



# COVID-19: Economic Implications and Policy Response

Nov 20, 2020  
Allentown Rotary  
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## 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

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## 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



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- **This slide deck was authored by:**
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- **This slide deck was reviewed by:**
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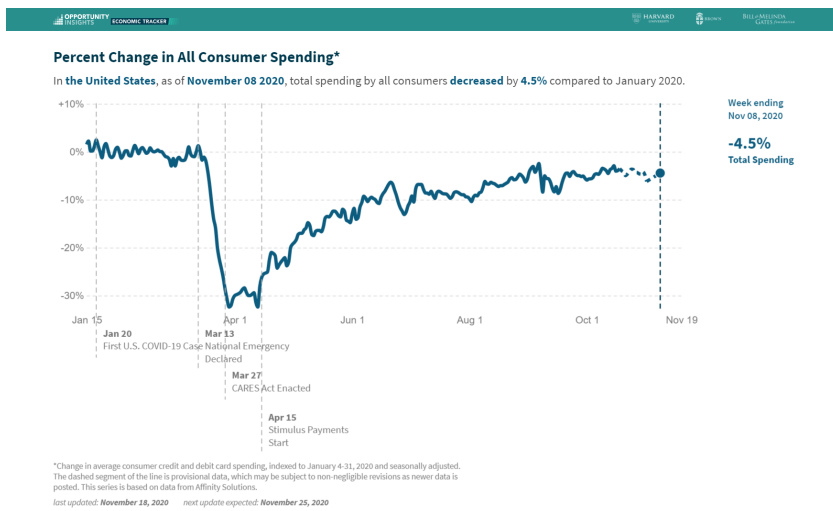
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# Outline

- Where is the recovery now?
- How has policy affected the recovery?
- What are the risks to a continued recovery?

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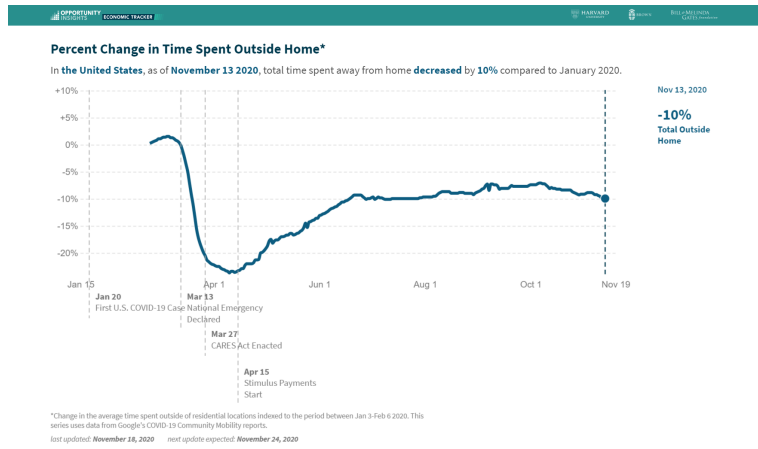
# Spending Collapsed in March



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# Why Did Spending Collapse?

At least initially, the spending collapse was due to public health restrictions and nervous households. Over time, loss of income also plays a role



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# Is the GDP Glass Half Full, or Empty?

