

COVID-19: Economic Implications and Policy Response

August 20, 2020
 Geoffrey Woglom
 Professor of Economics (Emeritus)
 Amherst College

1

Who Are We?

- **Honorary Board: 47 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 500+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development

2

Available NEED Topics Include:

- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Trade Wars
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles



3

Credits and Disclaimer

- **This slide deck was authored by:**
 - Scott L. Baier, Clemson University
 - Jon D. Haveman, NEED
 - Geoffrey Woglom, Amherst College (emeritus)
- **This slide deck was reviewed by:**
 - Jon Haveman
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



4

Outline

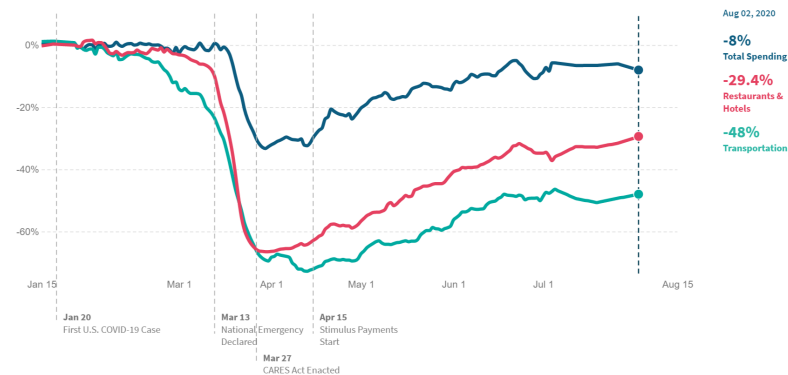
- Brief Discussion of the Crisis and Policy Response to Date
- Where We Are and the Uncertainty of Where We are Headed
- Consumer’s Guide to Interpreting Unemployment Data
- A Closer Look at the Effects of the extra \$600 per week in UI
- Review of the Major Risks Ahead

5

Spending Has Collapsed

Percent Change in All Consumer Spending*

In the United States, as of August 02 2020, total spending by all consumers decreased by 8% compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. This series reflects daily data through July 30th, 2020 and weekly data after July 30th, 2020. This series is based on data from Affinity Solutions.
 last updated: August 10, 2020 next update expected: August 16, 2020

6

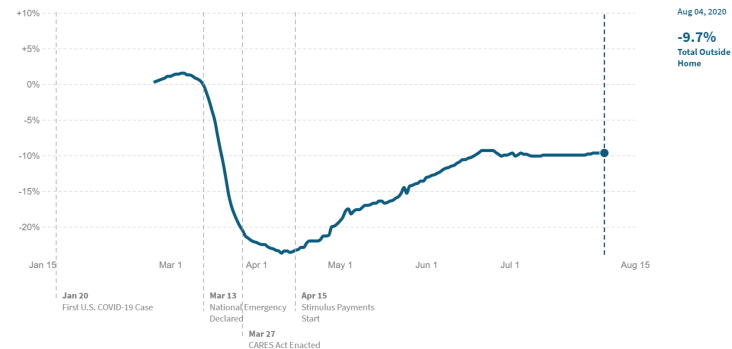
Why Did Spending Collapse?

At least initially, spending collapse is due to public health restrictions and nervous households.

Over time, loss of income also plays a role

Percent Change in Time Spent Outside Home*

In the United States, as of August 04 2020, total time spent away from home decreased by 9.7% compared to January 2020.



*Change in the average time spent outside of residential locations indexed to the period between Jan 3 Feb 6 2020. This series uses data from Google's COVID-19 Community Mobility reports.
last updated: August 10, 2020 next update expected: August 17, 2020



NATIONAL ECONOMIC
EDUCATION DELEGATION

7

7

Policy Responses to Public Health-Economic Crisis

- P. Krugman, “Right now the economy is in the equivalent of a medically induced coma...” (*NYTimes*, 4/16).
- We are trying to keep the patient alive, while macroeconomic policies are aimed at limiting the damage.
- **The Fed:**
 - Lower Interest Rates
 - Keep Credit Flowing in All Sorts of Markets
 - “Backstop” financial institutions to prevent meltdown
 - But the Fed “lends and does not spend”
- **Congress: Cares Act**
 - Protect the most vulnerable households and firms
 - Stimulus Checks; Expanded Unemployment; PPP loans (grants) to small firms



NATIONAL ECONOMIC
EDUCATION DELEGATION

8

8

The Good News (Sort of)

- There were no **short-run** macro problems at the start of the crisis
- The only obstacle to a quick recovery is damage that is being done while the pandemic continues
- Economic disruptions due to prolonged job losses and business failures



9

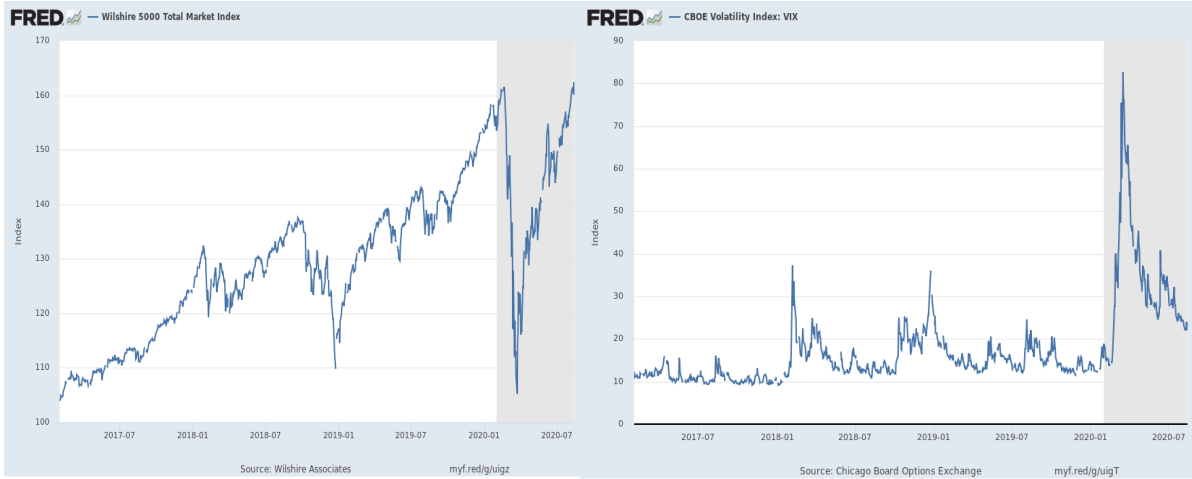
What Have Been Policy Effects

- **Monetary Policy acted quickly and effectively to prevent a financial market meltdown.**
- **Fiscal policy acted quickly, but inevitably made some mistakes.**
 - Stimulus Checks, A
 - Expanded Unemployment, B
 - Paycheck Protection Program, C



