, the emergency declarations have been renewed every three months.

But nothing lasts forever: the Biden administration has stated the declarations will end on May 11, 2023. Curtailment of support for healthcare, food and student loans will all carry negative implications for consumption.

The first and most urgent emergency response in a public health crisis was ensuring access to health care. Medicaid was designed to be a healthcare payer of last resort, but the emergency declaration shifted it to continuous enrollment: Anyone who received coverage due to a temporary setback has remained Medicaid-eligible as long as the declaration is in place. More than 20 million people have entered the program since 2020, most of whom will soon fall off the rolls. According to an analysis by the Kaiser Family Foundation, **up to 14 million people** could lose Medicaid coverage due to the end of the emergency; as the program sunsets in the remainder of the year, these participants will need to find other coverage.

Medicaid is a federal program administered by states. To fund the additional demands on healthcare systems, lawmakers boosted the portion of Medicaid expenditures paid by the federal government to states by 6.2%, to a range of **69% to 89%**, depending on the state. Less federal funding will add to pressure on states' budgets and capacity for healthcare services.

Second, after ensuring access to healthcare, the federal government expanded food security through the Supplemental Nutrition Assistance Program (SNAP). In the pandemic, temporary funding allowed for more generous SNAP payments, but those emergency allotments have ended. While access to the program has not changed, payouts in March reverted to their more stringent past levels. The value of benefits received will fall by at least **$95 per month**, with some households seeing a decline of $250 or more. In 2023, the average value of SNAP will amount to $6.10 per person per day.

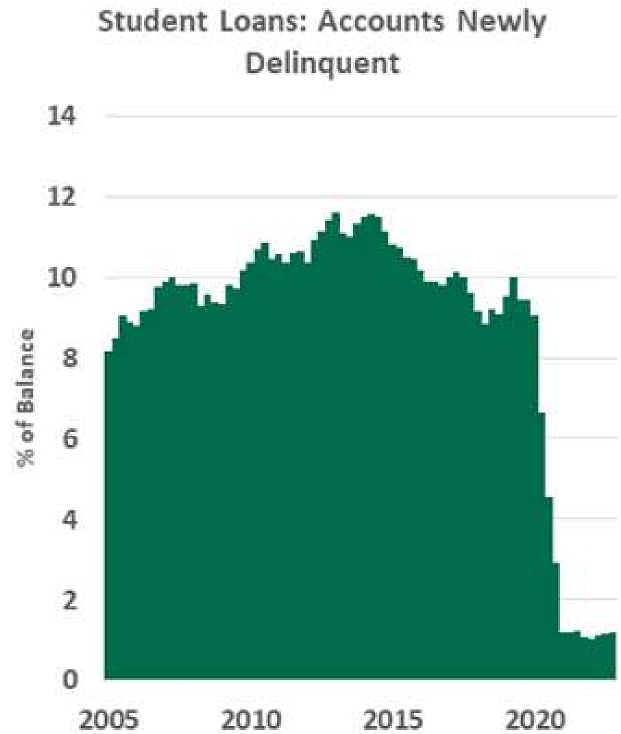
The curtailment of SNAP will not only hit consumers' wallets and stomachs, but also retailers' revenues. The expansion represented an additional **$98 billion of food spending** over the past three years, with SNAP representing about 12% of sales of food at home. Grocery chains are bracing for a slower year.

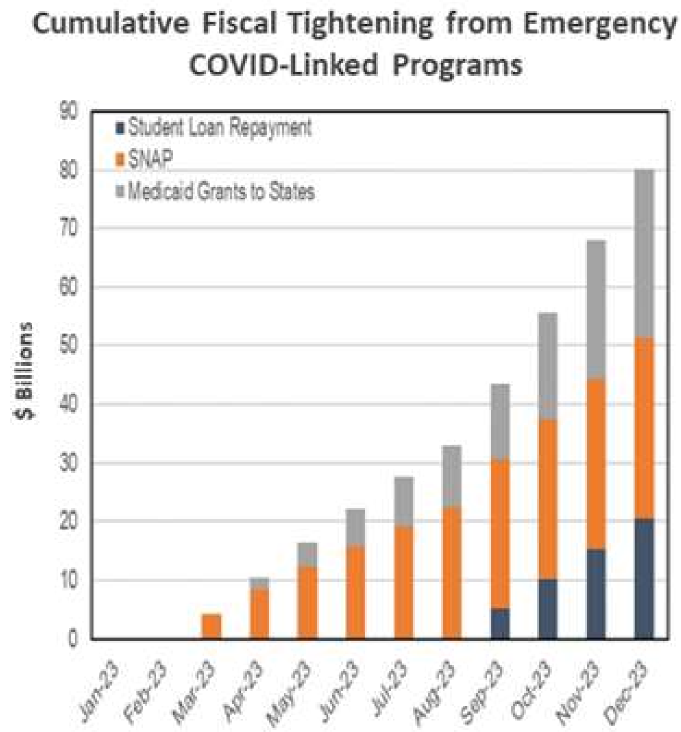
Pandemic-era social support programs have run their course.

Third, student loans are back in the news, as the Supreme Court heard arguments related to the legality of the Biden administration's plan to forgive $10,000 of federal student loan debt per borrower. We regarded the plan as an **expensive half-measure** that did not address the drivers of high education debt. Whether the forgiveness is upheld or struck down, debt payments will resume later this year, after the Court's decision is announced.

The majority of student loans are held by the federal government. Payments on those loans have been suspended for the past three years. All borrowers have benefitted from the moratorium, even high-income graduates who would not qualify for the proposed forgiveness. The Government Accountability Office (GAO) **estimates** that 27 million borrowers will return to repayment very soon.

For many borrowers, the resumption of payments will be abrupt and painful, feeling like a new **$393 monthly expenditure** that will burden household budgets. The GAO also noted that over seven million borrowers were already in default when the payment requirement was suspended; that number may grow even larger, impairing those consumers' access to credit.





Sources: New York Fed/Equifax, Haver Analytics, CBO, Departments of Education and Treasury, Piper Sandler

Each of these three programs relied on the pandemic for justification. Ensuring access to healthcare was well aligned with the needs of a public health emergency. Providing relief for nutrition and alleviating the government-controlled expense of student loan payments made some sense in the heat of a crisis, when the outlook for employment and a return to normalcy was most uncertain. Three years later, with the virus better controlled and unemployment reaching new lows, the rationale has run its course.

Can households withstand higher costs and the resumption of loan payments?

While the magnitudes of some of these changes may appear small, they make a significant difference to recipients. Expanded SNAP payments kept 4.2 million people above the poverty line in 2021. Growing consumer debt and delinquencies suggest many households have stretched their budgets to their limits.

In aggregate, normalizing policy on these three fronts will amount to $80 billion in fiscal tightening by the end of 2023. Relative to the **$1.6 trillion** of discretionary spending in the federal budget, the reduction is small, but it will fall upon households with the least savings cushion. The ripple effects could be significant: could these shifts be the straws that break the camel's back? Our hesitancy to call a recession last year, and our forecast of a year of **slow but positive growth**, have hinged on the ongoing strength of consumer spending. Anything that reduces or reprioritizes consumption will weaken an economy that is already in a delicate phase.

The end of an emergency sounds like a welcome event: A crisis is over, risks have abated and healing can begin. But when the change carries high costs for so many households, the end of one emergency could spark the start of another. The memories on our phones show the value of making the most of each day, but for some families, the good times may be harder to come by in the year ahead.

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