# COVID-19: Economic Implications and Policy Response

Kiwanis Club of Bozeman
04/05/2021

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1

## Outline for Today's Talk

- Discuss President Biden's Economic Relief Package.
- Explain the (initial) impact of COVID-19 on spending and employment
- Highlight the (initial) Monetary and Fiscal Response by the US.
- Discuss how the Monetary and Fiscal response aided the recovery in 2020:Q2 & 2020:Q3
- Discuss reasons for the slowdown in the recovery in 2020:Q4
- What is next?

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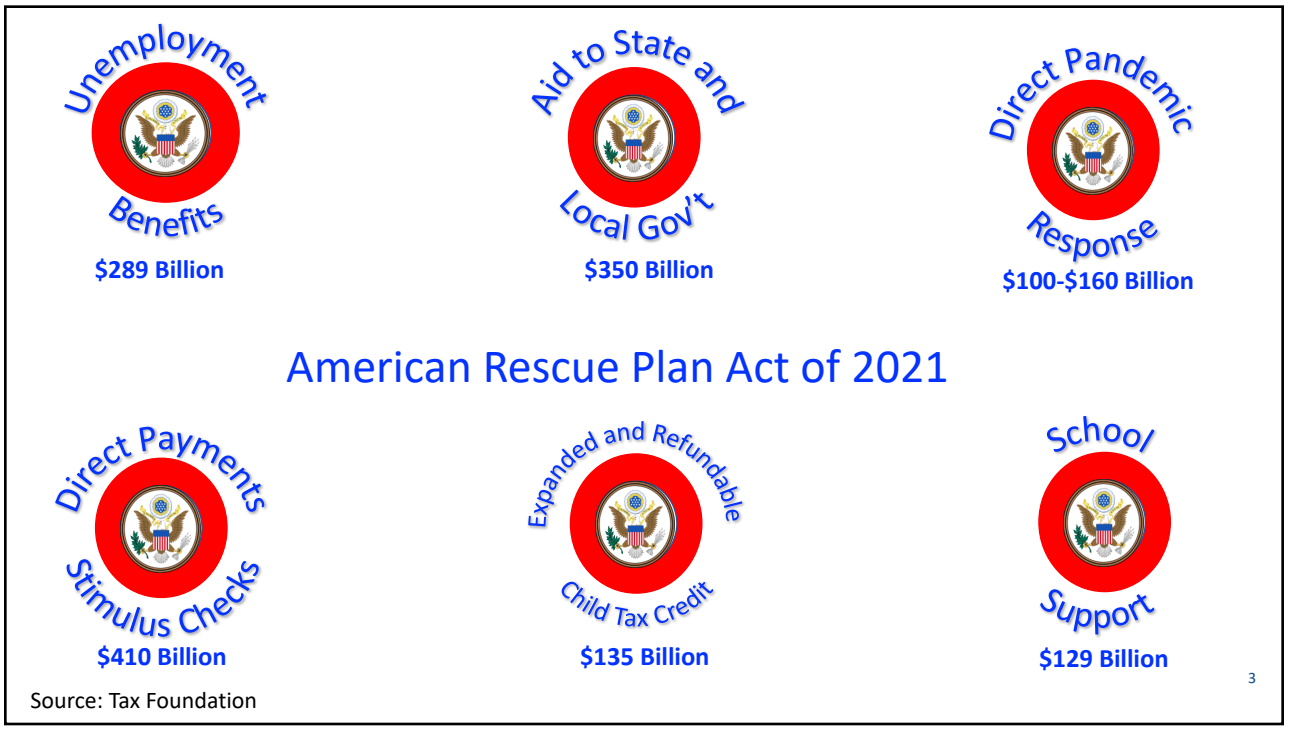
2




Source: Tax Foundation

3

## Conclusion

**The economic recovery in 2021 depends crucially on**

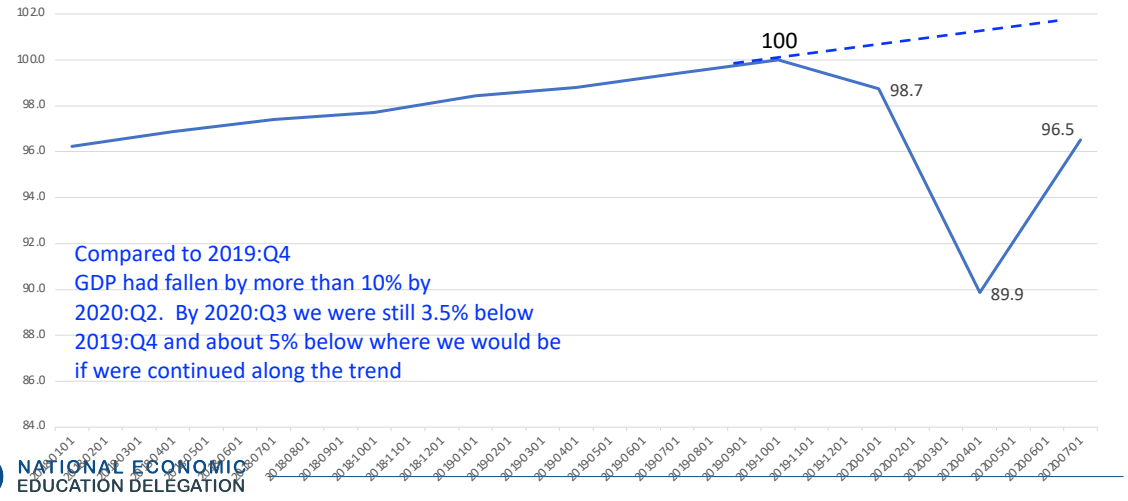
- The distribution of the vaccines.
- The efficacy of the vaccines and new strains.
- The economic response to the most recent fiscal stimulus.
- The willingness of the population to "continue" follow safety protocols.
- The ability of businesses and households to (continue to) adapt.

The recovery in the Q2 and Q3 of 2020 was supported by an "improvement" in the health situation and fiscal and monetary support.



4

# Real GDP: Normalized 2019:Q4 to 100

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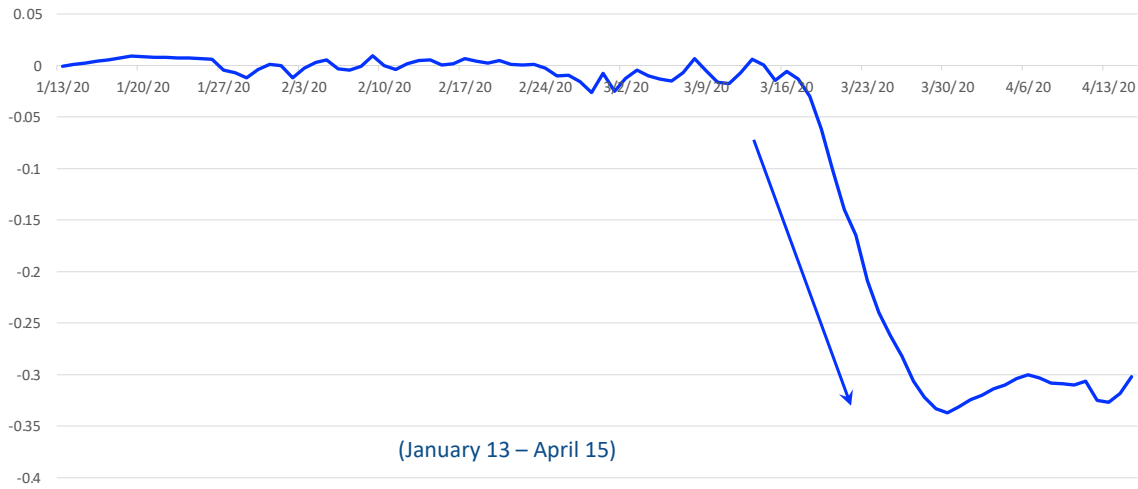
5

# Spending

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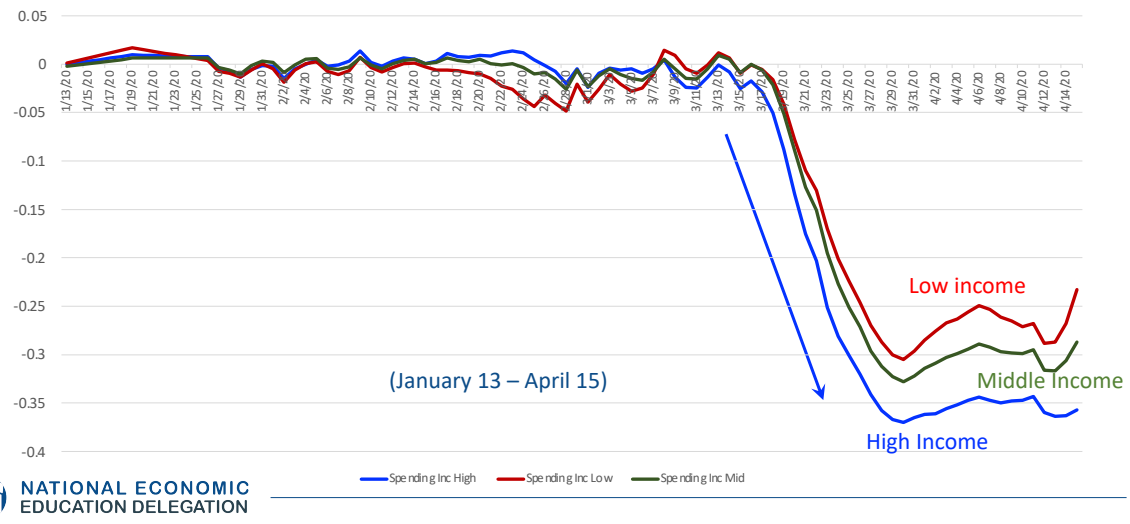
Source: Opportunity Insights