## Headlines on 10/29

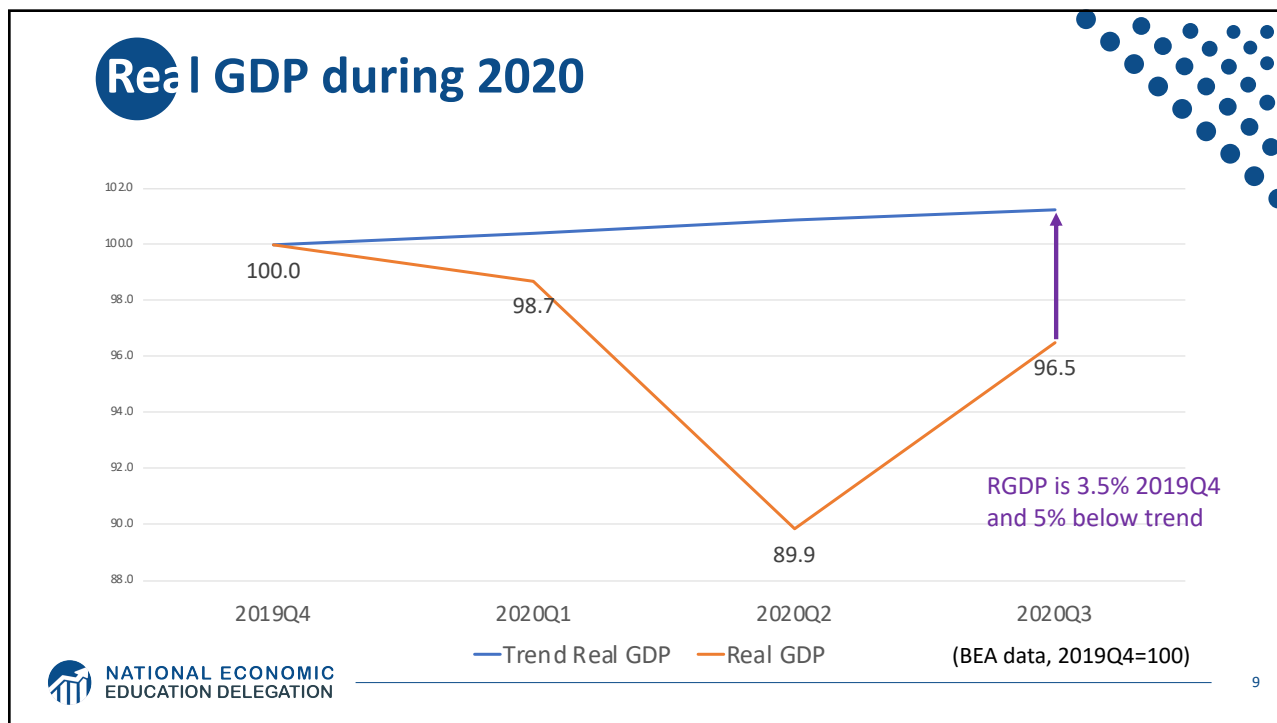
- GDP roared back at record 33.1 percent in third quarter, *Washington Times*.
- Economy's Big Rebound Leaves a Shortfall as Progress Slows, *NYTimes*.

## Keys to Understanding:

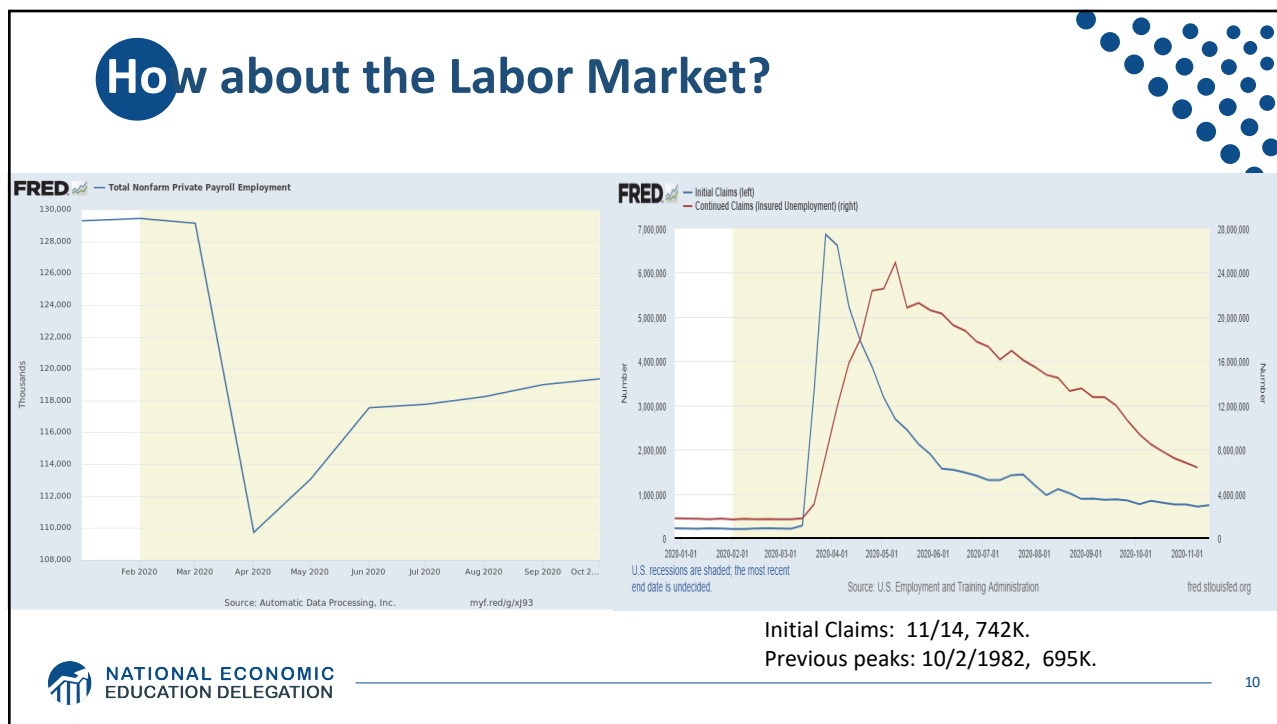
1. 33.1% is at an *annual* rate (which makes sense in normal times).
2. Growth in the second quarter was -31%, also a record.

