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## **Fitch: Pandemic Exacerbates K-Shaped Economy, Government Transfers Buffer Near-Term Impact**

Fitch Ratings-New York-11 March 2021: Pandemic-driven shifts to the U.S. labor market have intensified the long-entrenched K-shaped economy, and may ultimately lead to more permanent, deleterious consequences despite the near-term relief provided by government stimulus, according to a [new Fitch Ratings report](#).

Long-term upside risk has emerged to employment in many high-wage industries, particularly information technology and health care, while many low-wage industries, particularly retail trade, leisure and hospitality, face downside risk.

“The significant divergence in wealth and income in the U.S. gives low-income households a reduced stake in the recovery, compounding the well understood challenge that long-term unemployment leads to permanent wage losses,” said Olu Sonola, Senior Director at Fitch. “This widening split undermines the sustainability of economic growth, and with it, puts additional strain on the U.S.’ social and political consensus.”

U.S. job losses have disproportionately hit lower-income households, with knock-on effects to consumption thus far limited by stimulus aid in excess of lost income. However, protracted unemployment among these workers, and a secular decline in many of the key industries that employ them, are likely to constrain wage gains over the medium term. This in turn will inhibit poorer households’ consumption and participation in the economic recovery, increasing existing income inequality and potentially undermining social cohesion.

The recently passed \$1.9 Trillion American Rescue Plan Act will provide a boost to consumer spending and saving. Government transfers have exceeded wage and income loss by approximately \$800 billion between April and January 2021. Aggregate income had recovered nearly fully by October 2020.

A material increase in vaccination rates by second-half 2021 will likely lead to a significant increase in consumer confidence and spending. Substantial pent-up demand from high-income households, which typically consume a much higher share of services constrained by the pandemic and also hold most of the excess savings, will likely result in more robust consumer spending once movement restrictions ease more fully.

For more information, a special report titled “U.S. Consumer Health and Spending” is available on the Fitch Ratings web site at [www.fitchratings.com](http://www.fitchratings.com).

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