6

# Spending by Income Group

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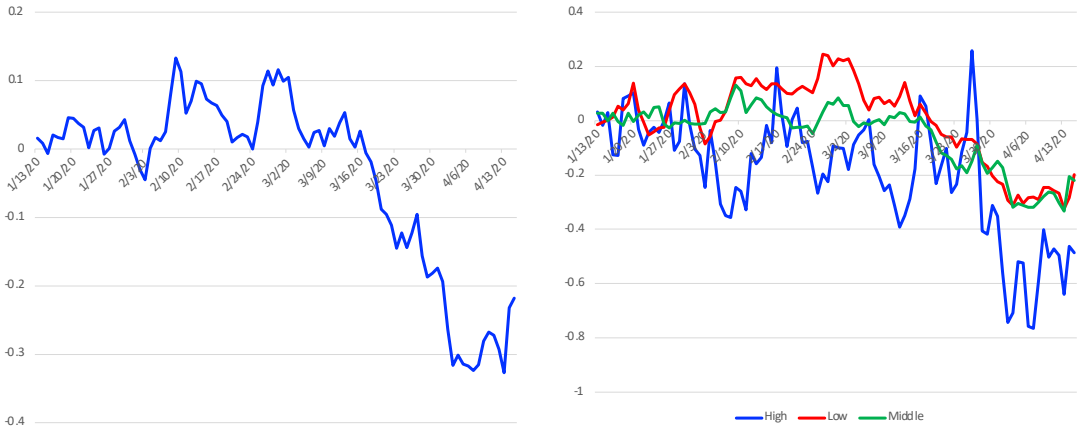
7

# Spending: Montana

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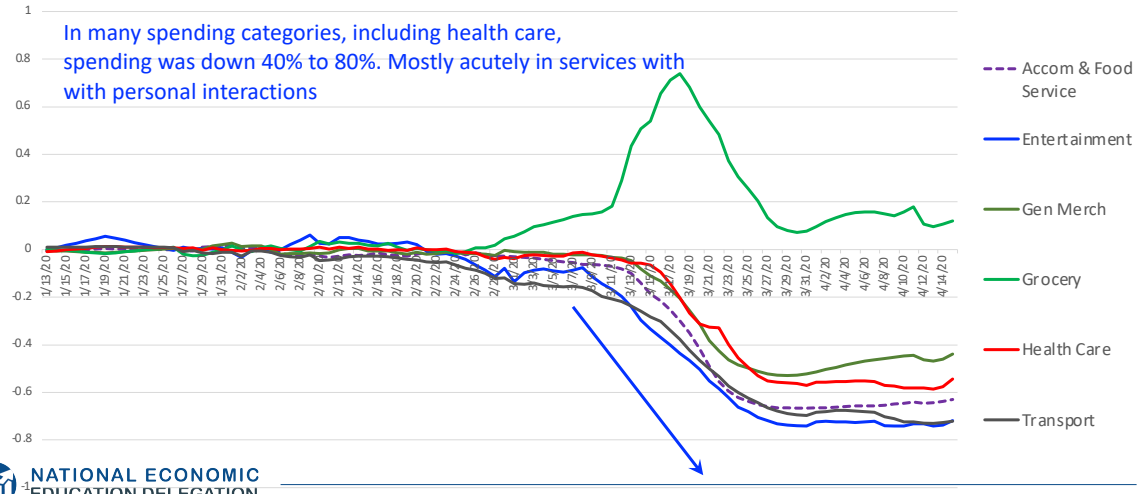
8

8

# Spending (Categories)

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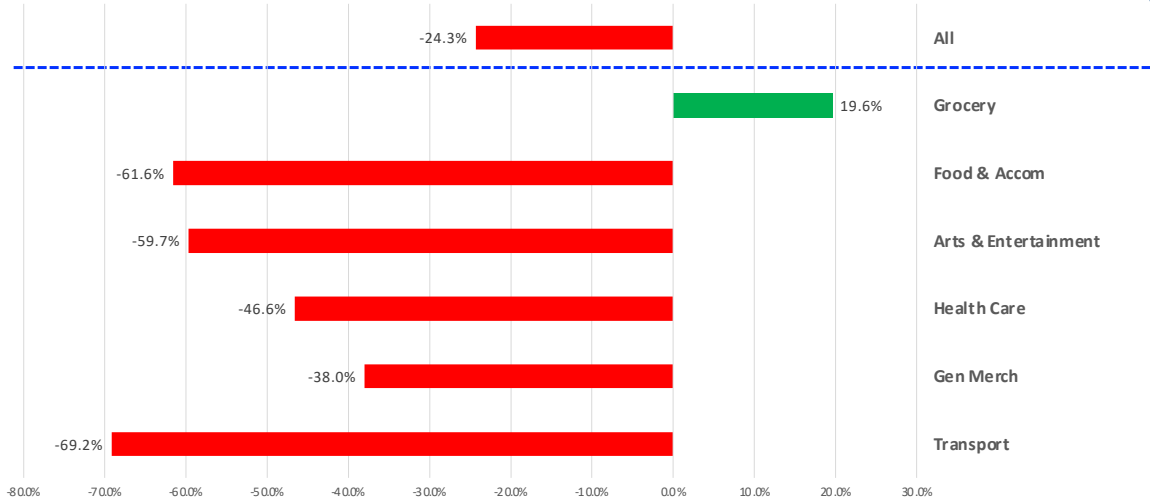
Source: Opportunity Insights

9

# Spending

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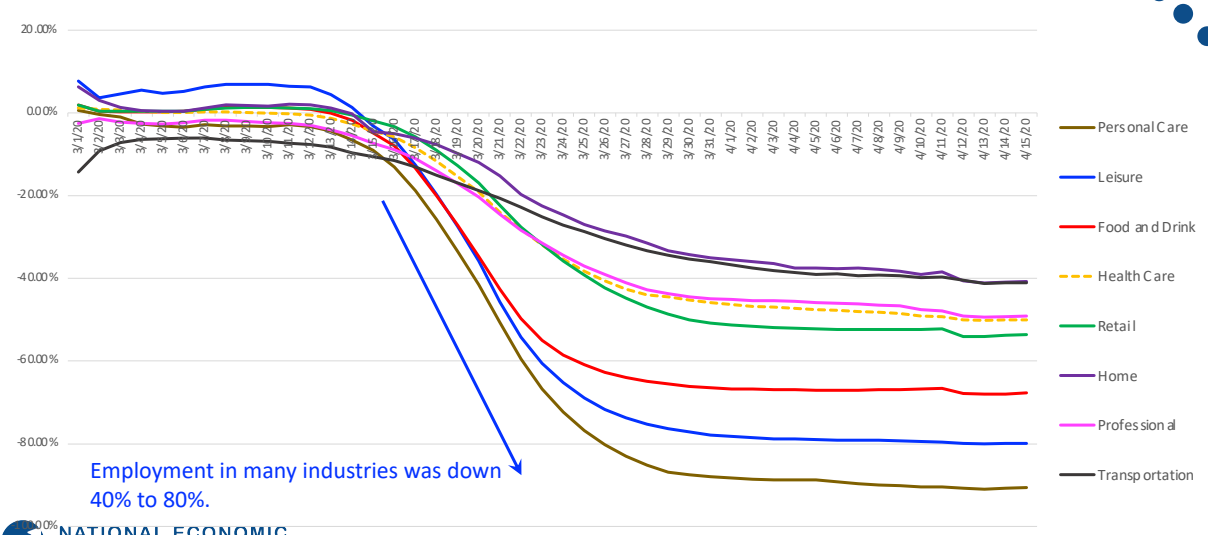
Spending as of April 15

Source: Opportunity Insights

10

# Hours Worked

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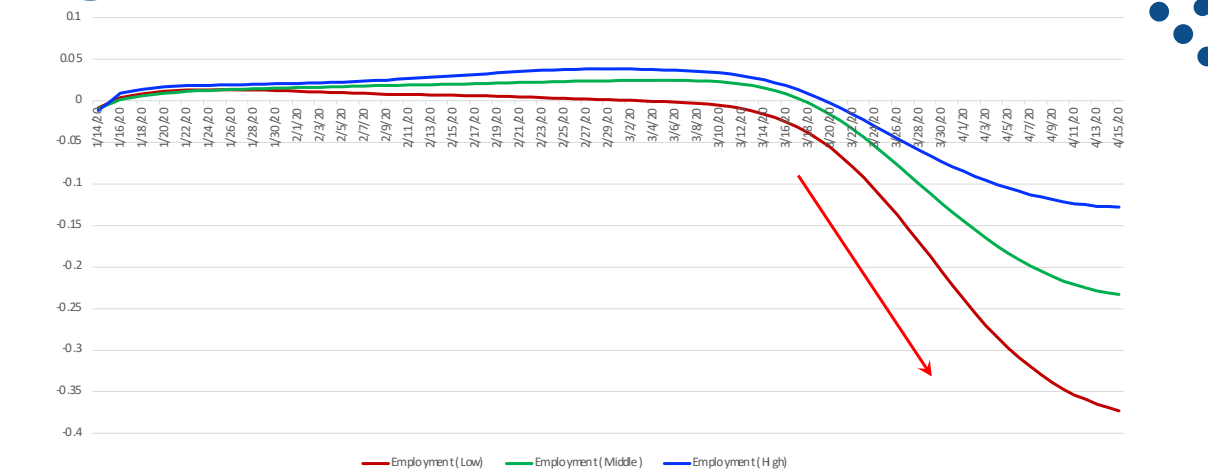
Source: Homebase