**Bottom line: the economy has made up a lot of ground very quickly, but we still have a ways to go: 5% gap is \$1 trillion in lost output**

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## Aggregate Data Looks Encouraging

- Recovery has been *unexpectedly* rapid, albeit incomplete.
- Why: There were no **short-run** macro problems at the start of the crisis.
- The only obstacle to a continued recovery:
  1. Resurgence of the virus.
  2. Economic disruptions due to prolonged job losses and business failures



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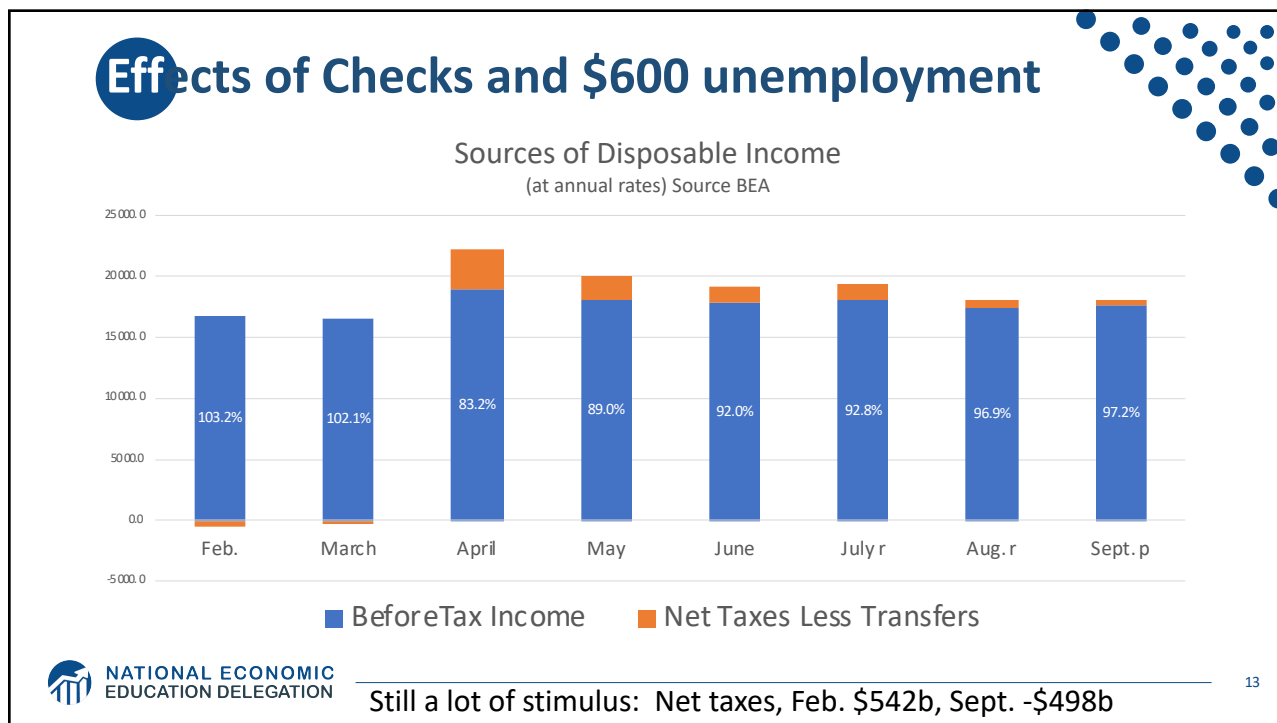
## What Have Been Policy Effects

