

COVID-19: Economic Implications and Policy Response

July 7, 2021
Rotary Club, Albuquerque, NM

Doris Geide-Stevenson, Ph.D.
Professor of Economics
Weber State University, Ogden, UT



NATIONAL ECONOMIC
EDUCATION DELEGATION

1

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

2

2

Credits and Disclaimer

- **This slide deck was authored by:**

- Scott L. Baier, Clemson University
- Jon D. Haveman, NEED
- Geoffrey Woglom, Amherst College
- Doris Geide-Stevenson, Weber State University

- **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).

3

Resources

- **Schedules of Major Economic Releases**

- Economic Calendars at
 - o [Marketwatch](http://marketwatch.com/economy-politics/calendar) (marketwatch.com/economy-politics/calendar)
 - o [FRBNY](http://newyorkfed.org/research/calendars/nationalecon_cal) (newyorkfed.org/research/calendars/nationalecon_cal)

- **DIY Real Time Data:**

- [Track the Recovery](http://tracktherecovery.org): (tracktherecovery.org)
- [Federal Reserve Economic Database \(FRED\)](http://fred.stlouisfed.org): (fred.stlouisfed.org)

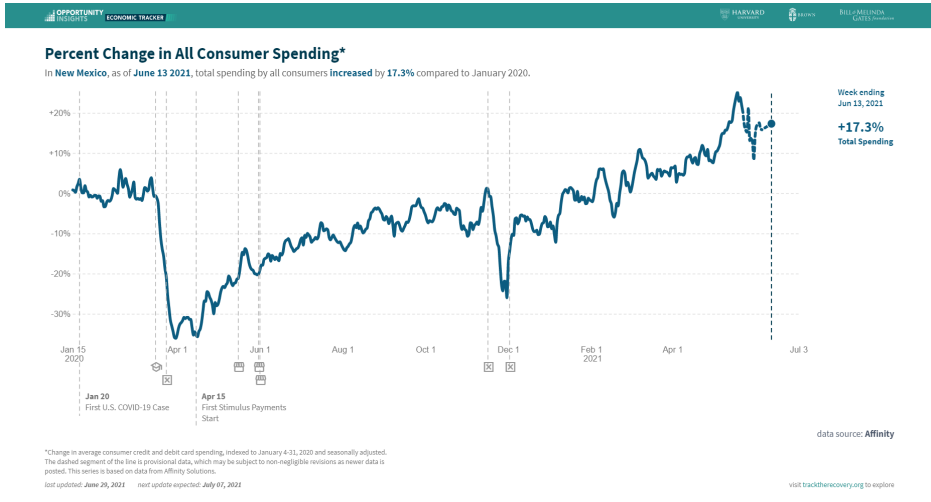
4

Guiding Questions

- What is the current state of “the economy”?
- What have been the effects of policy?
- What kind of a recovery are we looking at?
- What about inflation?
- What about the labor market?
- Is progress equitable?

