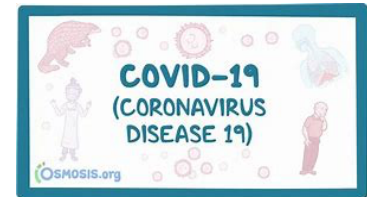




# COVID-19: Economic Implications and Policy Response

California Community Colleges Real Estate Education Center

October 30, 2020  
Jon Haveman, Ph.D.  
Executive Director, NEED



1

## National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.

2

## Who Are We?

- **Honorary Board: 52 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: 520+ 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

3

3

## Available NEED Topics Include:

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



NATIONAL ECONOMIC  
EDUCATION DELEGATION

4

4

## Credits and Disclaimer

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

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)

- **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).



5

## Outline

- **What is this?**
- **Evidence of Impact**
- **Government Policy**
- **Real estate**



6

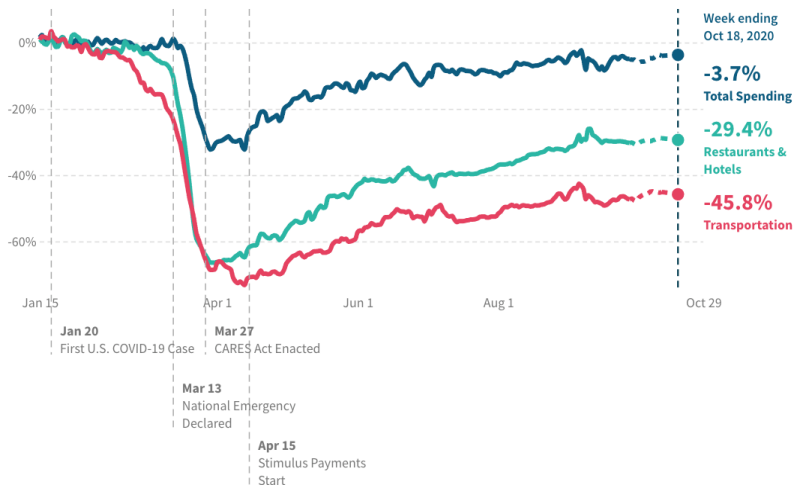
# What is this?

- **A natural disaster – with important twists:**
  - Global
  - Duration is unpredictable
  - Economic toll is enormous and potentially durable
- **A health crisis that spilled over onto the economy.**
  - A perfect storm of economic difficulty
    - o Supply side
    - o Demand side
    - o Financial
  - Without a culprit

7

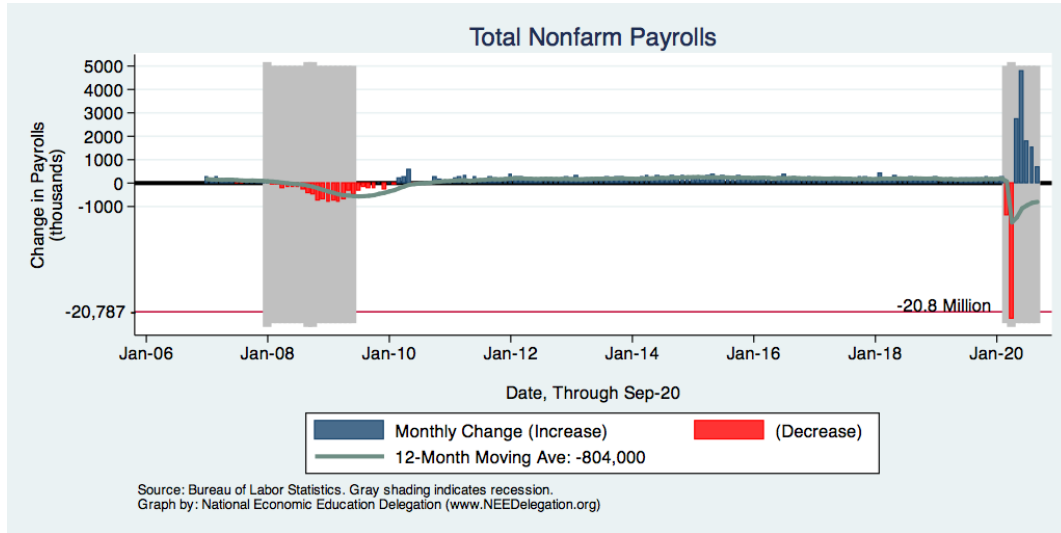
# Spending is (was?) on the Rise

In the United States, as of October 18, 2020, total spending by all consumers decreased by 3.7% compared to January 2020.