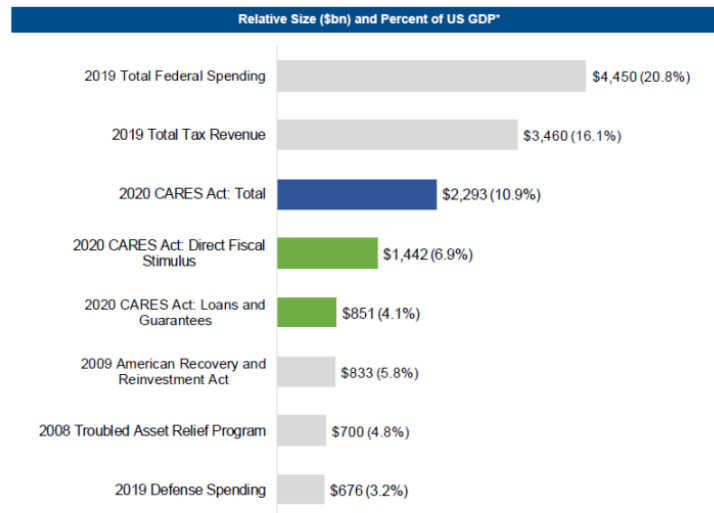
10

The Effects (most) due to the Fed



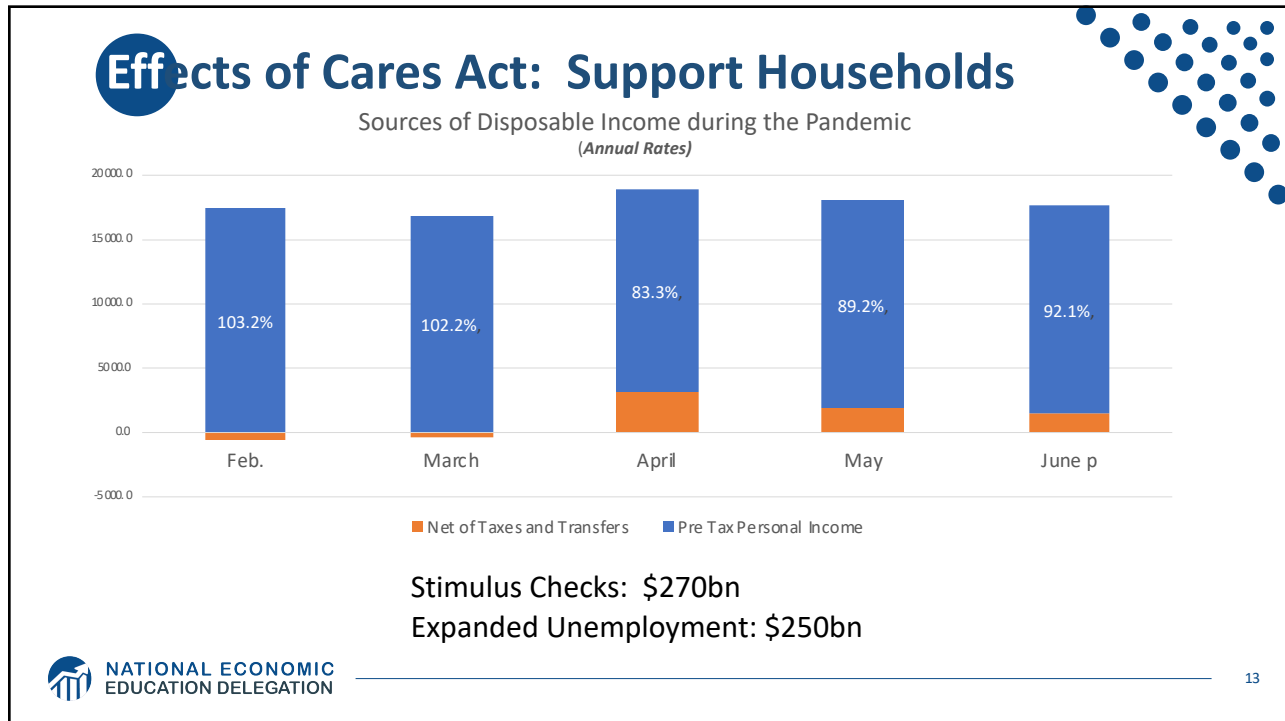
11

Putting Cares Spending in Perspective

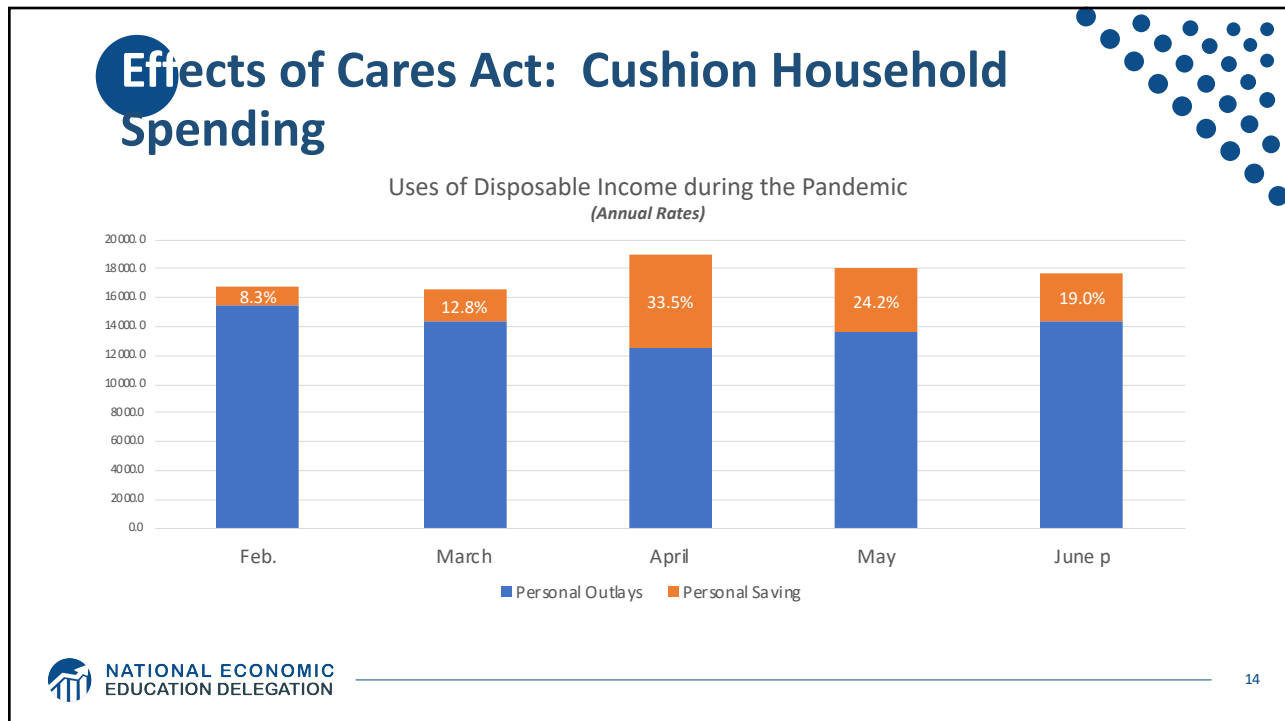


Source Goldman Sachs

12



13

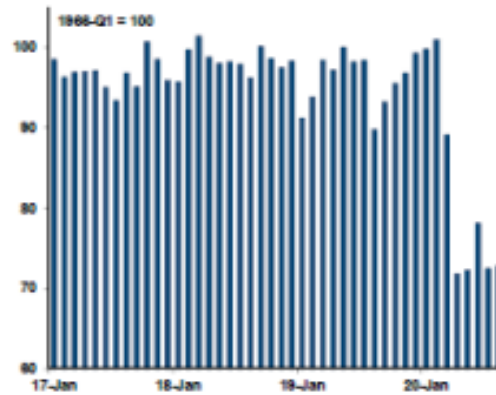


14

Inspite of Very Nervous Consumers

N.B. Consumer Sentiment has **not** recovered much.

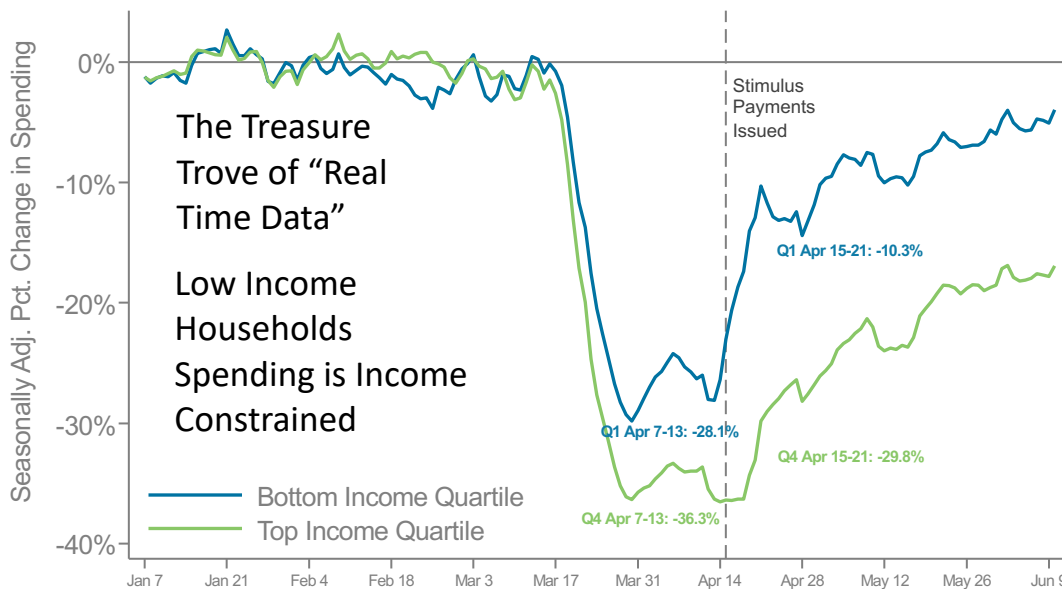
Consumer Sentiment



Source: U.S. Census Bureau via Haver Analytics

15

Impact of Stimulus Payments on Consumer Spending, by Income Quartile