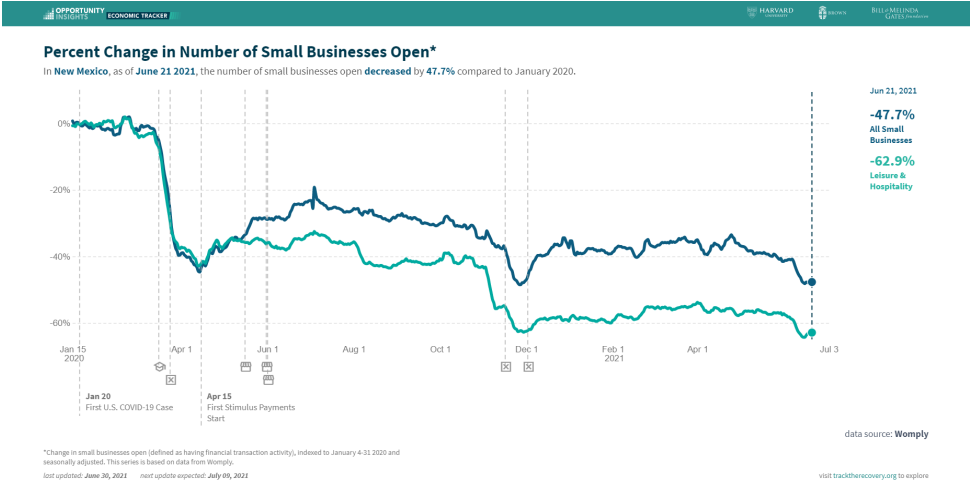
5

Spending Collapsed in March 2020



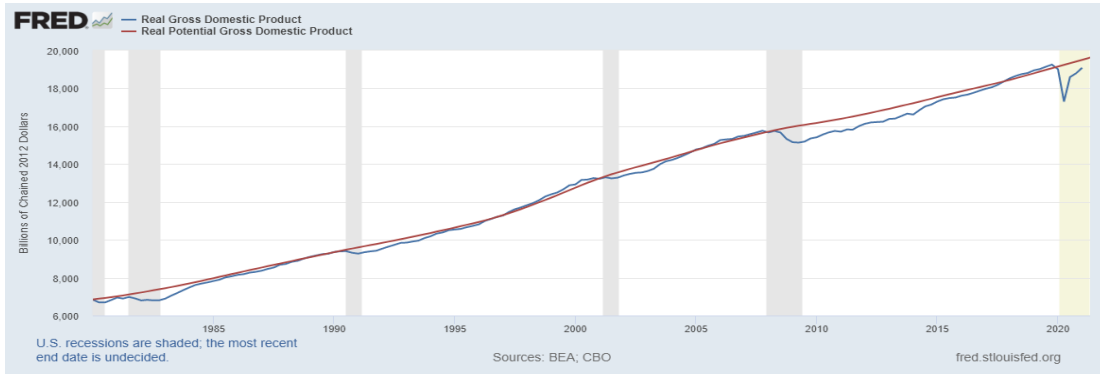
6

Implications of Reduced Spending



7

Where are We ?

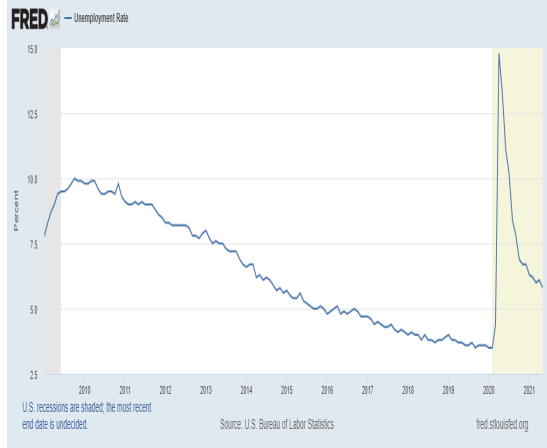
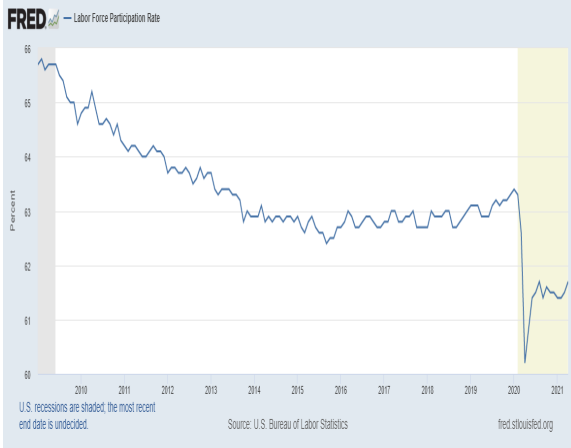


Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

Still a negative Output Gap compared to the start of the pandemic, but a quick recovery.

8

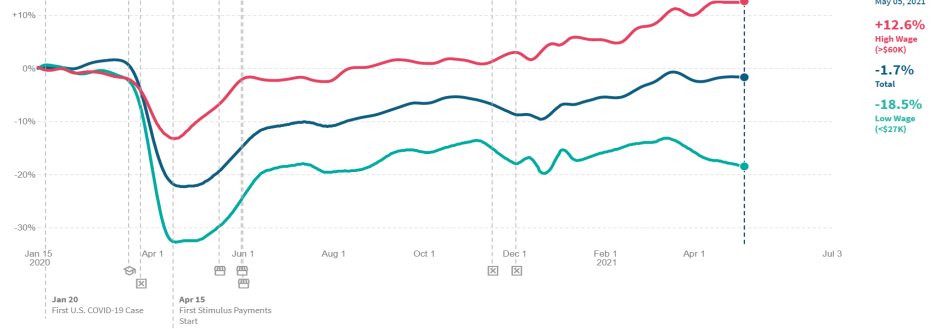
What is going on with the labor market?