11

# Hours Worked

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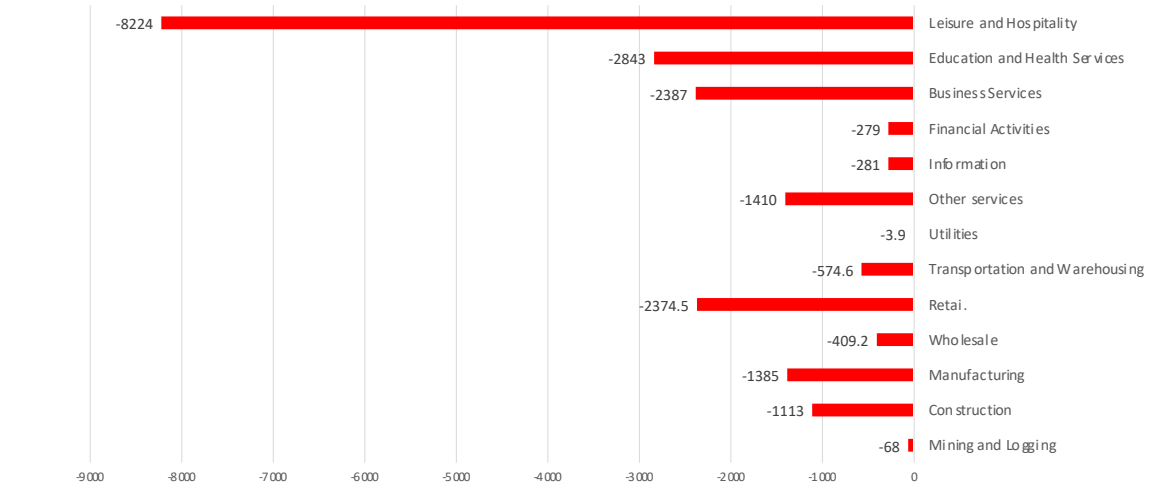
12

# March and April Job Loss
## (in 1,000)

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Source: BLS

13

# Fiscal Policy Timeline

**Phase I: H.R. 6074**
**3/6**
R&D
Public Health
Medical Supplies
Other

**Phase II: Family First**
**3/14**
Paid Sick Leave
Family Medical Leave
Covid-19 Testing
Unemployment Expansion

**Phase III: CARES**
**3/18**
HHLD Payments
Support for Small Firms
Support for Medium Sized Firms
Unemployment Insurance
Aid to States

**Phase III b**
**4/24**
(More) Support for Small Firms
COVID-19 Testing
Hospitals

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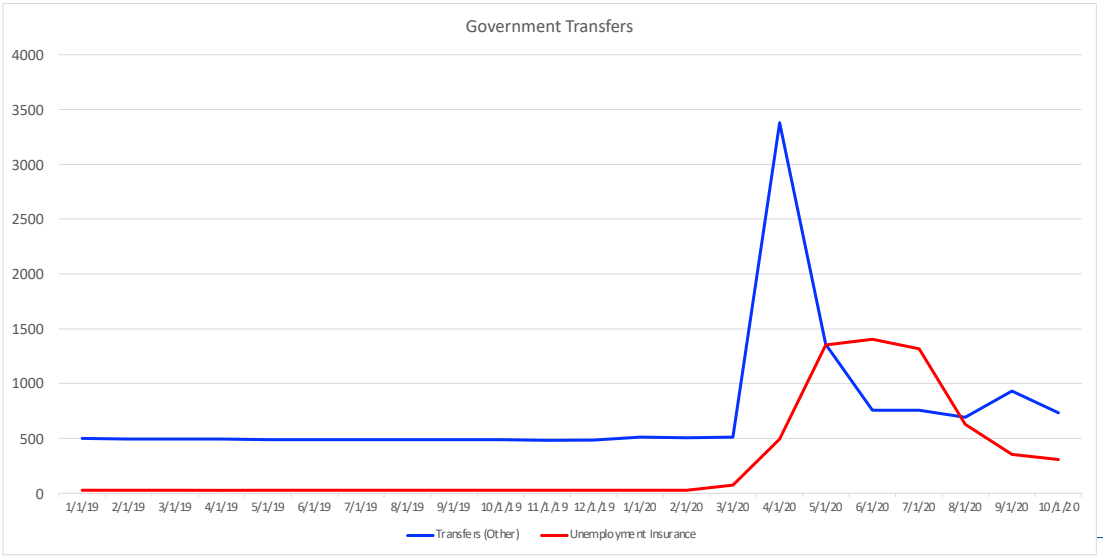
14

# Fiscal Response (Phase III a-b): CARES Act






15

# Federal Reserve Timeline

**March 3**
Federal Funds Rate

**March 15**
Federal Funds Rate
Discount Window Lending
Quantitative Easing
Forward Guidance

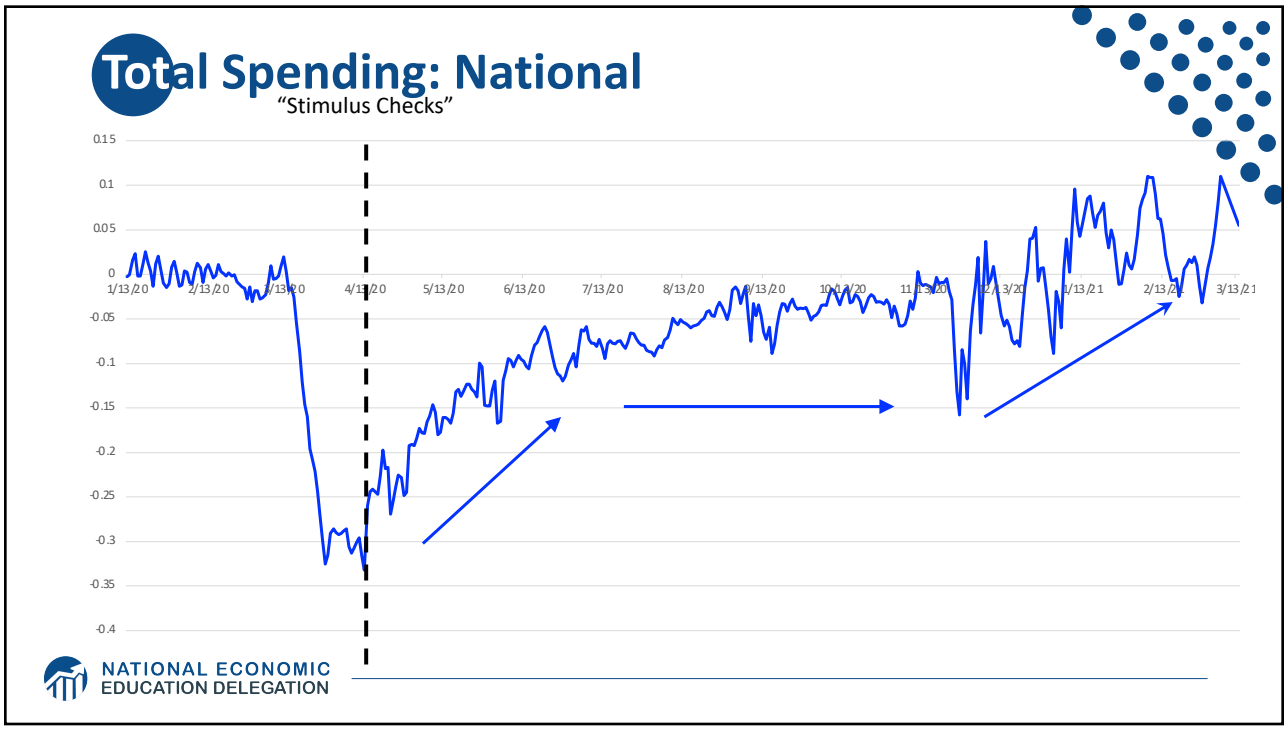
**March 17/18**
Primary Dealer Credit Facility (PDCF)
Commercial Paper Funding Funding Facility (CPFF)
Money Market Mutual Fund Facility (MMLF)

**March 23**
Primary Market Corporate Credit Facility (PMCCF)
Secondary Market Corporate Credit Facility (CMCCF)
Term Asset-Backed Securities Loan Facility (TALF)

**April 9**
Paycheck Protection Program Liquidity Facility (PPPLF)
Main Street Business Lending Program
Municipal Liquidity Facility