- Monetary Policy acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.
- Fiscal policy acted quickly, but inevitably made some mistakes.
  - Stimulus Checks, A (\$268b)
  - Expanded Unemployment, B- (\$268b)
  - Paycheck Protection Program, C (\$525b)

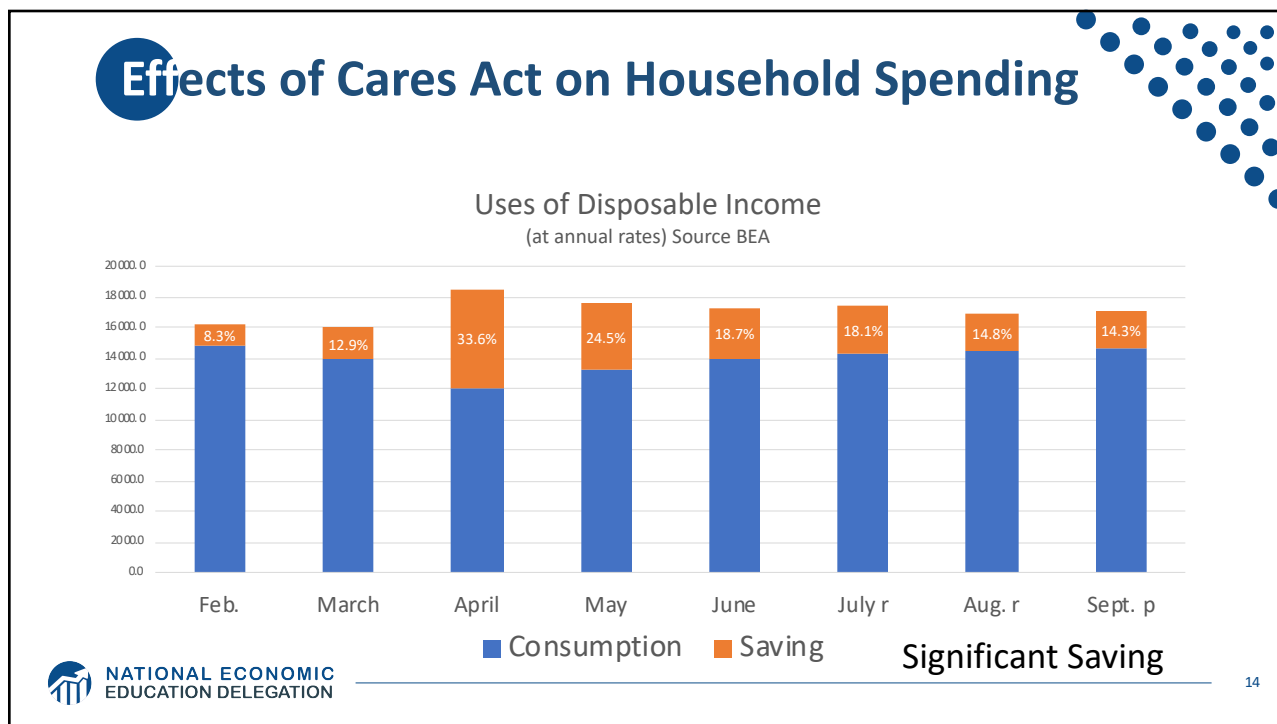
**Big Caveat: Much of the Fiscal Stimulus ended in July**



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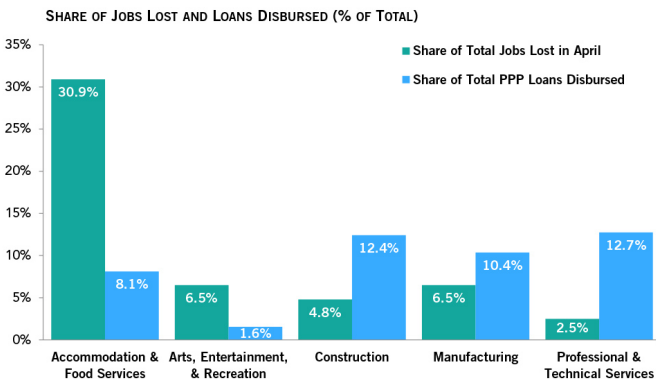


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# PPP, Not so Good: Didn't Go to the Right Firms



The distribution of PPP loans has not matched levels of unemployment



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

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.  
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# How Did This Happen; Can it Continue?