The Treasure Trove of "Real Time Data"

Low Income Households Spending is Income Constrained

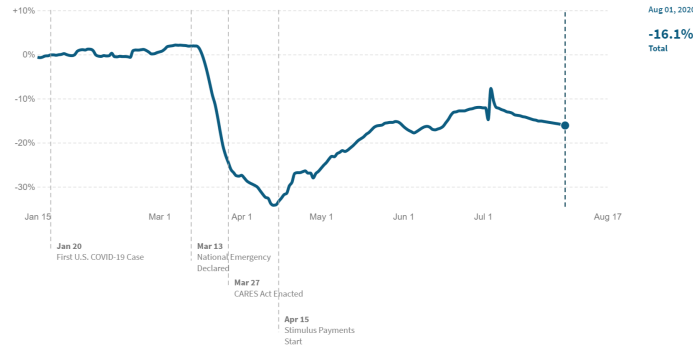
<https://opportunityinsights.org/wp-content/uploads/2020/06/tracker-summary.pdf>

16

Effects of Cares Act: Support for Small Business PPP

Percent Change in Number of Small Businesses Open*

In the United States, as of August 01 2020, the number of small businesses open decreased by **16.1%** compared to January 2020.



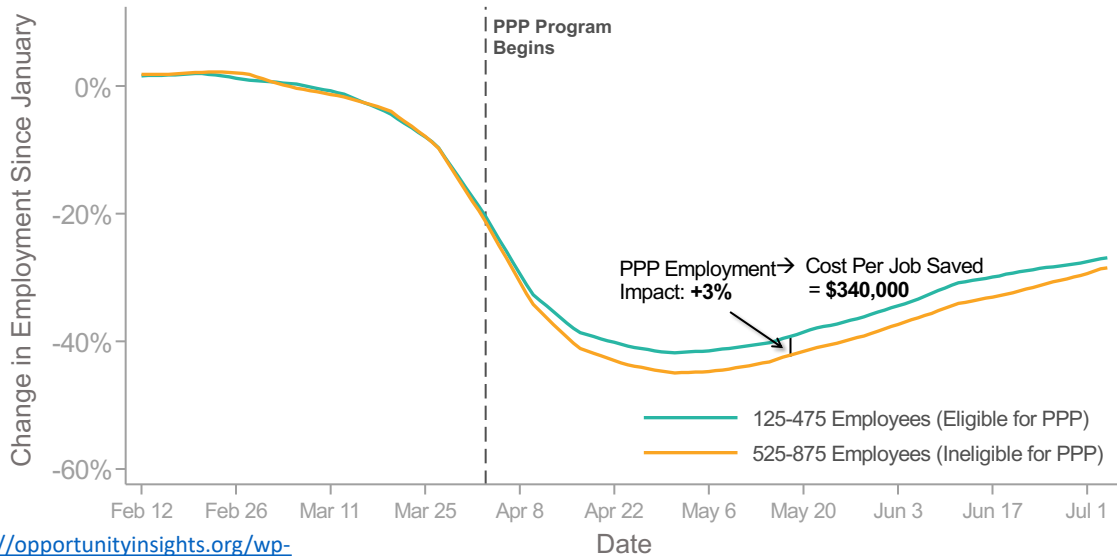
PPP stats:
5.2 million loans
Total \$525 b
Support for 51 million workers

