

## Financial Hardship of American Households during the COVID-19 Pandemic: The Role of Precautionary Savings

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The spread of the COVID-19 pandemic has caused a public health crisis and an economic crisis in the United States. The pandemic's effect on the labor market is unexpected, and the most severe in recent U.S. history. The purpose of this paper is to study the determinants of financial hardship experienced among U.S. households using the Survey of Household Economics and Decisionmaking (SHED) dataset. To our knowledge, very few studies have examined the effect of the coronavirus crisis on the household's income shock. This paper contributes to the newly emerging literature by examining the determining factors associated with income shock and financial distress among U.S. households.

This study uses the 2019 Survey of Household Economics and Decisionmaking (SHED) and its supplement documentation to ascertain the pandemic's impact on U.S. household economic behaviors. The SHED is a large nationally representative dataset with a sample of 12,173 respondents aged from 18 to 65 and older. April 2020 supplement to the 2019 SHED dataset, which was used for this study, included 1,030 respondents. The study's dependent variable is financial hardship, defined as a household's inability to pay some bills during the pandemic crisis. The variable is coded as binary (1=Inability to pay at least some bills during the pandemic crisis; 0=Otherwise). The independent variables include age, gender, marital status, educational attainment, race/ethnicity, household income, employment status, financial resources, and perceived financial capability.

We estimate the results using logistic regression. The econometric model of our analysis is as follows:

$$Fin\_hardship = b_0 + b_1 COVID + b_2 Dem + b_3 Fin + b_4 Cap$$

Where,

Fin\_hardship= Perception of experiencing financial hardship

COVID= Vector of COVID-19 related variables

Dem= Vector of Demographic variables

Fin= Vector of Financial Resources and income

Cap= Financial Capability related variables

The preliminary results of our analyses underscore the importance of maintaining adequate emergency savings and managing one's money to sustain through periods of economic uncertainty for American households. This study's preliminary findings also show that unprecedented job loss and income shock were significantly associated with experiencing financial hardship during this period, while income was negatively associated with experiencing financial hardship. The results indicated that non-Hispanic White households were significantly more associated with reporting financial hardship. More research is needed to understand this association.

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