Employment Rates by Income

Percent Change in Employment*

In New Mexico, as of May 05 2021, employment rates decreased by 1.7% compared to January 2020 (not seasonally adjusted).



*Change in employment rates (not seasonally adjusted), indexed to January 4 31, 2020. This series is based on payroll data from Paychex and Intuit, weekly level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.

last updated: June 30, 2021 next update expected: July 09, 2021

visit tracktherecovery.org to explore

Where are we now? - Summary

- Household spending on goods and many services has recovered (+), with 'whiplash' in some sectors that contribute to shortages.
- Repeated cash injections from government have increased household personal income and savings (+)
- Interest rates are at historic lows, but expected to trend up earlier (+)
- About 1/3 of small businesses have stopped operations (-), but many new business formations (+)
- Unemployment rolls remain elevated and employment is below pre-pandemic levels (7 million fewer employed) (-)
- Many Americans – both men and women - have left the labor force (as of May 2021: All: 3.5 million, 1.7 million men and 1.95 million women) (-)



11

A Tale of Three Policy Efforts

- **Health Policy – Addressing the Pandemic**
- **Monetary Policy**
- **Fiscal Policy**



12

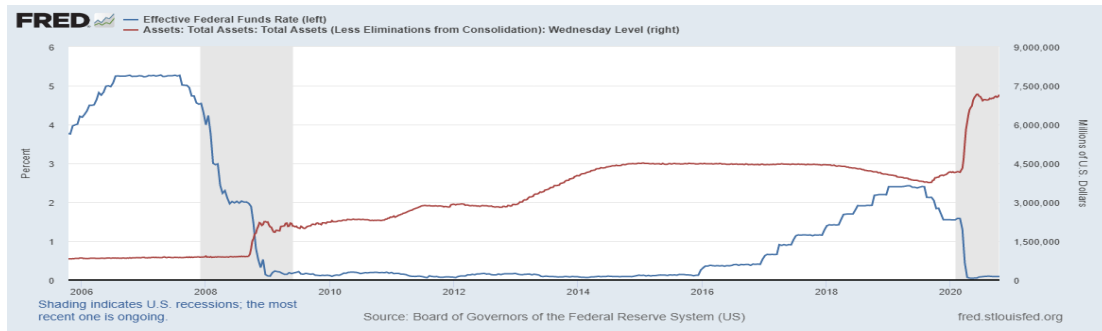
Health Policy – Pandemic

- Moved from various types of ‘social distancing’ and ‘lock-downs’ to living with Covid-19.
- Unlikely to reach full herd immunity in the US – continued threat from new variants for vaccinated and unvaccinated persons.
- Uneven global approach to vaccinations.



13

Federal Funds Rate and Balance Sheet

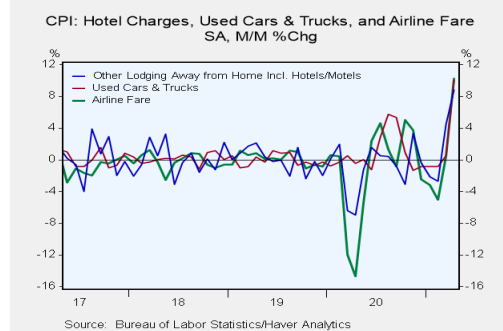
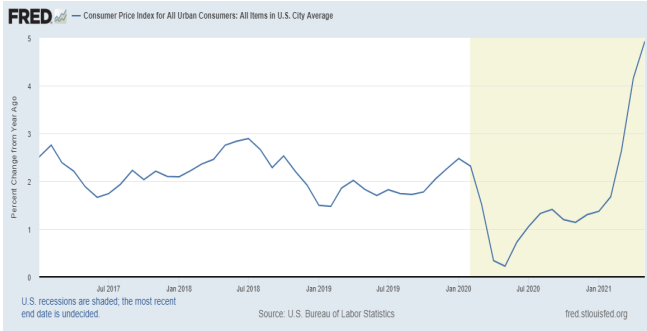


Monetary Policy acted quickly and effectively to prevent a financial market meltdown and keep credit flowing. But the Fed lends and does not spend; so there is a limited impact on spending.