16


Total Spending: National
"Stimulus Checks"
0.15
0.1
0.05
0
-0.05
-0.1
-0.15
-0.2
-0.25
-0.3
-0.35
-0.4
1/13/20
2/13/20
3/13/20
4/13/20
5/13/20
6/13/20
7/13/20
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3/13/21
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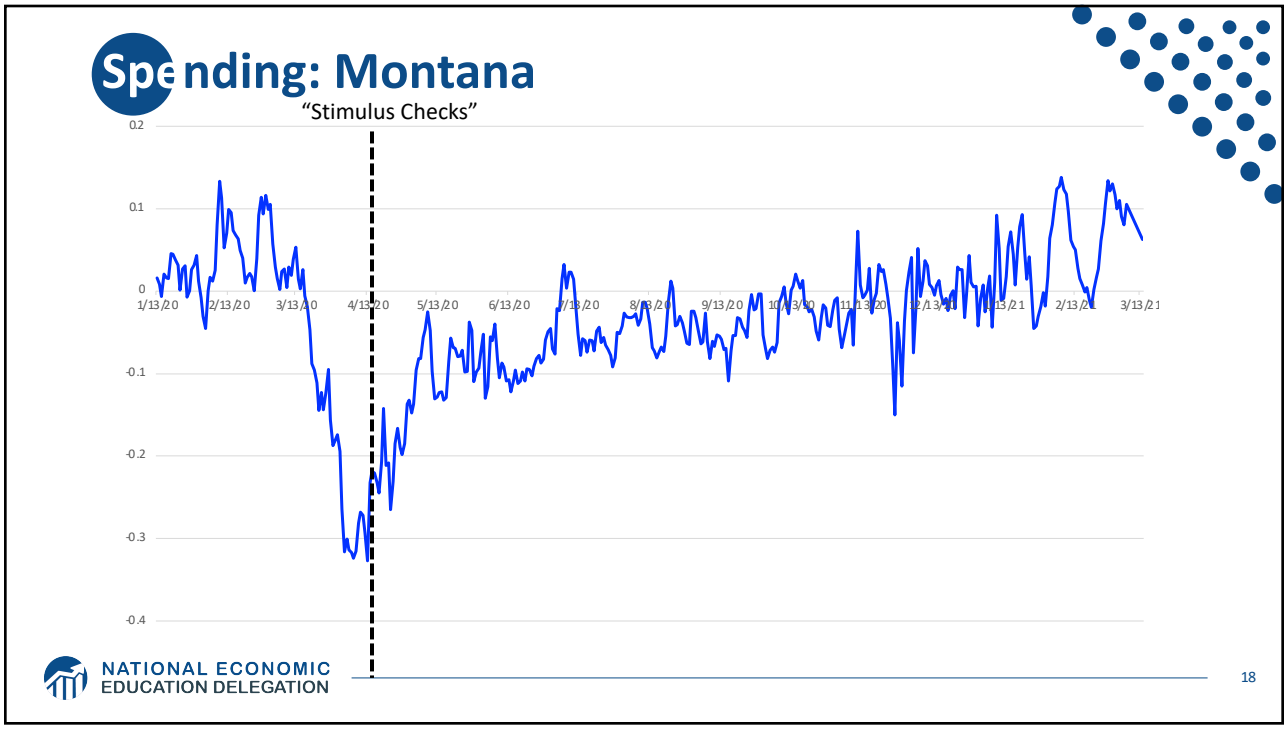
17


Spending: Montana
"Stimulus Checks"
0.2
0.1
0
-0.1
-0.2
-0.3
-0.4
1/13/20
2/13/20
3/13/20
4/13/20
5/13/20
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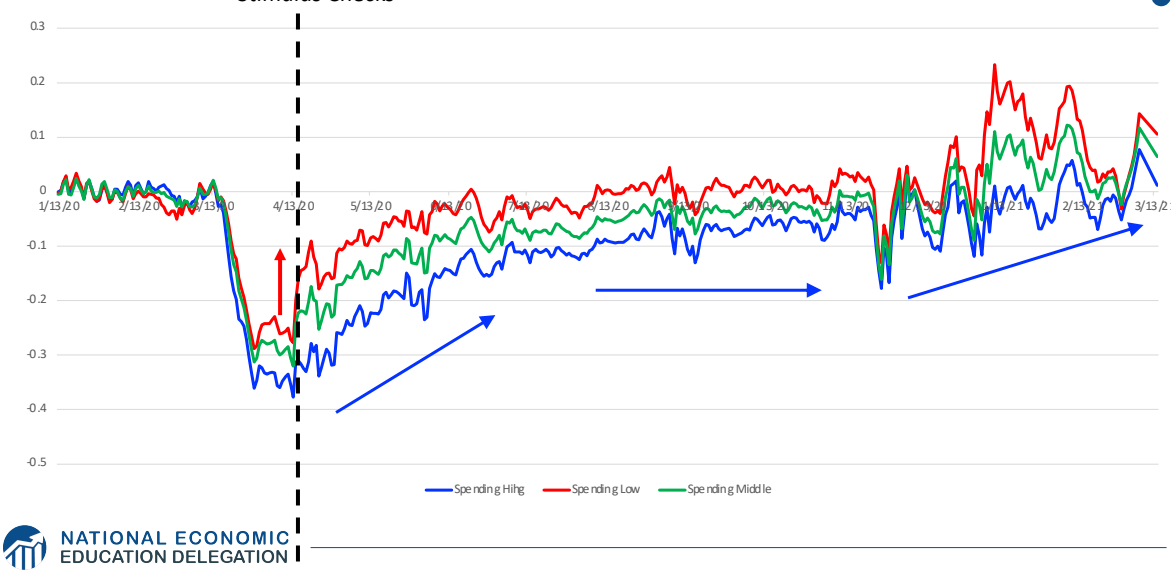
18

18

# Total Spending: National

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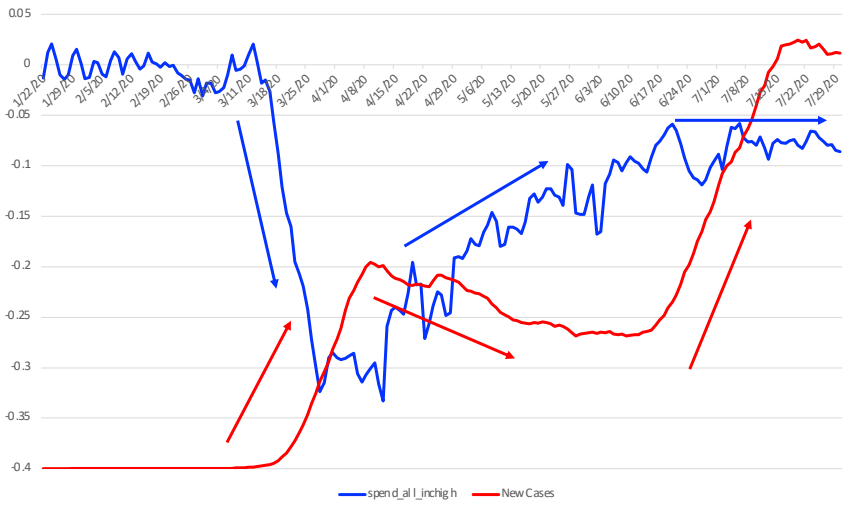
19

# Spending and Number of New COVID19 Cases




Stimulus, the decline in cases, and private and public adjustments resulted in improvements in the second and third quarter.

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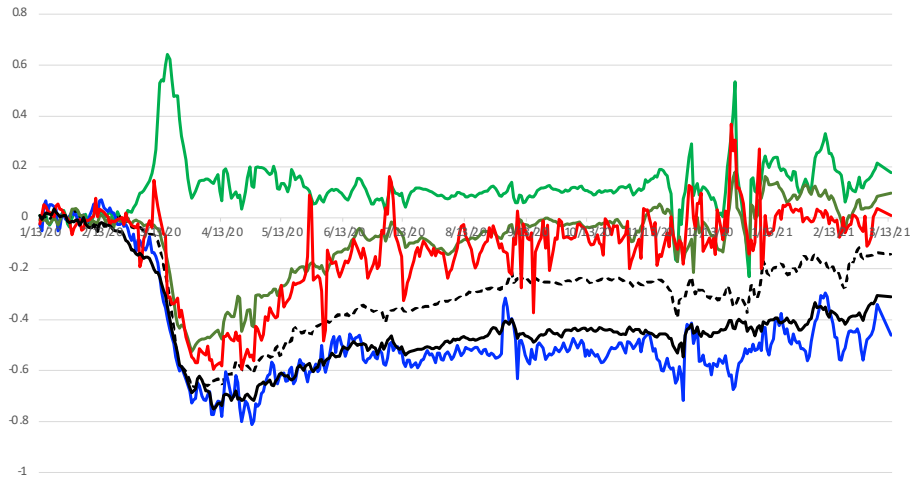
20