*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Bureaus.
last updated: August 14, 2020 next update expected: August 18, 2020



17

Impact of Paycheck Protection Program on Low-Income Employment



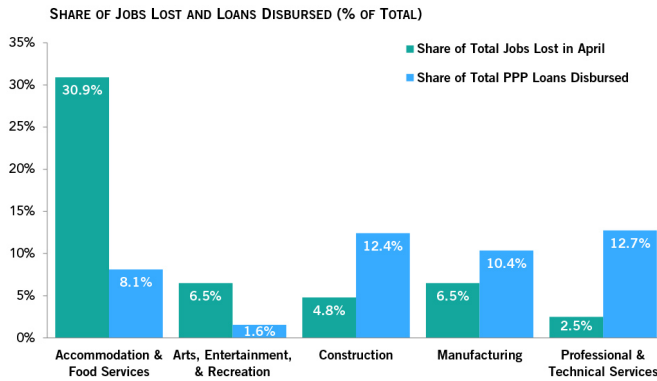
<https://opportunityinsights.org/wp-content/uploads/2020/06/tracker-summary.pdf>

18

Loans Didn't Go to the Right Firms



The distribution of PPP loans has not matched levels of unemployment



SOURCES: U.S. Small Business Services Administration, Paycheck Protection Program (PPP) Report, Approvals through 07/24/20, July 2020; and S&P Global Ratings, Economic Research: The Paycheck Protection Program Impact on Jobs: (More) Help Wanted, May 2020.
© 2020 Peter G. Peterson Foundation PGPF.ORG

In addition, first round loans went disproportionately to predominantly white Congressional Districts
Bloomberg, 7/30



NATIONAL ECONOMIC EDUCATION DELEGATION

So Where are We and Where Are We Headed

- Our worst fears about the economy have not been realized, so the outlook has improved, but
- The outlook is still terrible and there is tremendous uncertainty
- I can illustrate with the Philadelphia Fed's Survey of Professional Forecasters



NATIONAL ECONOMIC EDUCATION DELEGATION

Survey Says (Quarterly Forecasts, GDP is at Annual Rates)

Median Forecasts for Current and Previous Surveys

	Real GDP (%)		Unemployment Rate (%)	
	May	August	May	August
2020:Q3	10.6	19.1	12.9	10.0
2020:Q4	6.5	5.8	11.0	9.5
2021:Q1	6.8	5.2	9.3	9.0
2021:Q2	4.1	3.8	8.8	8.4
2021:Q3	N.A.	3.6	N.A.	7.8

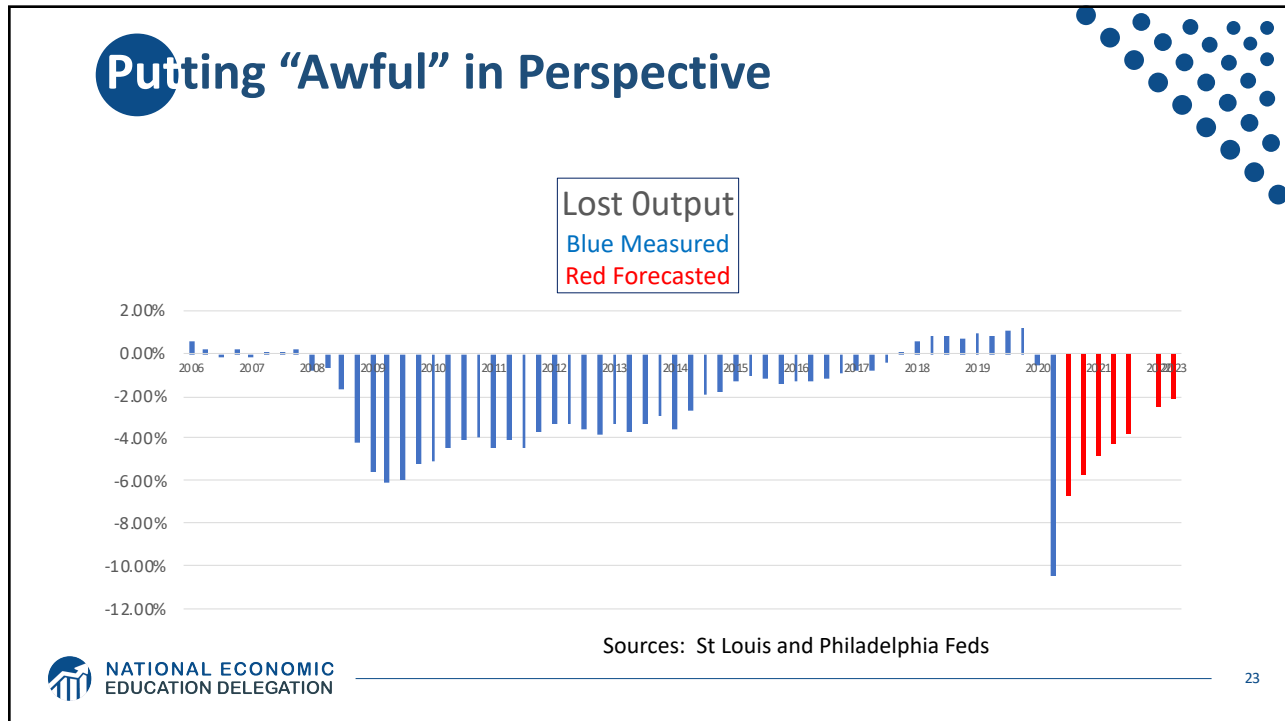
21

Annual Forecasts

	Real GDP (%)		Unemployment Rate (%)	
	May	August	May	August
2020	-5.6	-5.2	10.8	9.0
2021	3.1	3.2	8.1	8.0
2022	3.2	4.1	6.2	6.0
2023	2.2	2.2	5.1	5.3

N.B: Unemployment Rate in March of 2020 was 3.5 percent!