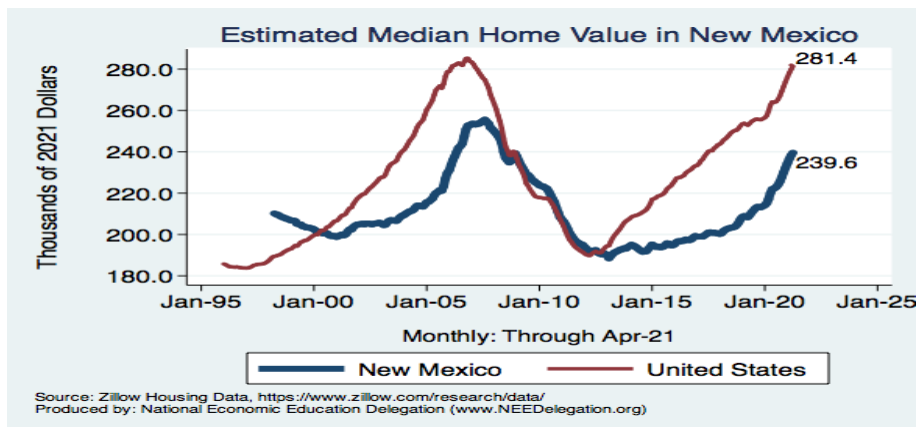
14

Inflation

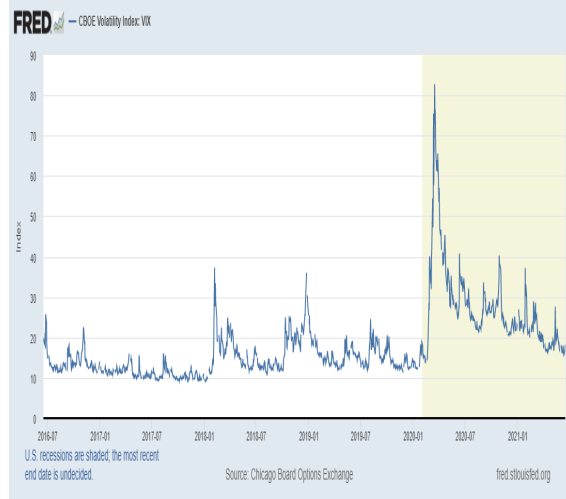


Higher **temporary** inflation because of: 1. Base effect, 2. Pent-up demand for services, 3. Supply-chain disruptions. Current market measures of inflation expectations are 2.3 – 2.4% annually (close to Fed goal). Fed measure of inflation is below CPI measures – closer to 3% currently.

