



Potential Washington State Poverty Rates for the Covid-19 Era

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While the coronavirus pandemic challenges the health, social connections, and economic well-being of all Washingtonians, the lowest-income residents of our state face particular hardships – and likely will for some period into the future. This memo demonstrates what happened to poverty rates during the Great Recession, offering insight to what may happen in the coming recession.

In April, the unemployment rate reached 14.7% in the Nation and 15.4% in Washington. If the relationship between poverty and unemployment maintains its recent historical relationship, we estimate that 31% of Washingtonians and 41% of Washington children will soon be living under 200% of the Federal Poverty Line. If unemployment reaches 30%, then these numbers could reach 39% and 54% respectively.

Note that throughout this memo we use a poverty rate of 200% of the Federal Poverty Threshold (FPT) because that is the indicator of “poverty” used by Washington State’s Poverty Reduction Work Group.²

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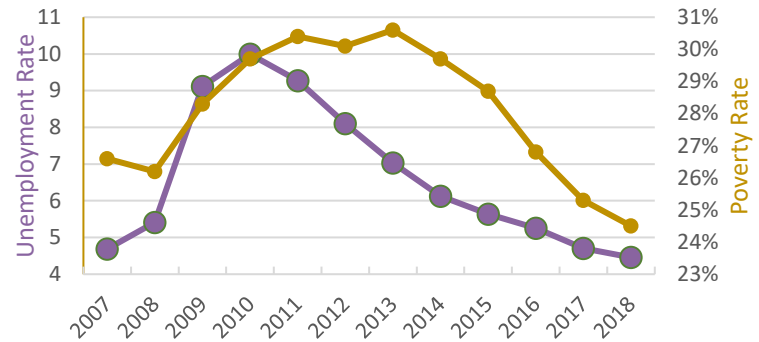
² For more information on using the extended indicator in Washington State, see p. 8-9 in this report: Poverty Reduction Work Group. 2020. *Reducing Poverty & Inequality in Washington State: 10-Year Plan for the Future*. January. Accessed May 20, 2020 from <https://dismantlepovertyinwa.com/>

What Happened in the Great Recession?

During contractions in the economy, increases in unemployment generally give rise to increases in poverty. Poverty then remains high, even as the overall unemployment rate drops.

This held true in Washington over the Great Recession, which began in December 2007 and officially lasted until nationwide growth started again in mid-2009. As Figure 1 shows, unemployment rose for three years before peaking in 2010. From 2010 onward, unemployment rates dropped each year. At the peak of the post-recession period, three out of every 10 Washingtonians were below 200% of the Federal Poverty Threshold (FPT). This rate fell to fewer than one in four by 2018, the year of the most recent available statewide data.