22



23

Awful and Still Highly Uncertain

Forecasts for Real GDP Growth in 2020Q3			
Forecast Date	Top Quartile	Bottom Quartile	Difference
2/2020	2.35	1.69	0.66
5/2020	20.31	0.98	19.33
8/2020	21.83	15.53	6.30

The unemployment numbers are a key statistic that economists and the press track to gauge the recovery

NATIONAL ECONOMIC EDUCATION DELEGATION

24

Making Sense of Unemployment Numbers

Two Data Reports:

1. Depart of Labor *Unemployment Insurance Weekly Claims*

1. Weekly, Thursdays at 8:30
2. Initial Claims
3. Continuing Claims or Insured Unemployment

2. Bureau of Labor Statistics (BLS), *Employment Situation*

1. Monthly, First Fridays at 8:30
2. Household Survey: Unemployment Rate
3. Establishment Survey: New Jobs Created

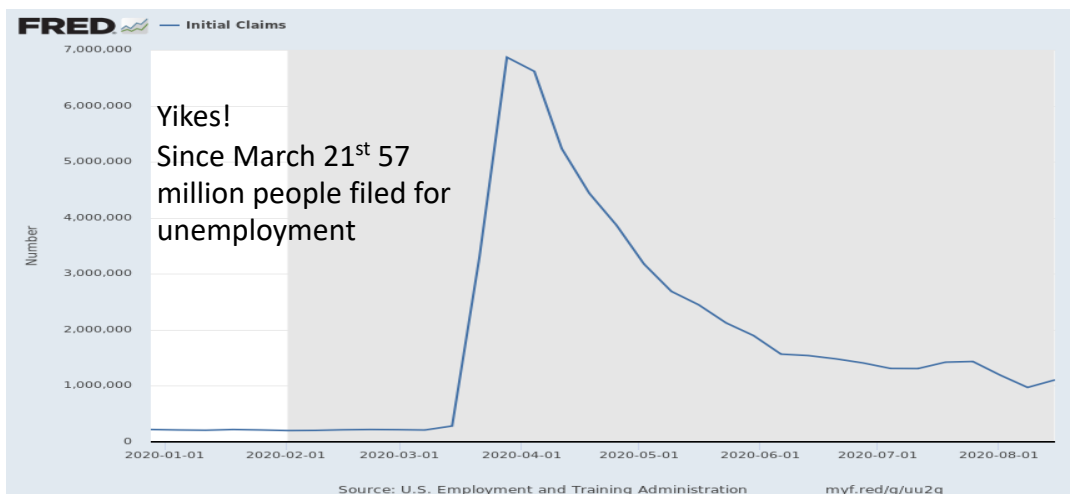
For Perspective on Numbers, as of 2/2020:

Labor Force, 165m; Employed; 159m; Unemployed, 6m, or 3.5%

Total New Jobs added per month: round 225 thousand

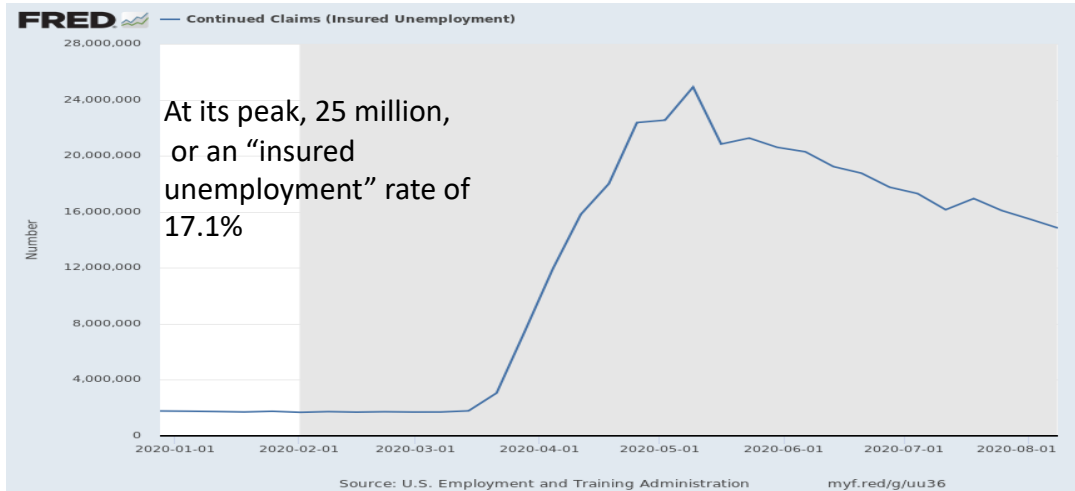
25

Initial Claims



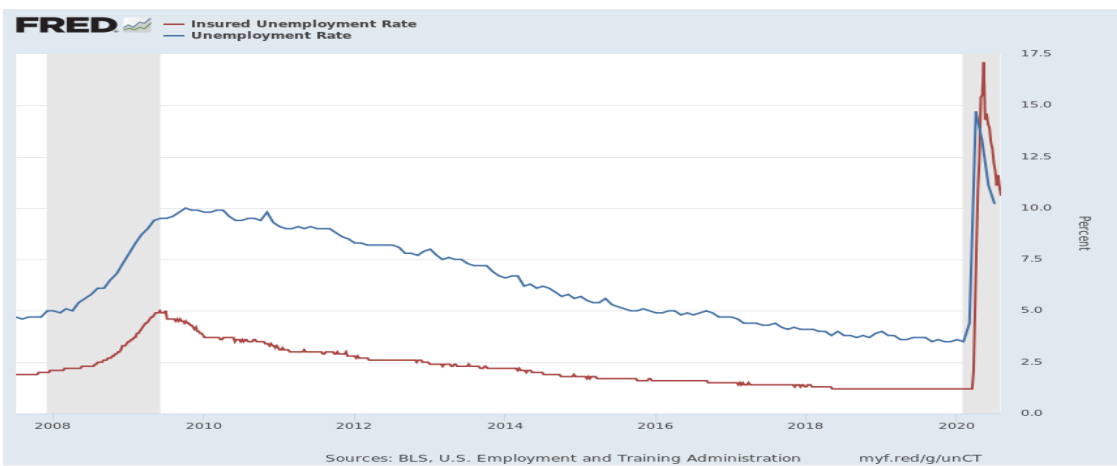
26

Insured Unemployment



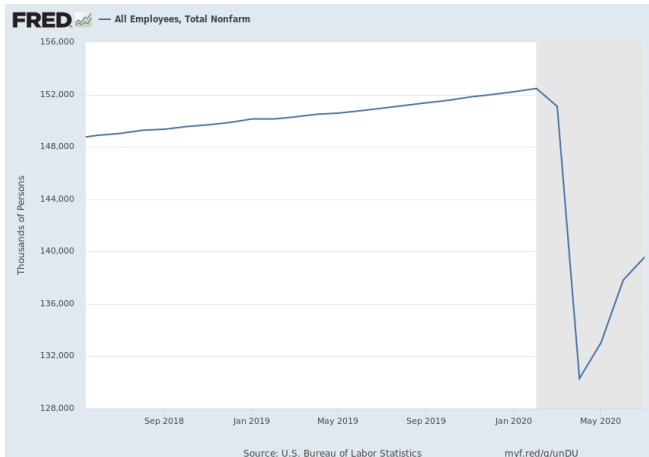
27

Insured versus Headline Unemployment



28

Job Creation: Glass Half Full or Half Empty?