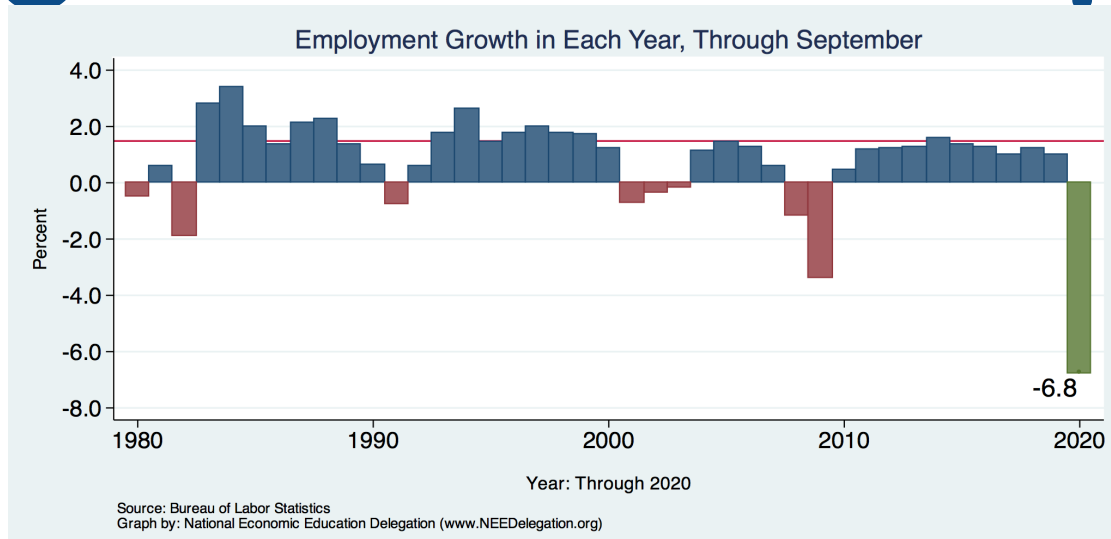
8

# Monthly Changes in Nonfarm Employment



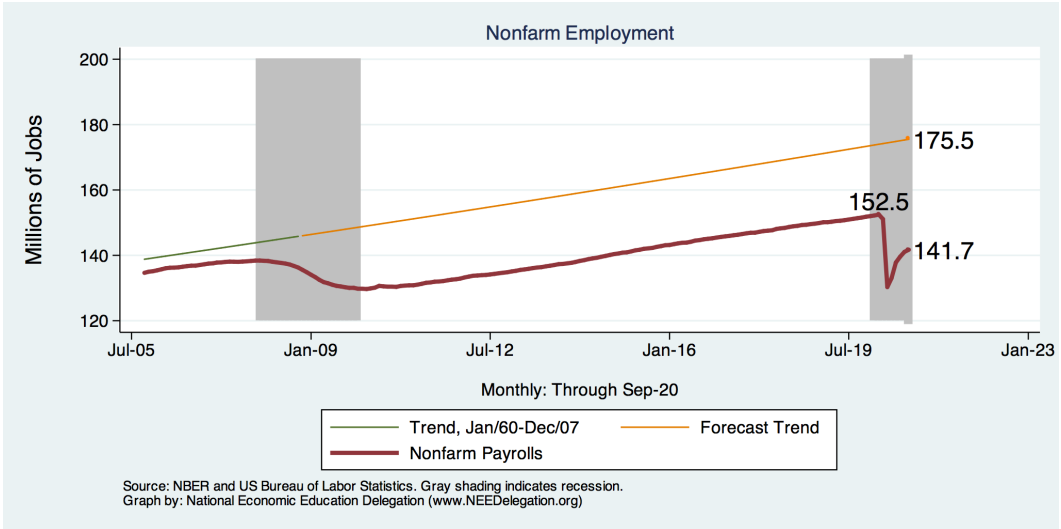
9

# Annual Changes in Nonfarm