Figure 1. Unemployment Rate and Poverty Rate (200% FPT): Washington

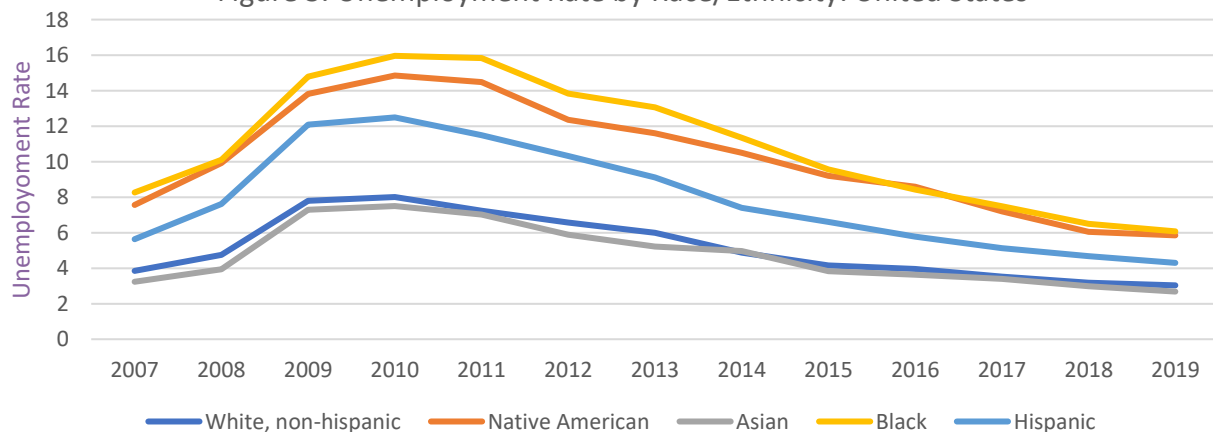


Sources: Bureau of Labor Statistics - Local Area Unemployment Statistics, University of Minnesota - IPUMS ABACUS USA, and U.S. Census Bureau - American Community Survey. Note: The dip shown in 2012 also occurs in the Census Bureau's published tabulations but is within or equal to the margin of error.

Race and Ethnic Differences Persist Through Recovery Period

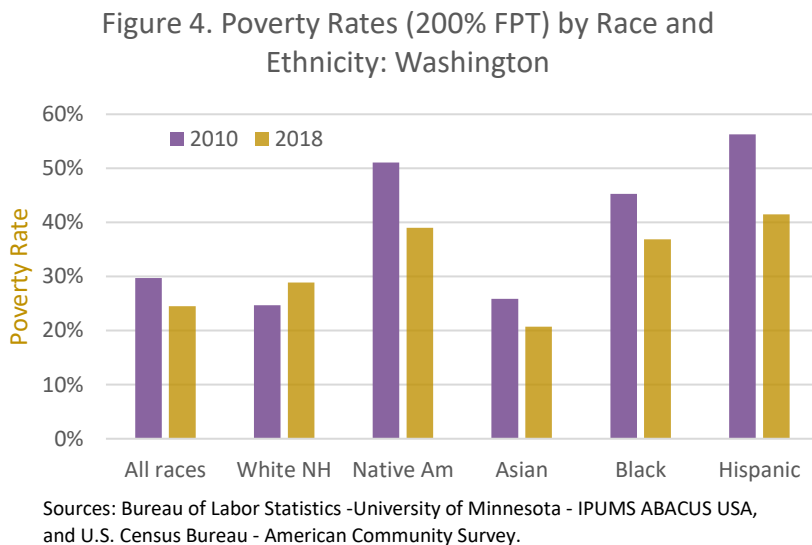
Recent history also shows that experiences of unemployment and poverty are more severe in communities of color. Across time, unemployment rates are higher for workers who are Black, Hispanic, or Native American relative to White, non-Hispanic or Asian workers. Over the Great Recession, unemployment grew to higher levels for less advantaged groups and declined at a slightly slower pace compared to the White, non-Hispanic population. Figure 3 shows these trends. Even at the end of the extended period of economic growth after the Great Recession, racial and ethnic differences remain.

Figure 3. Unemployment Rate by Race/Ethnicity: United States



Sources: Atlanta Federal Reserve - Harmonized Variable and Longitudinally Matched CPS Dataset, Federal Reserve Bank of St. Louis - FRED, Bureau of Labor Statistics - Current Population Survey, and Author's Calculations

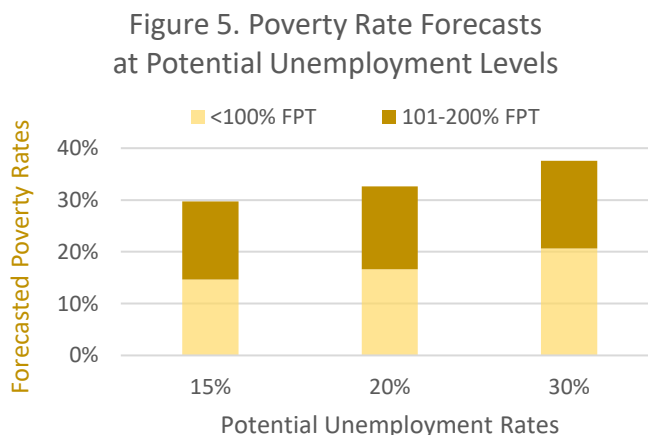
Figure 4 shows poverty rates for Washingtonians after the Great Recession (2010) as well as the most recent available data (2018). Poverty for Black, Hispanic, and Native American Washingtonians is higher than the poverty rate for White, non-Hispanic and Asian residents.