Local Housing Market – Asset Market 1

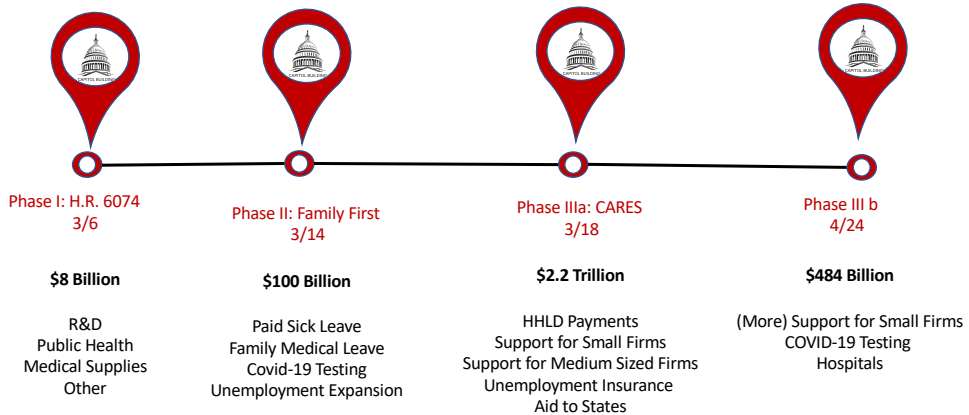


Stock Market Impact – Asset Market 2



17

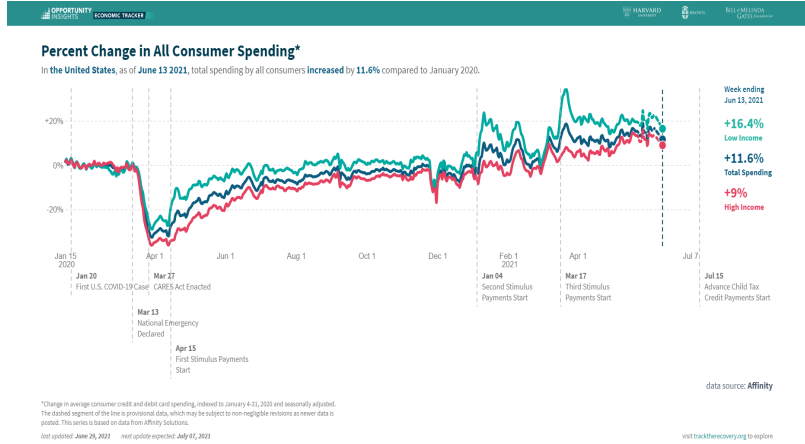
Fiscal Policy Timeline – First Round



18

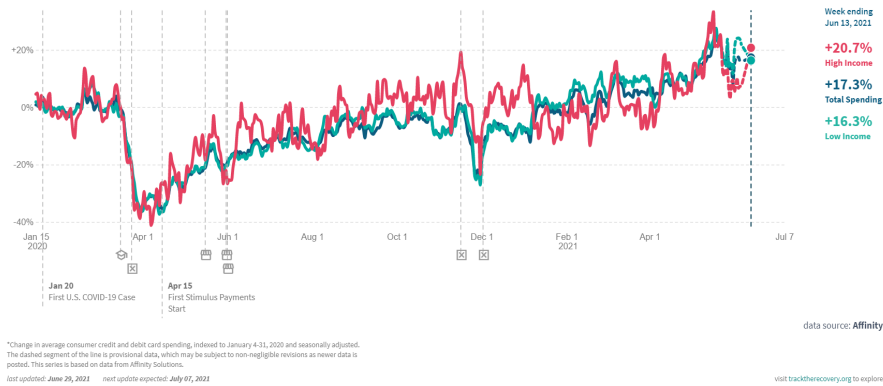
Who is spending in the US?

Low Income Households were able to increase spending in response to the stimulus programs. High income households chose not to spend as much as before the lockdown.

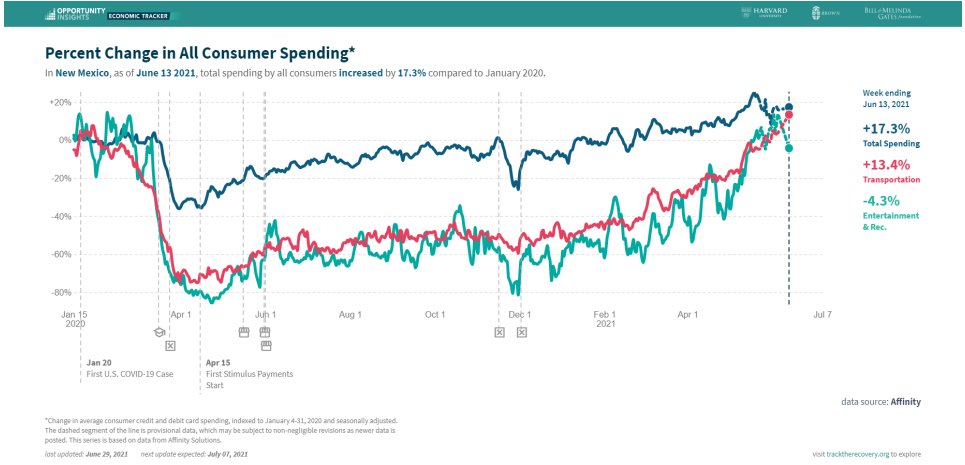


Who is spending in New Mexico?