Full: Between April and July over 9m jobs created

Empty: Between March and July over 11m jobs lost

29

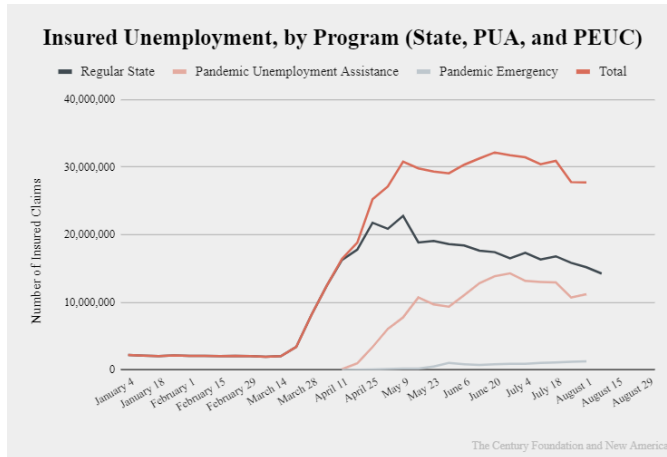
Three Measures of Unemployment?

- None is a perfect measure:

- Insured Unemployment
 - o Most accurate number because it is a numerical count.
 - o Administrative delays in processing claims and not all unemployed are eligible to collect
- Household Survey: 60,000 households
 - o Disruptions to survey
 - o Ambiguity of some of the classifications
 - o Survey are done mid-month
- Establishment Survey: 145,000 businesses about 700,000 employees
 - o Response rate fluctuated recently
 - o Survey done mid-month

30

Wait a Minute. MSNBC said unemployment is at 30million this morning?



PUA Data Issues:
Since April: 15m claims;
11m continuing

Regular: 47m claims;
14m continuing

31

Controversies Over Expanded Unemployment (which ended 7/31)

- **Cares Act: Let's Get the money out the door as quickly as possible:**

- States calculate unemployment benefit the way you normally do and then add \$600
- For most workers in most states this ended up providing unemployment benefits in excess of wages.
- 3 University of Chicago Economists ran the numbers:
<https://bfi.uchicago.edu/insight/blog/ui-calculator/>

32

\$600 Extra Per Week

Unemployment Insurance Benefits			
	Weekly Earnings	Regular Benefit	Expanded Benefit
Income Quartile:			
25%	\$445	\$231 (52%)	\$831 (187%)
50%	\$688	\$346 (50%)	\$946 (138%)
75%	\$1,207	\$456 (38%)	\$1,056 (88%)

How bad a “problem” was this?

Recent Yale study suggests in may not be very bad

<https://news.yale.edu/2020/07/27/yale-study-finds-expanded-jobless-benefits-did-not-reduce-employment>

Should it be corrected?

Here’s How: Expanded Benefit a % of earnings;
phased out as unemployment falls.

33

Major Risks Going Forward

1. Resurgence of the virus
2. Inability to pass a sufficient stimulus bill
3. Business failures, particularly among smaller firms
4. Damage to State and Local Budgets leading to job cuts
5. Dealing with acceleration of structural changes in the economy

34

2. Skinny Republican Stimulus (~\$500b)

Major Spending Provisions:

- Continue Expanded Unemployment, but at \$300 extra per week
- \$105b for education, 2/3rd for K-12
- \$45b for testing, tracing and vaccine production
- Extend PPP at least for the unspent \$130b and perhaps more

Sweeteners:

- **Business Liability Protection:** cannot be sued unless 'gross negligence' or 'willful misconduct' can be proved
- **Post Office Funding:** \$10b loan turned into a grant.



What is Missing?

1. Second Round \$1200 payments, \$435b
2. Flexible aid to State and Local Governments, \$1t
3. Housing and Rental Assistance, \$200b
4. Hazard Pay to Essential Workers, \$190b
5. Reducing \$600 per week to \$300 per week, \$180b.



3. Business Failures

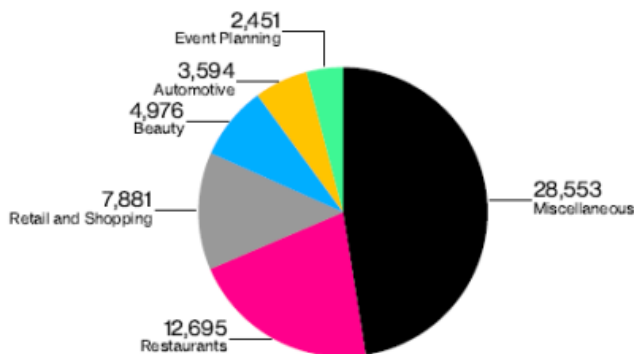
- **Large Firms (e.g. Brooks Bro. Cirque de Soleil, Hertz, Lord & Taylor): Ch11 (restructuring) filings are up by 30% through July.**
- **Small firms (30 million, 47% of all jobs)**
 - Bankruptcy Numbers Can Be Misleading: Just close the door and turn off the lights.
 - Real Data to the rescue!

37

Yelp's Breakdown of Permanent Closures

Business Busts
Restaurant industry leads with most local business closures

Failures particularly hard among Black owned firms. 19% closed; 4 times the rate of white owned firms. *Bloomberg, 8/18*

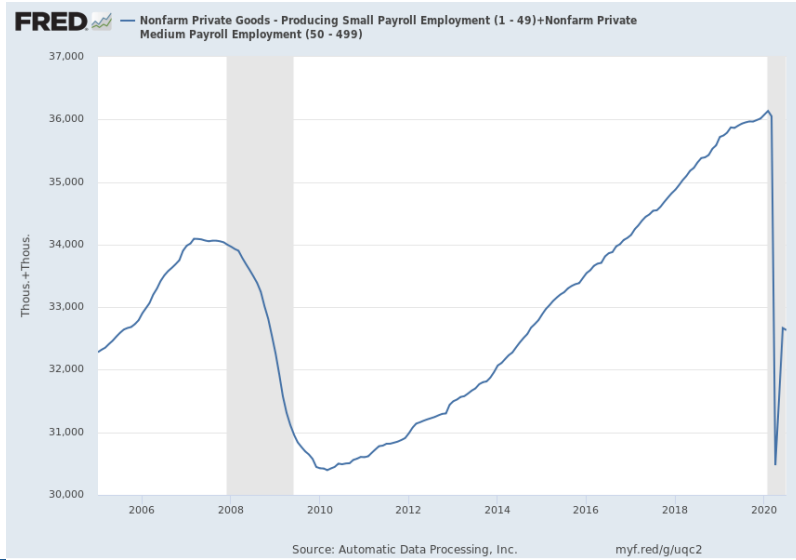


Yelp Inc.
Data from March 1 to July 25

38

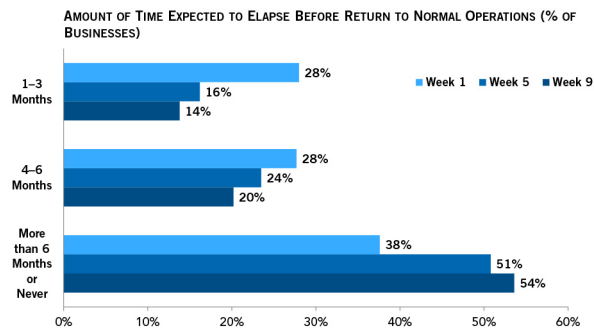
Employment at Small Firms

Between March and July, net loss of 5.5m



Pessimism is Growing at Small Firms

PETER G. PETERSON FOUNDATION Small business owners are increasingly pessimistic in their outlook