Expected Increase in Poverty due to Covid-19 Crisis

While the circumstances of the coronavirus pandemic are unprecedented, the experiences of the Great Recession offer some clue about how much poverty increases when unemployment rises. Unemployment nationwide has already reached close to 15 percent as of April 2020 and forecasts of unemployment from the Congressional Budget Office (CBO) suggest conditions may worsen.

During the last recession in Washington, for every one percentage point increase in unemployment, the state’s poverty rate (using the 200% FPT measure) increased by 0.58 percentage points. If this relationship holds during this recession and the unemployment rate reaches 20%, then the share of Washingtonians under 200% of the FPT could rise from 25% in 2018 to 34%. As Figure 5 shows, unemployment as high as 30% yields even higher poverty forecasts.



Forecasts for specific groups of Washingtonians capture how poverty falls unequally across the population. With unemployment at 20%, poverty among Washington children could increase 46% using the extended measure. Persistent inequities by race and ethnicity show up in forecasts as well. Poverty among Native Americans could reach 41%. Calculations predict similarly high rates for Black Washingtonians (43%) and state residents who are Hispanic (52%). Appendix Table 1 shows forecasted poverty rates at different potential unemployment rates for adults and children by race and ethnicity.

Discussion

Any forecasting effort during a novel event must necessarily be understood as very tenuous. Given that employment just dropped more rapidly than in the Great Recession, poverty rates could similarly rise more rapidly now. This simple analysis relies only on overall unemployment rates and does not consider the large impacts economic shut-downs have had on certain low-wage industries such as hospitality. Another caveat is that the [expanded unemployment insurance benefits under the CARES act are enough to more than offset the income of low-income individuals](#) living below the poverty line. These expanded benefits apply to a much larger share of workers than normal, including those that are self-employed and independent contractors, or that had their hours reduced due to the pandemic. These UI benefits continue through the end of July for those unable to find work, so short-run poverty levels may be lower than predicted.

While the ongoing economic impacts of Covid-19 and future federal policy supports remain uncertain, these projections suggest that poverty has already increased in Washington State and will continue to increase if unemployment continues to increase. While the health impacts of the novel coronavirus pandemic are dramatic, so too are the impacts of poverty on the health and future well-being of our state. The need for action and roadmaps for reducing poverty outlined by [Washington’s Poverty Reduction Workgroup](#) and [National Academy of Sciences](#) gain new importance in light of these projections.

Appendix Table. Projections of Washingtonians under 100% and 200% of Federal Poverty Threshold (FPT) at Possible Unemployment Rates

	100% FPT Forecasts @ Different Possible Unemployment Rates			200% FPT Forecasts @ Different Possible Unemployment Rates		
	@15%	@20%	@30%	@15%	@20%	@30%
All races All ages	15%	17%	21%	31%	34%	39%
All races 0-17	20%	23%	28%	41%	46%	54%
Native American All ages	22%	25%	30%	41%	41%	43%
Native American 0-17	25%	25%	27%	45%	41%	33%
Black All ages	19%	19%	18%	40%	43%	47%
Black 0-17	27%	29%	33%	60%	65%	75%
Hispanic All ages	30%	36%	48%	49%	52%	59%
Hispanic 0-17	34%	39%	50%	54%	55%	57%

We calculate forecasts using the ratio of the increase in the poverty rate to the increase in the unemployment rate over the Great Recession (2007 to 2010). We use group-specific poverty rates (e.g. for age 0-17 or racial/ethnic groups) relative to the overall unemployment rate. Data sources: Unemployment data from Bureau of Labor Statistics - Local Area Unemployment Statistics, Poverty rates from University of Minnesota - IPUMS ABACUS USA, and U.S. Census Bureau - American Community Survey. Analysis is based on method used by Parrot, Sharon. 2008. "Recession could cause large increases in poverty..." Center on Budget & Policy Priorities: Washington, DC.