# Spending (Categories)

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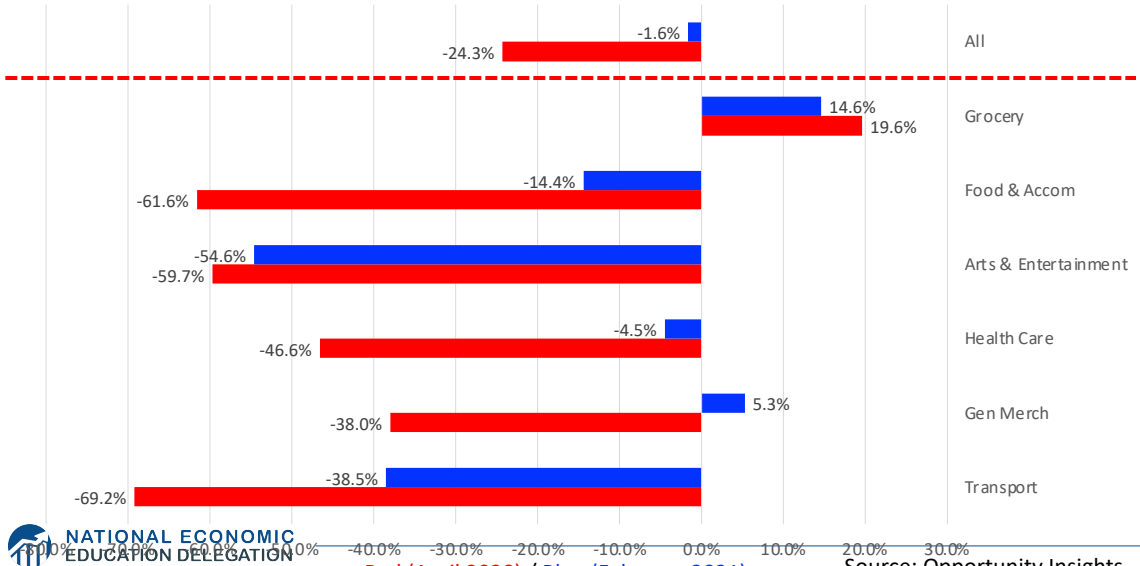
21

# Spending Comparison

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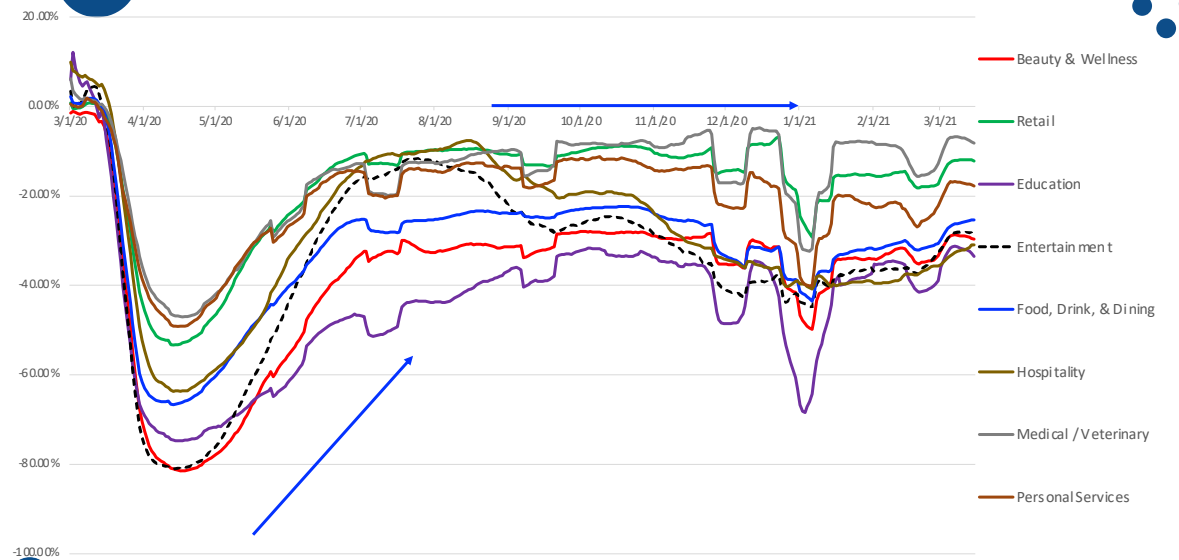
Red (April 2020) / Blue (February 2021)

Source: Opportunity Insights

22

## Hours Worked

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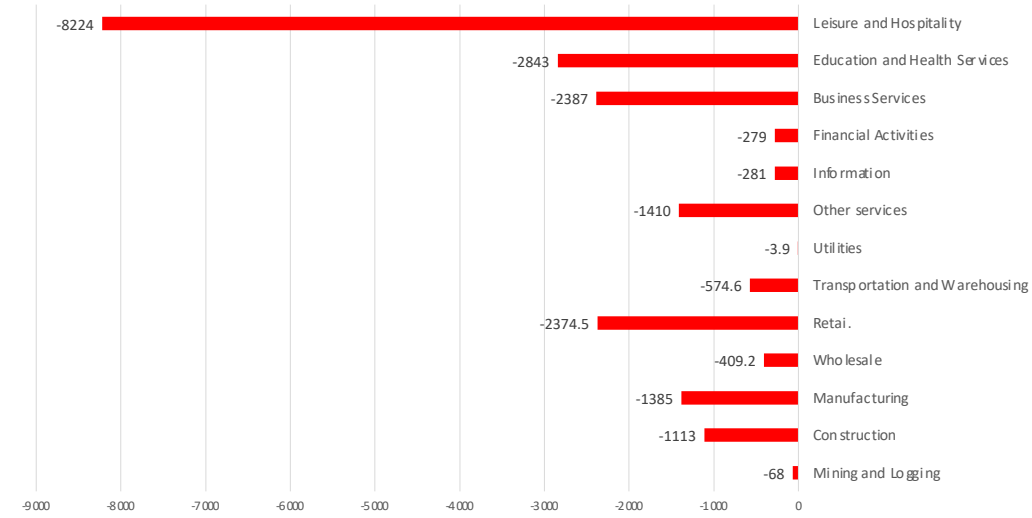
Source: Homebase

23

## March and April Job Loss (2020)
### (in 1,000)

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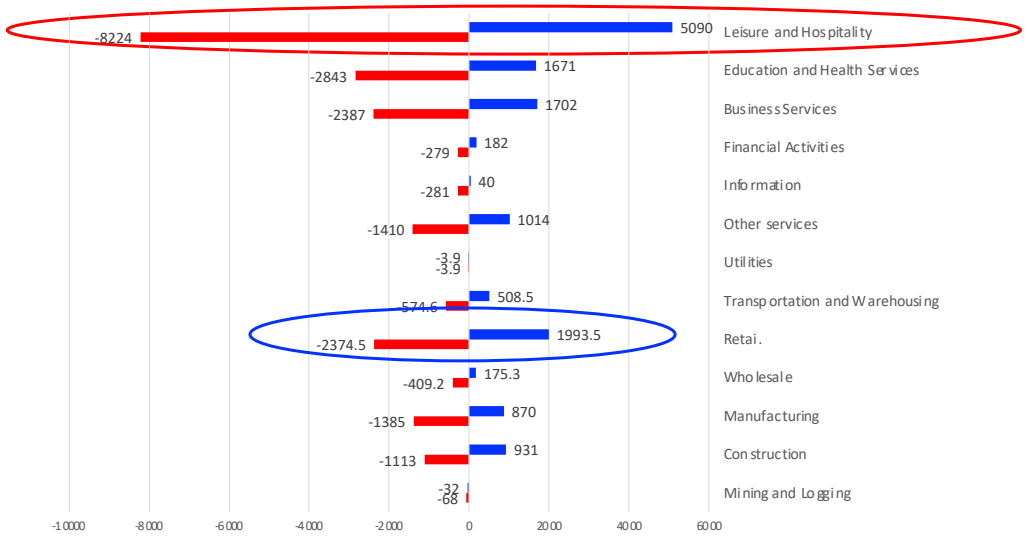
Source: BLS

24

# Job Loss and Job Gains (in 1,000)

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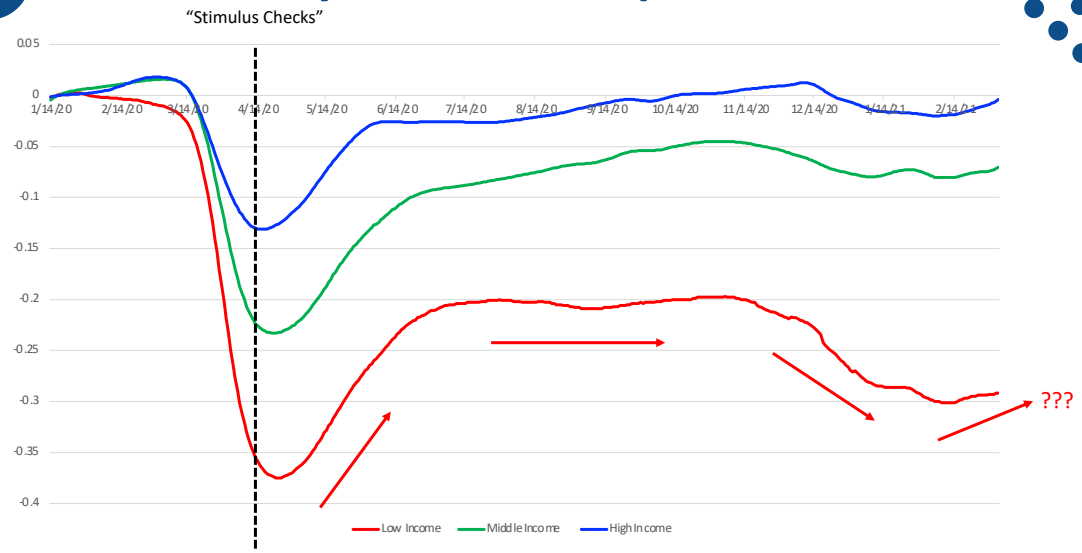
Employment is still about 8 million below where it was in February 2020