SOURCE: U.S. Census Bureau, Small Business Pulse Survey, June 2020.
 NOTES: Data for Week 1 was collected April 26-May 2, Week 5 was collected May 24-May 30, and Week 9 was collected June 21-June 27. Responses are for the question: "In your opinion, how much time do you think will pass before this business returns to its normal level of operations relative to one year ago?"
 © 2020 Peter G. Peterson Foundation PGPF.ORG

4. State and Local Budgets

FIGURE 1

COVID-19 State Budget Shortfalls Could Be Largest on Record

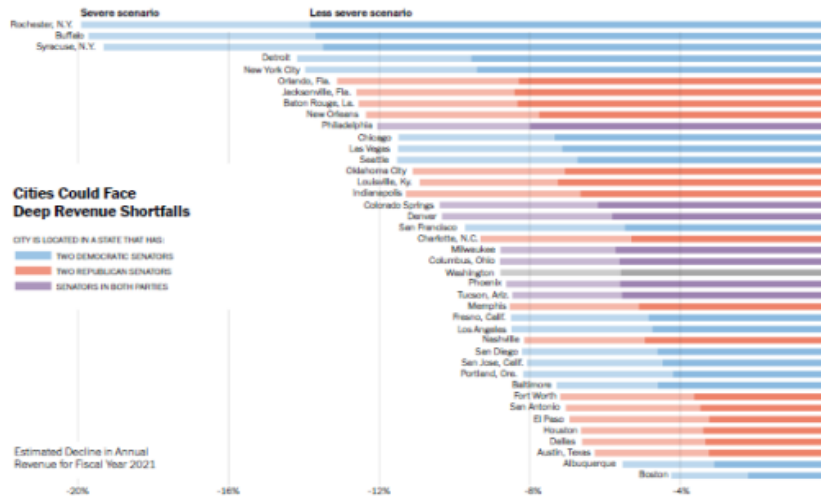
Total state budget shortfall in each fiscal year, in billions of 2020 dollars



* Estimated based on CBPP calculations
 Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

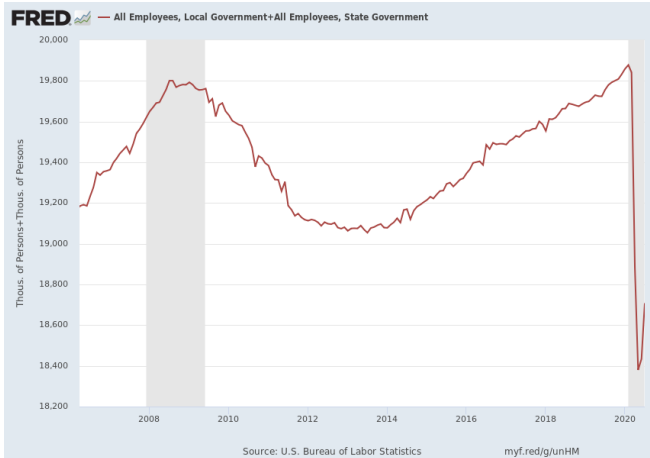
CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Projected Municipal Revenue Shortfalls



Note: Each city is a Fiscally Standardized City, covering municipal budgets but also revenues to other government entities providing city services like school or sewer districts. Source: Estimates from The Fiscal Effects of The Covid-19 Pandemic on Cities: An Initial Assessment, National Tax Journal by Howard Chernick, David Copeland and Andrew Reschovsky

State and Local Employment



Between March and July net loss of 1m jobs.

Prospects if there is no general federal aid this year?

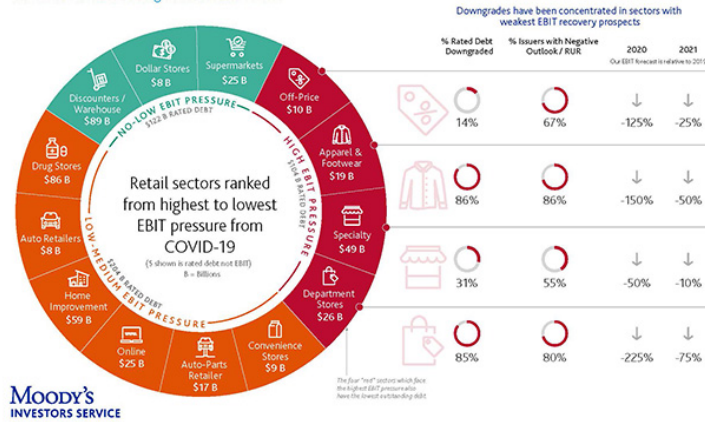
43

5. Structural Changes in One Slide!

For more information, visit moody's.com/retail

COVID-19 is accelerating the structural shift in US retail

Trends that permeated the retail landscape prior to COVID-19 have intensified, including a pronounced rise in online shopping and increased bifurcation between stronger and weaker sectors



44

Thank you!

Any Questions?