## Percent Change in All Consumer Spending\*

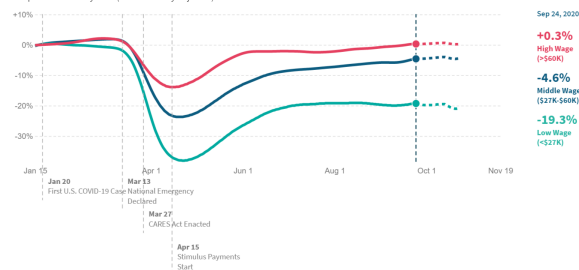
In the United States, as of November 08 2020, total spending by middle-income consumers decreased by 4.3% compared to January 2020.



\*Change in average consumer credit and debit card spending, indexed to January 4, 2020 and seasonally adjusted. The dashed segment of the low income series, which may be subject to non-negligible revisions as more data is posted. This series is based on data from Opportunity Insights.  
last updated: November 18, 2020 next update expected: November 26, 2020

## Percent Change in Employment\*

In the United States, as of September 24 2020, employment rates among workers in the middle wage quartiles decreased by 4.6% compared to January 2020 (not seasonally adjusted).



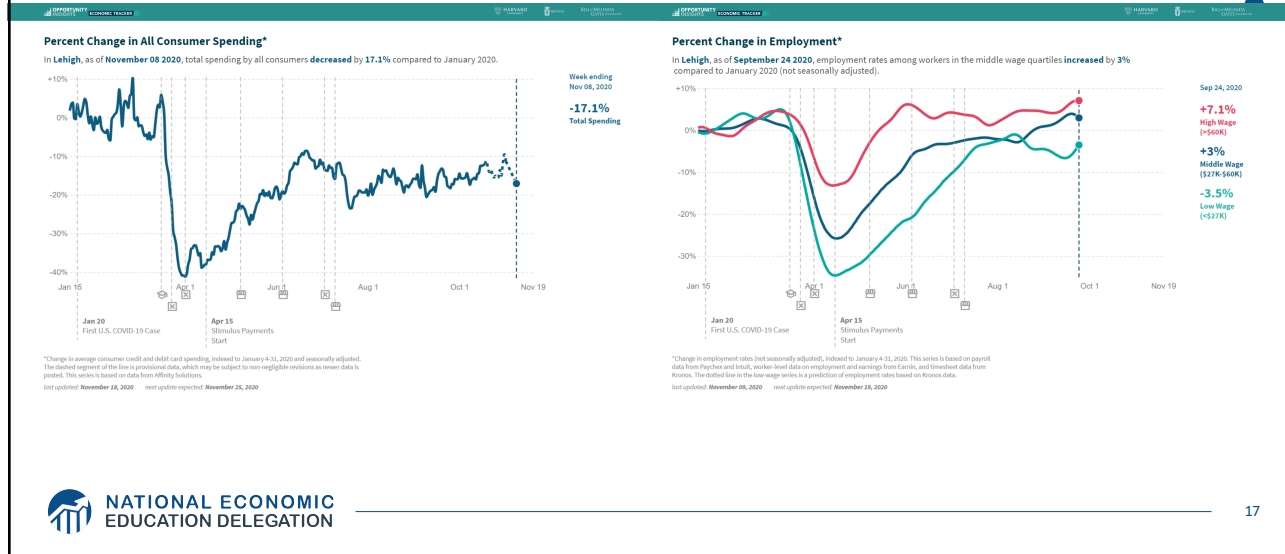
\*Change in employment rates (not seasonally adjusted), indexed to January 4, 2020. This series is based on payroll data from BLS and initial, higher level data on employment and earnings from Earnings, and BLS-based data from BLS. The dotted line in the low wage series is a prediction of employment rates based on BLS data.  
last updated: November 08, 2020 next update expected: November 18, 2020

## Prolonged Job Losses?





# Lehigh County Real Time Data



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# Cares Act Supported Spending of Low Income

- **But, as of August 8, no more**
  - PPP loans
  - Extra \$600 weekly benefit and
  - many, many workers have exhausted benefits.
- **Net Effect on Household Income of taxes and government aid:**
- **February, -3%; April, +20%; but declining steadily to Sept. +2.9%**
- **How do low-income households continue to spend, and remember consumption is 2/3rds of GDP.**
- **It gets worse: “Fiscal Cliff” the day after Christmas.**