Source: BLS

25

# Hours Worked by Income Group

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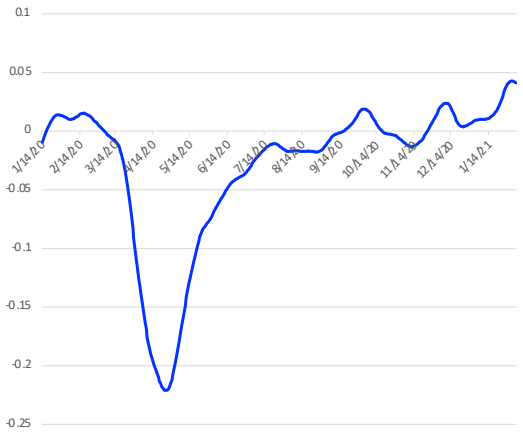
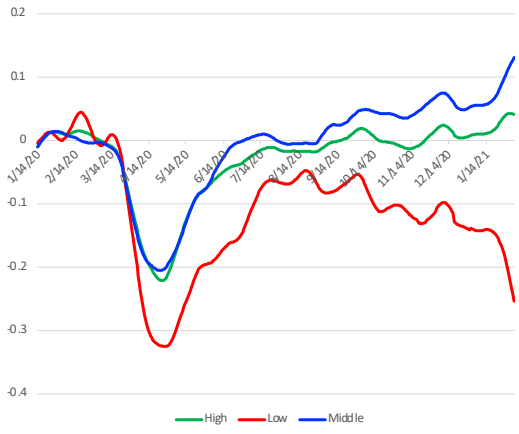
26

26

# Hours Worked: Montana

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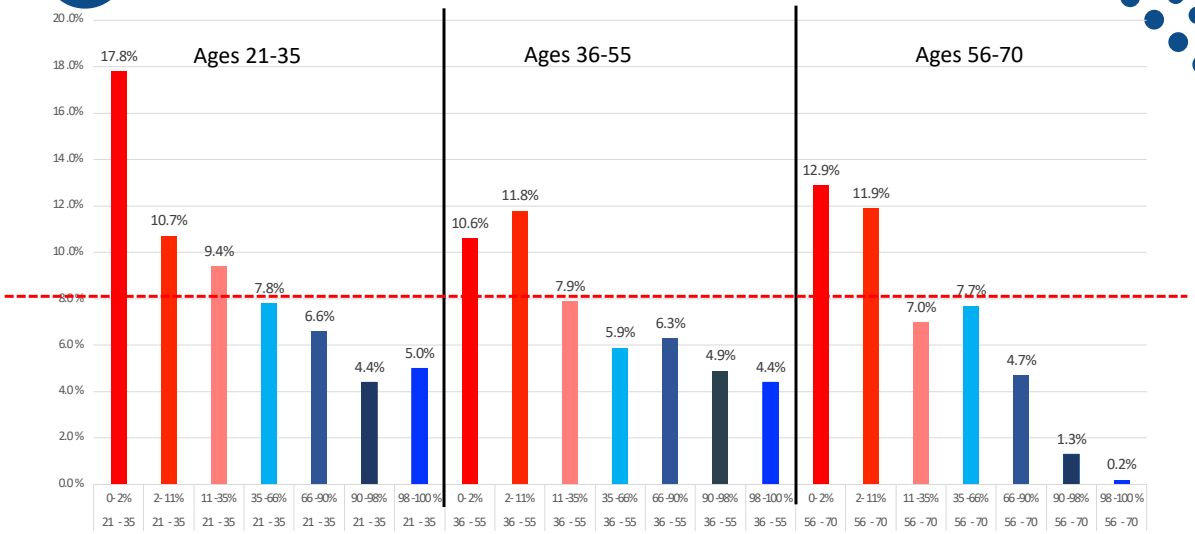
27

# Unemployment by Income and Age

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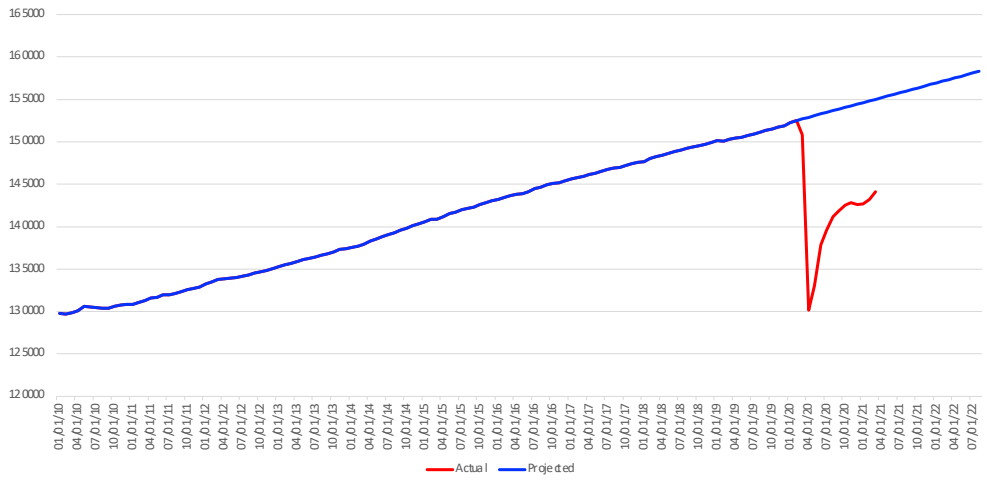
Source: Wharton / CPS

28

# Employment: Nonfarm Payroll

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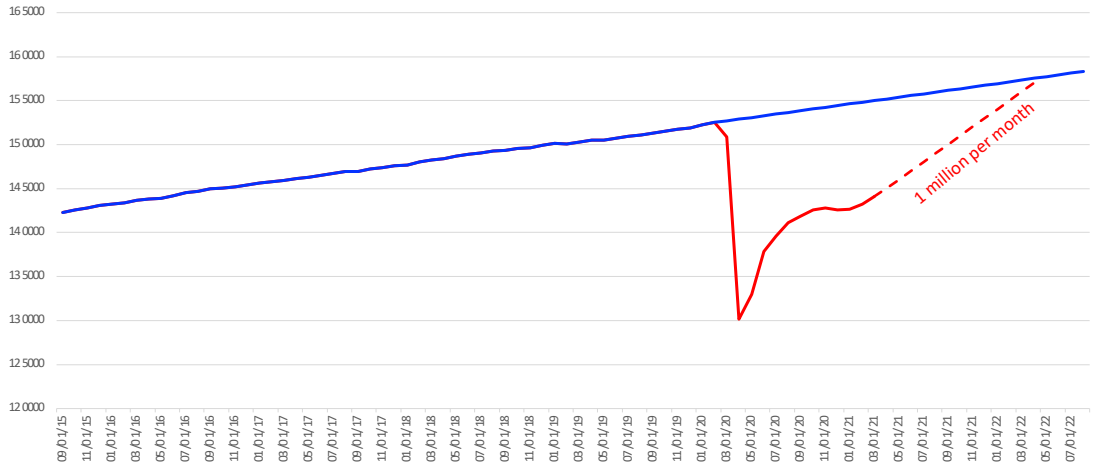
29

Source; BLS

29

# Employment: Nonfarm Payroll

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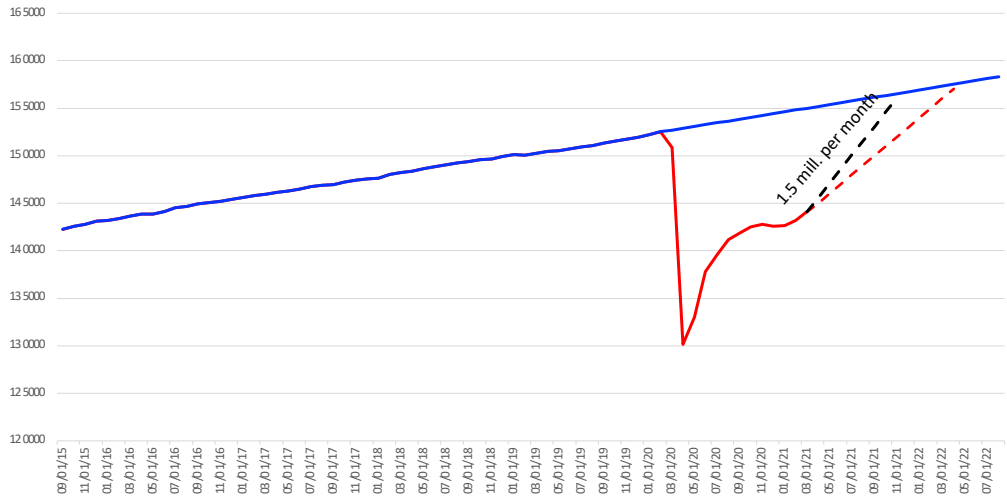
At 1 million jobs per month, we are back on trend by April 1, 2022