www.NEEDelegation.org

Geoffrey Woglom
grwoglom@amherst.edu

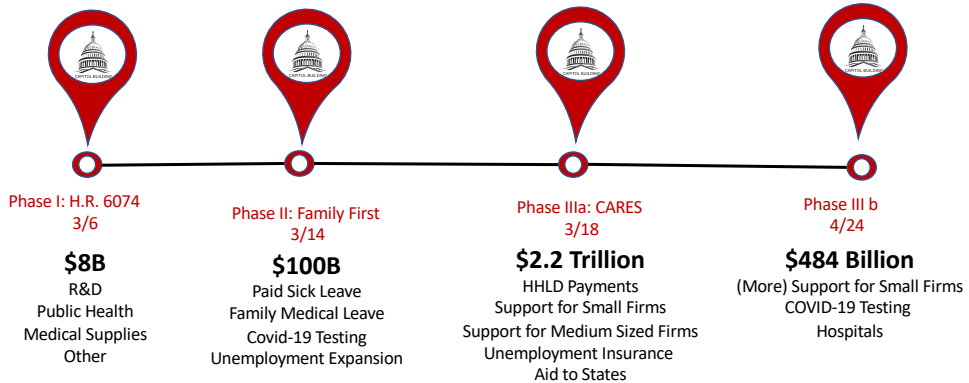
Contact NEED: info@needelegation.org

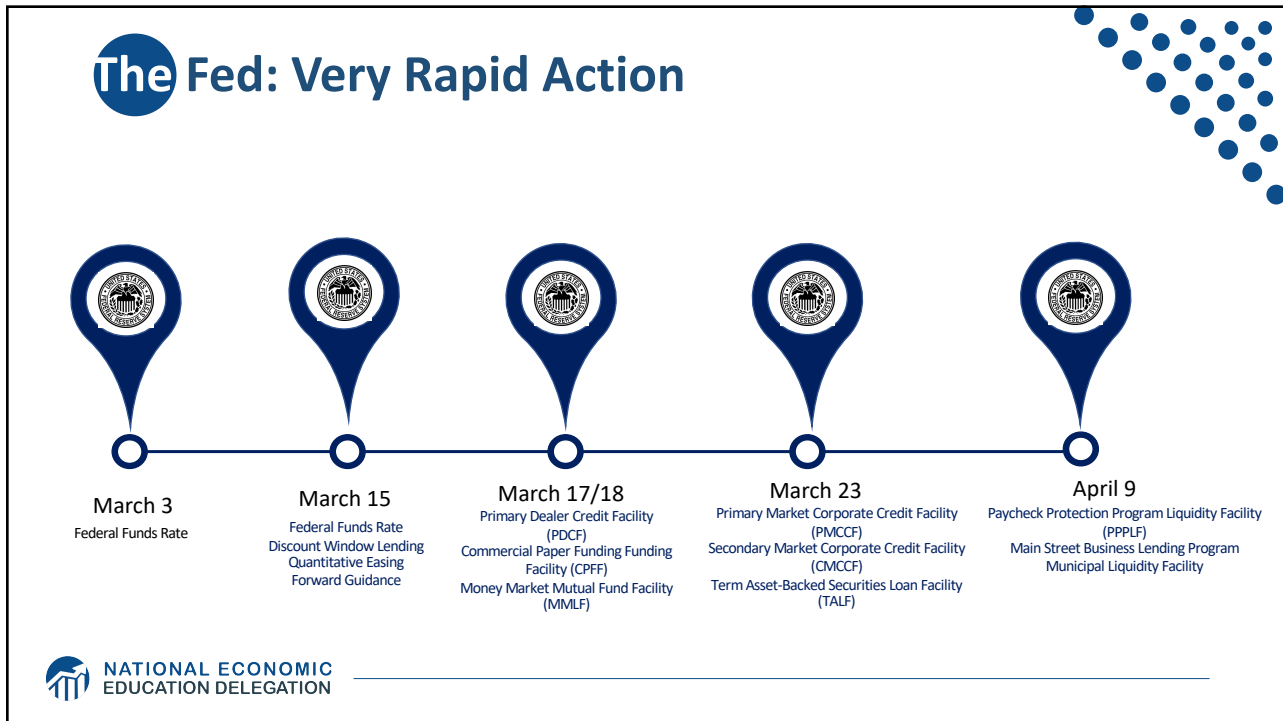
Submit a testimonial: www.NEEDelegation.org/testimonials.php

Become a Friend of NEED: www.NEEDelegation.org/friend.php

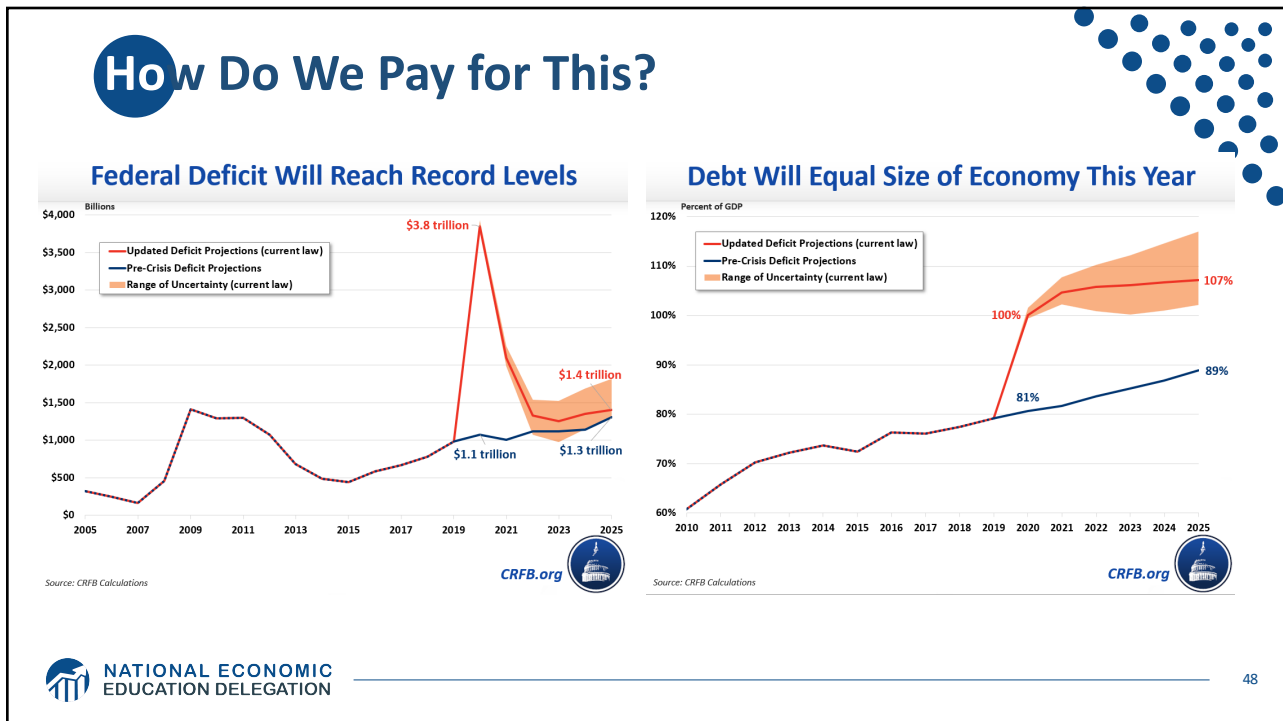


Fiscal Policy Timeline





47



48

From a Republican Deficit Hawk

- “I’m a fiscal hawk from way back, and all of my heebie-jeebies are going off when I see these numbers,” said Douglas Holtz-Eakin, a Republican who used to head the Congressional Budget Office and is president of American Action Forum. “But then I look at the scale of the problem, and I think, yeah, that’s that. Gotta do it.” *Politico*, 4/29