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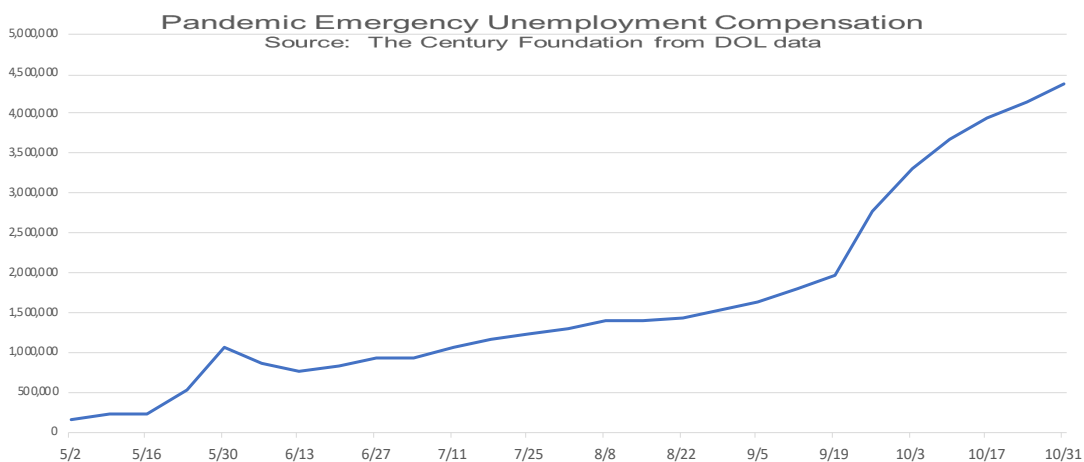
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## Fiscal Cliff

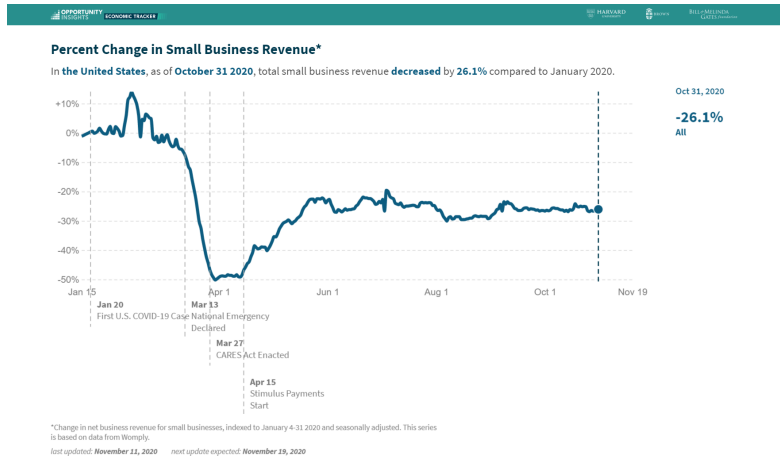
- In addition to the regular unemployment insurance programs there are two other pandemic programs. As of yesterday:
  1. Pandemic Unemployment Assistance (Self employed), 8.7 million.
  2. Pandemic Emergency Unemployment Compensation (more than 26 weeks), 4.4 million.
- New Century Foundation: 12 million to lose benefits (<https://tcf.org/content/report/12-million-workers-facing-jobless-benefit-cliff-december-26/>)
- And CDC eviction ban ends on 12/31