30

Source; BLS

30

# Employment: Nonfarm Payroll

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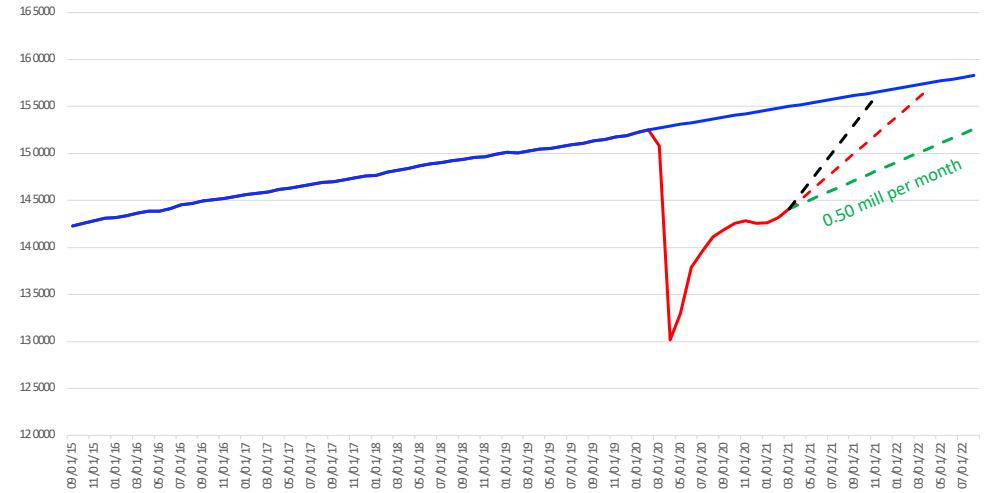
At 1 million jobs per month, we are back on trend by November 1, 2021

Source: BLS

31

31

# Employment: Nonfarm Payroll

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At 0.50 mill. jobs per month, we are back on trend 2024

Source: BLS

32

32

Unemployment Benefits
$289 Billion

Aid to State and Local Gov't
$350 Billion

Direct Pandemic Response
$100-$160 Billion

## American Rescue Plan Act of 2021

Direct Payments Stimulus Checks
$410 Billion

Expanded and Refundable Child Tax Credit
$135 Billion

School Support
$129 Billion

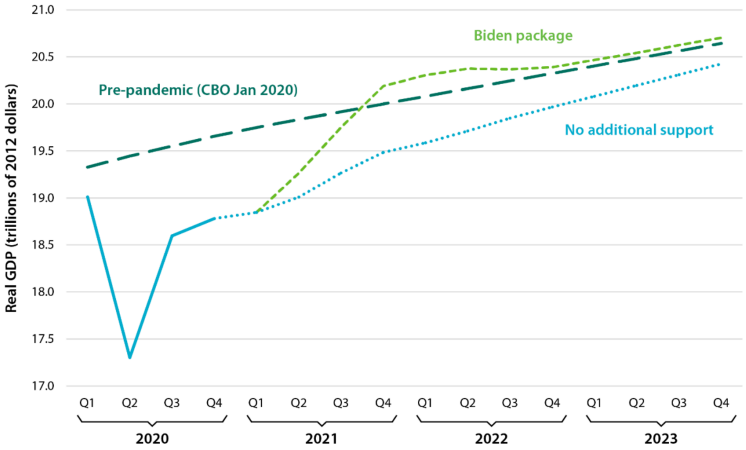
33

Source: Tax Foundation

33

## GDP Effects of the American Rescue Plan

Projections of Real GDP: Biden Package, Path with No Additional Support, and Pre-Pandemic Path (CBO Jan 2020)




Source: Congressional Budget Office January 2020; Bureau of Economic Analysis; authors' calculations.

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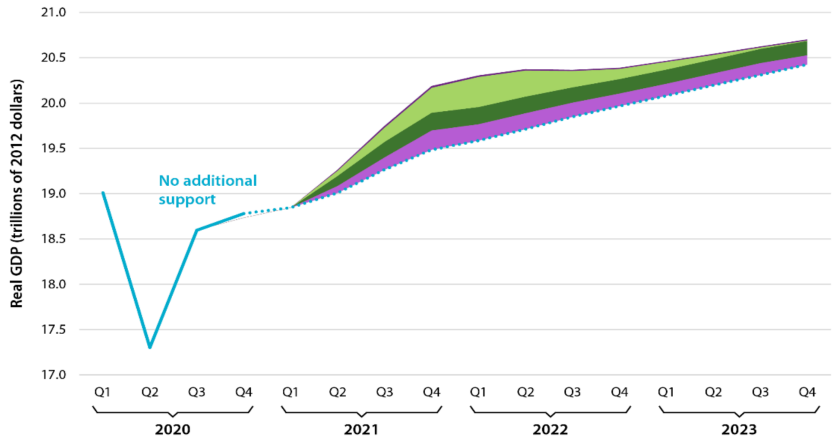
34

34

# GDP Effects of the American Rescue Plan

Effects of Components of Biden Package on Real GDP




Source: Bureau of Economic Analysis; authors' calculations.
Note: For details on the underlying methodology, please refer to the technical appendix.

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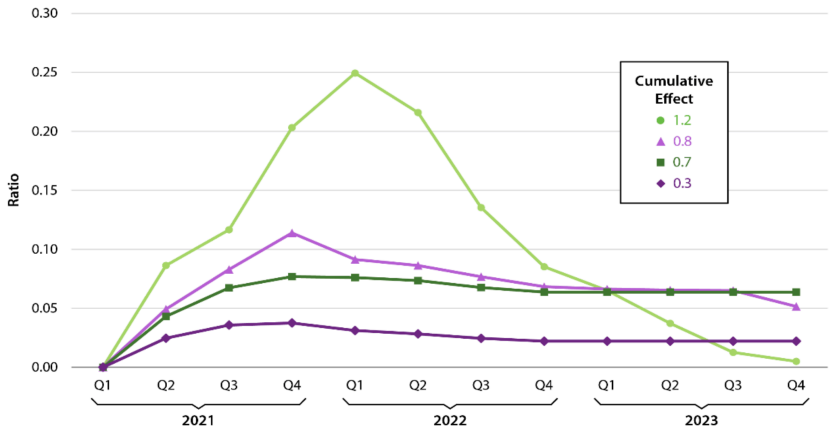
35

35

# GDP Effects of the American Rescue Plan

GDP Effect Per Dollar of Fiscal Outlay, by Category




Source: Authors' calculations.
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36

36

# Conclusion

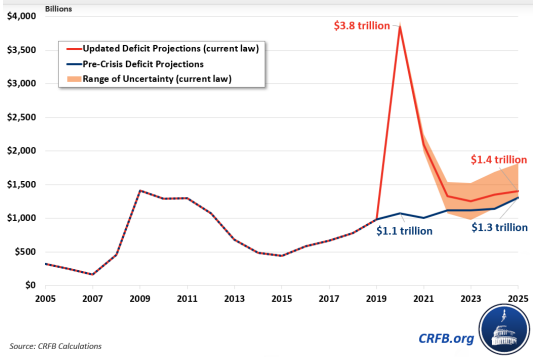
**The economic recovery in 2021 depends crucially on**

- The distribution of the vaccines.
- The efficacy of the vaccines and new strains.
- The response to the most recent fiscal stimulus.
- The willingness of the population to "continue" follow safety protocols.
- The ability of businesses and households to (continue to) adapt.



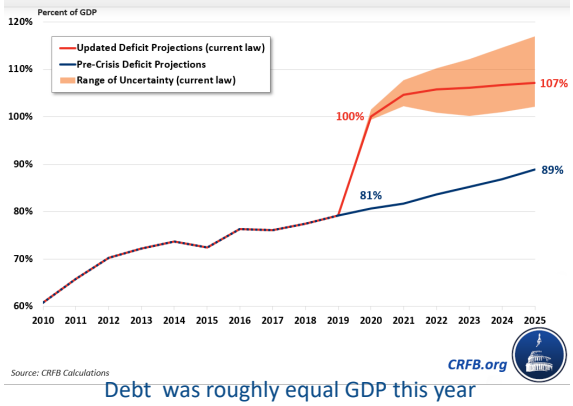
# Looking Forward: Federal Budget Implications

## Federal Deficit Will Reach Record Levels



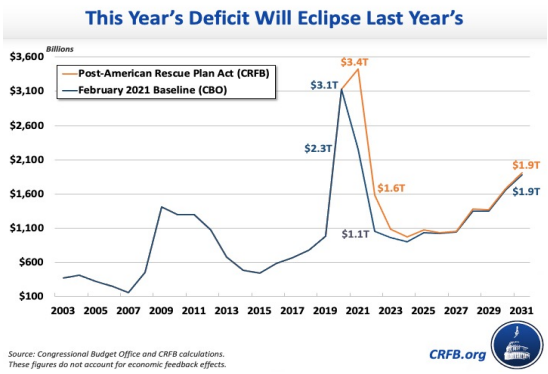

Deficit was about 20% of GDP

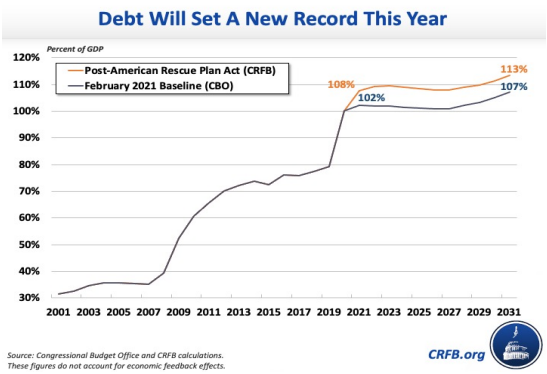
## Debt Will Equal Size of Economy This Year