Percent Change in All Consumer Spending*
In New Mexico, as of June 13 2021, total spending by all consumers increased by 17.3% compared to January 2020.

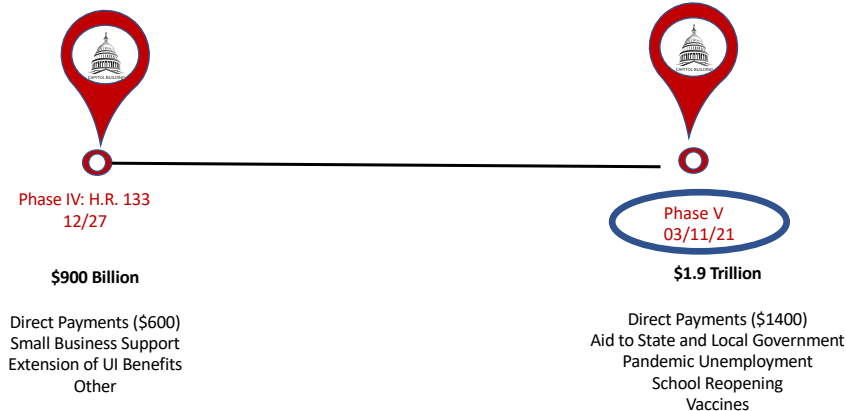


Hard Hit Sectors – uneven recovery among industries

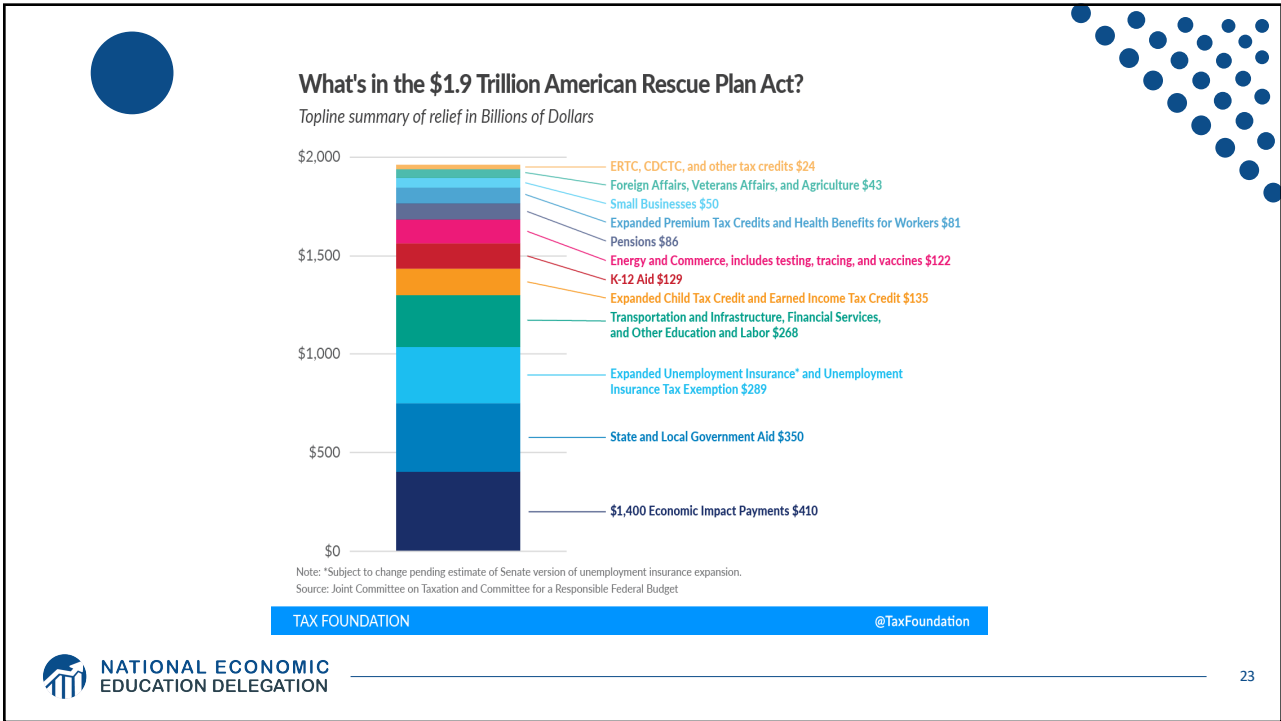


21

Fiscal Policy Timeline – Second and Third Round



22



23

Expected impact of the stimulus bill

- Updated expectations for U.S. economic growth: 5.95% - 7% Q42020 through Q42021 (WSJ survey/Oxford Economics/Fed)
- Updated expectations for global economic growth: +1% because of vaccination roll-out and US fiscal stimulus (OECD forecast)
- Increase in national debt/GDP ratio to WWII levels (additional debt financed at negative real interest rates).
- Substantial (temporary) reduction of child poverty as most benefits from the current bill go to households with incomes below \$90,000.

NATIONAL ECONOMIC EDUCATION DELEGATION 24

24

Questions about the stimulus bill

- **Is the bill too big and will it cause inflation?**
 - Maybe, but unlikely since income subsidies (about \$1tn) are temporary, consumers are likely to spend only about 50% and save 50%. This will not be enough to close the existing negative output gap. Uptick in the CPI (5% in May 2021 likely transitory).
- **Does the bill contain ‘pork’ that is not directly targeting Covid relief?**
 - Yes, but about 85% of the total spending is pandemic-related (if state and school aid is included).
- **Should the bill have prioritized other types of programs?**
 - Instead of direct payments to persons unaffected by the pandemic more infrastructure spending would have created more future economic growth.

<https://www.usatoday.com/story/news/factcheck/2021/03/02/fact-check-breaking-down-spending-covid-19-relief-bill/6887487002>
 Zhao, Chen, Inflation risk from Biden's stimulus plan is exaggerated, Financial Times, March 9, 2021
 Wolf, Martin, Joe Biden's \$1.9tn package is a risky experiment, Financial Times, Feb. 23, 2021



25

Is there a worker shortage?

- **Unemployment benefits and economic impact payments have created a financial cushion for many households.**