## And Damage Is Already Occurring



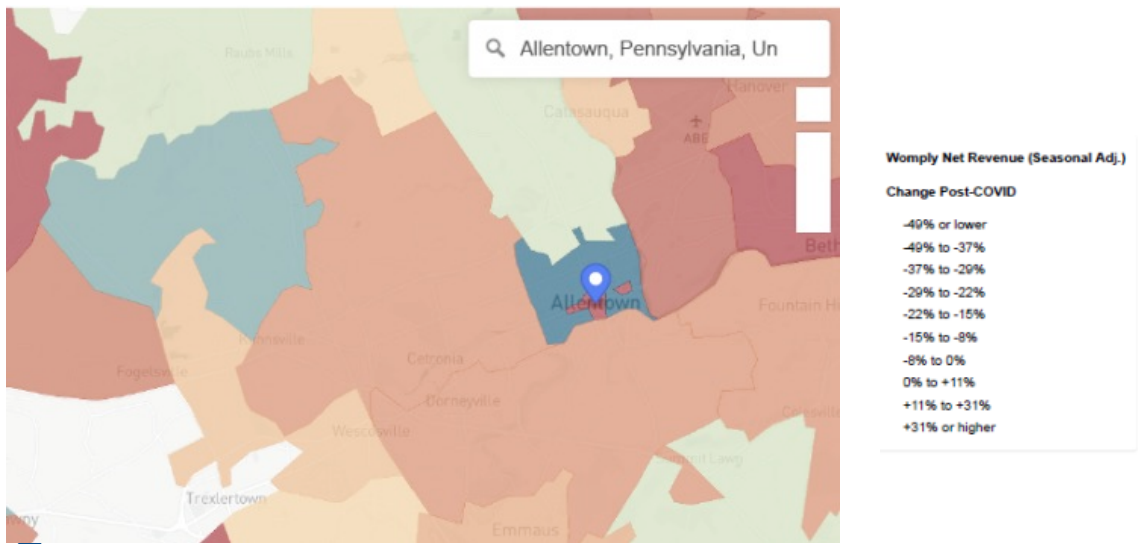
# Small Firms (over 40% of all jobs)



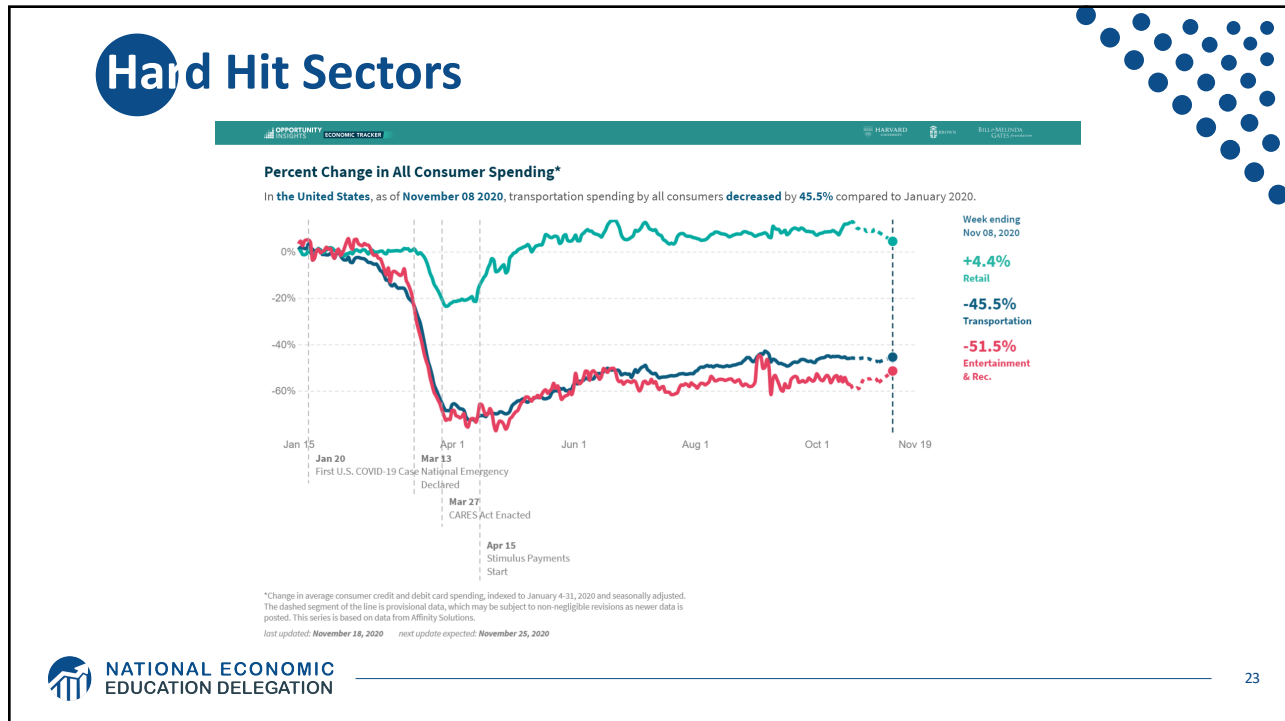
Business Failures?

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# Real Time Data by Zip Code



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# Evidence of Damage: Corporate Bankruptcies?