Debt was roughly equal GDP this year

# Looking Forward: Federal Budget Implications

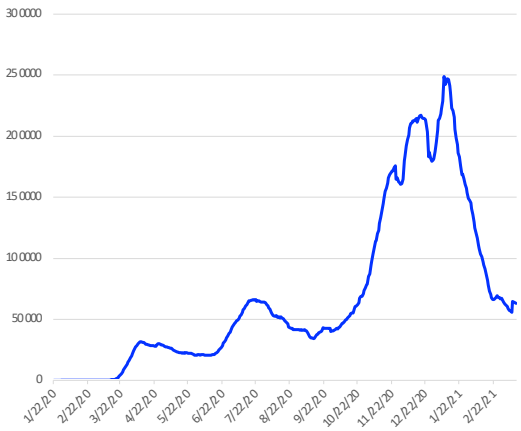


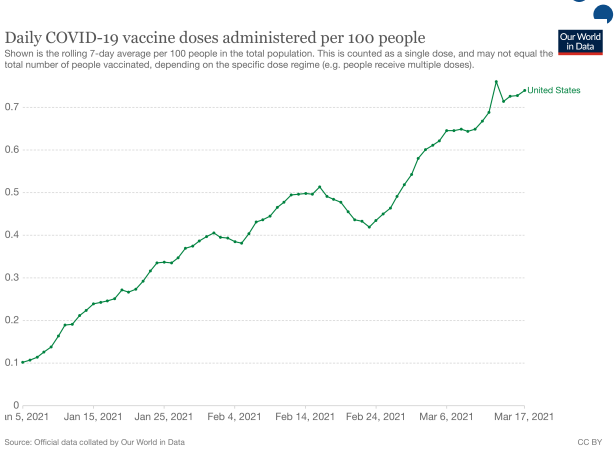








# Health of the Economy Depends on Health



# PPP Loans

PETER G. PETERSON FOUNDATION

## PPP loans assisted small businesses from various sectors

TOTAL APPROVED PPP LOAN AMOUNT (BILLIONS OF DOLLARS)

SOURCE: Small Business Administration, *Paycheck Protection Program (PPP) Report, Approvals through 4/16/2020*, May 2020.
NOTE: Data is for the first round of PPP payments, which lasted through April 16, 2020.
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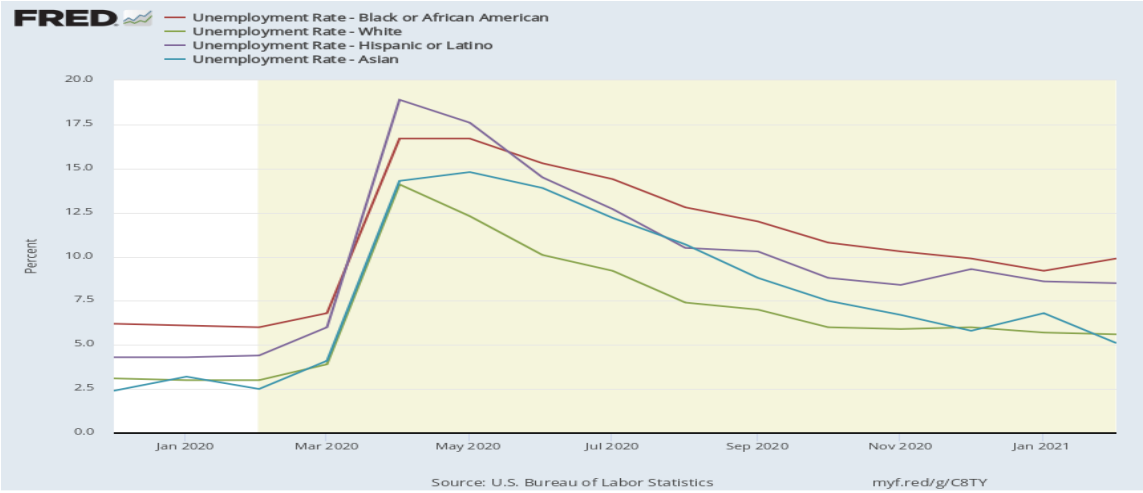
41

# Unemployment Rate

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42

42

## December Fiscal Package $900B: What was in it?

- $600 checks to individuals (and qualifying children 16 and under).
- $300 additional unemployment benefits (through March)
- $284 billion for paycheck protection program – loan forgiveness for keeping employment at existing levels.
- $82 billion for schools and universities
- $68 billion for vaccine distribution
- $25 billion for rental assistance and extension of eviction ban
- $15 billion for shuttered venues ($12B for low income areas)
- $78 billion in other support



43

## Looking Forward

- Most GDP projections indicate that GDP growth will likely be positive in 2021 and likely well above 3.0 percent.
- According to NABE nearly 70% of their panelists expect GDP to expand by more than 3 percent.
- The Fed Reserve's range for growth is wide – I think this represents the Fed's uncertainty about the health implications.
- While unemployment is expected to decline, the Fed expects unemployment to be above the longer run rate of 4.1 percent.
- The Fed thinks the economy is still structurally sound; otherwise, they would have increased the longer run rate of unemployment above 4.1 percent.

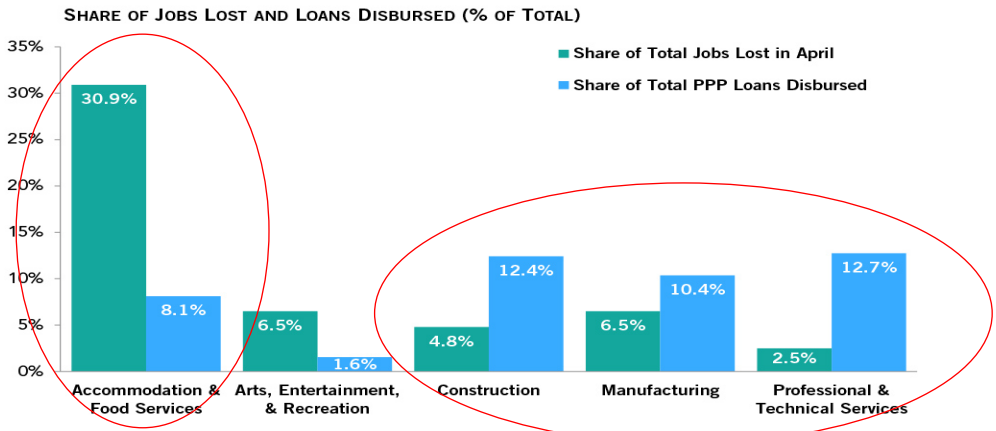


44

# PPP Loans

PETER G. PETERSON FOUNDATION

**The distribution of PPP loans has not matched levels of unemployment**




NATIO EDUCA

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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45

# Fiscal Response (Phase III a-b): CARES Act

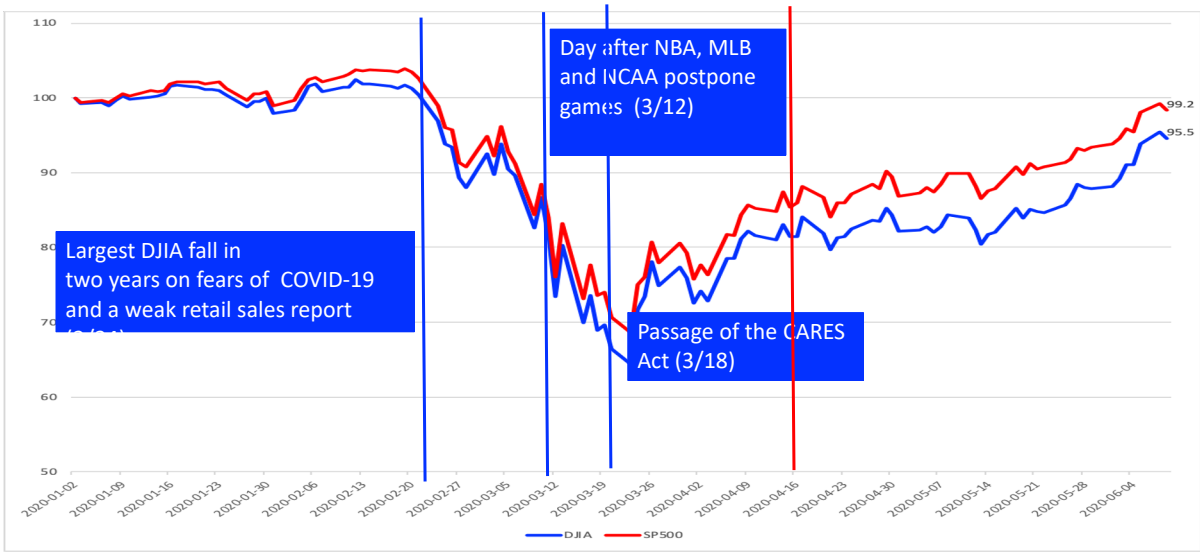
- **Direct payment to households $1,200 for every adult and $500 for every child.**
- **Small business loans (Paycheck Protection Program)-- $350 billion**
  - <500 employees and designed to cover six (6) weeks of payroll.
- **Economic Stabilization Fund (Main Street Lending Program) – $500bn**
  - for medium sized firms,
  - state and local municipalities, and
  - passenger and cargo air carriers, and firms maintaining national security.
- **Expand unemployment benefits (additional $600/week)**

NATIONAL ECONOMIC EDUCATION DELEGATION



46

# Dow Jones and S&P 500




47