- **Ongoing concerns with pandemic affect child care and other caregiving.**
- **Some early retirements (about 1 million).**
- **Early recovery reconnected workers with their old jobs – in this phase new matches have to be made.**
- **Real average hourly earnings are still lower in May 2021 than they were a year ago.**
- **There is room for more workers to enter the labor force – and for wages to increase.**



26

K-Shaped Recovery

The K-Shaped Recovery

Inequality accelerating due to the pandemic

- Jobs
- Wealth
- Income
- Health
- Education



Stockholders
Homeowners
Tech, Finance
Men
College grads
SouthWest
Goods
Prime borrowers

Renters
Hospitality, Retail
Women
Non-college grads
Northeast
Services
Subprime borrowers

MOODY'S ANALYTICS



NATIONAL ECONOMIC
EDUCATION DELEGATION

27

27

Conclusion

- **COVID-19 is public health crisis that has macroeconomic implications.**
 - With enormous built-in inequities.
- **Strong policy responses in the US have led to a strong recovery of the US economy.**
 - Positive growth will return in 2021. Forecast: 6 – 7% for 2021.
- **Significant structural changes.**
 - Telecommuting, telehealth, retail decline, other business failures. Increased concentration of market power – but also many new business formations.
- **Ongoing economic reallocations will create uncertainty.**
- **Long-term effects:** Educational opportunities, labor force participation changes, reallocations that require retraining, possibly increasing inequality, long-term health challenges.
- **Wide agreement that the 'American Rescue Plan' was needed, but debate over the size of additional fiscal stimulus to 'building back better'.**
- **Households are in a stronger financial position, but government debt has increased substantially.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

28

28

Thank you!

Any Questions?

www.NEEDelegation.org

Doris Geide-Stevenson
dgsteven@weber.edu

Contact NEED: info@needelegation.org

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

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



NATIONAL ECONOMIC
EDUCATION DELEGATION