- “More than 30 American companies with liabilities exceeding \$1 billion have already filed for Chapter 11 since the start of January, and that number is likely to top 60 by year-end..., according to Edward Altman, creator of the Z-score and professor emeritus at NYU’s Stern School of Business.” Bloomberg, 7/15
- **Notable Bankruptcies 2020**
  - J.C. Penny, Hertz, Neiman Marcus, Lord and Taylor, Chesapeake Energy, Chuck E. Cheese, Brooks Brothers, Ann Taylor, Lane Bryant, et. al.
- **Many, Many Small firms just close their doors.**

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# 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

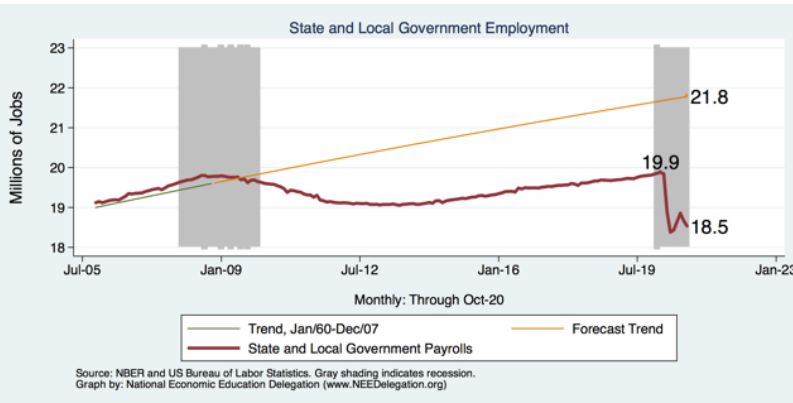


\* Estimated based on CBPP calculations  
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

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# State and Local Employment



Between March and Oct net loss of 1.4m jobs (from a low base).

Prospects if there is no general federal aid this year?

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## Stumbling Blocks to Stimulus Package

- **General Aid to State and Local Governments.**
- **Liability Protection for Firms against Covid law suits.**
- **Can a stimulus bill of more than \$1 trillion pass the Senate?**



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## The Outlook?

### Resurgence of the Virus and no Stimulus in Sight

- **Cassandra's (my) view: the 4<sup>th</sup> quarter is going to be very tough**
- **Business Community's View**
  - WSJ Economic Forecasting Survey, 11/6-10: 4% growth.
  - Phil. Fed Survey of Professional Economists, mid Nov. : 4% growth
  - Conference Board, 11/13: 2.2% growth
- **I hope I am wrong.**



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**Thank you!**

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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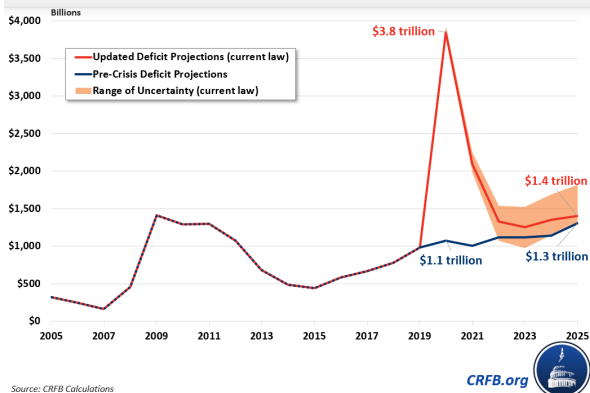
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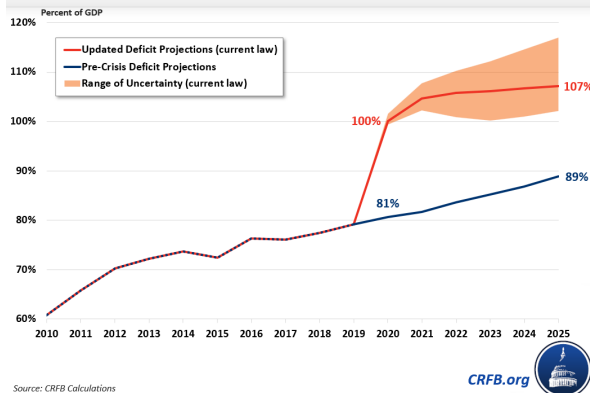


## How Do We Pay for This?

### Federal Deficit Will Reach Record Levels



### Debt Will Equal Size of Economy This Year



## 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