Employment



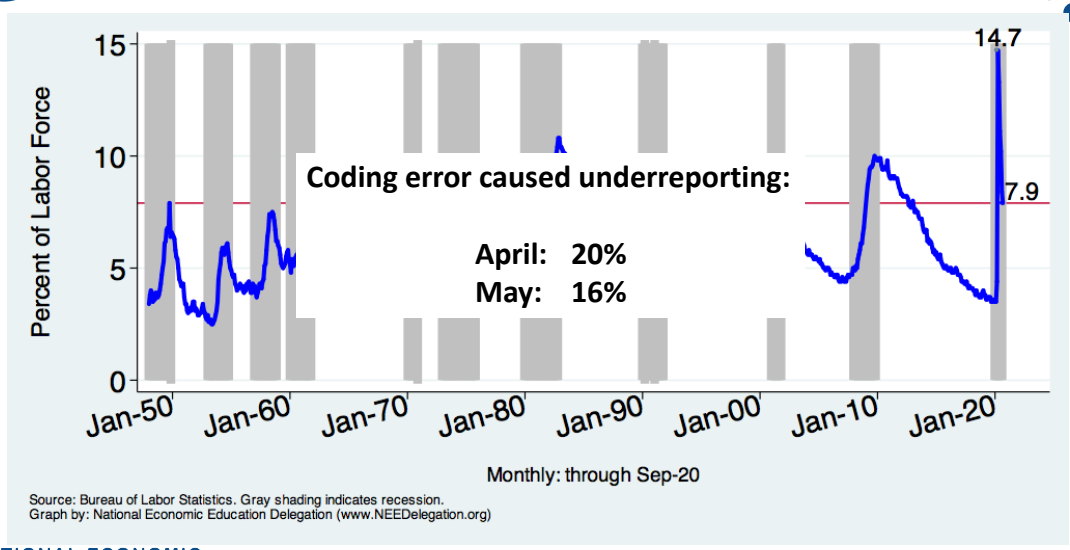
10

## Employment Gap: Up Close



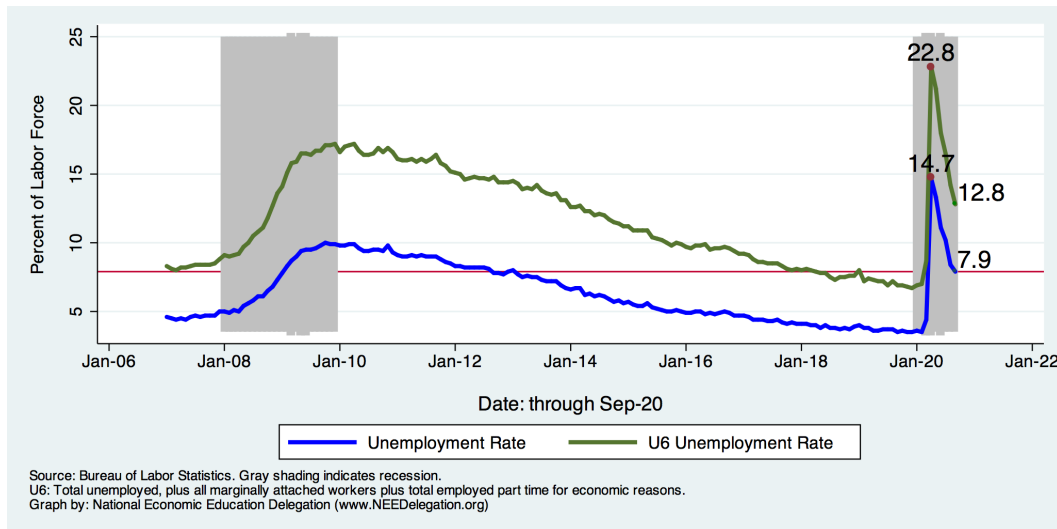
11

## Unemployment Rate



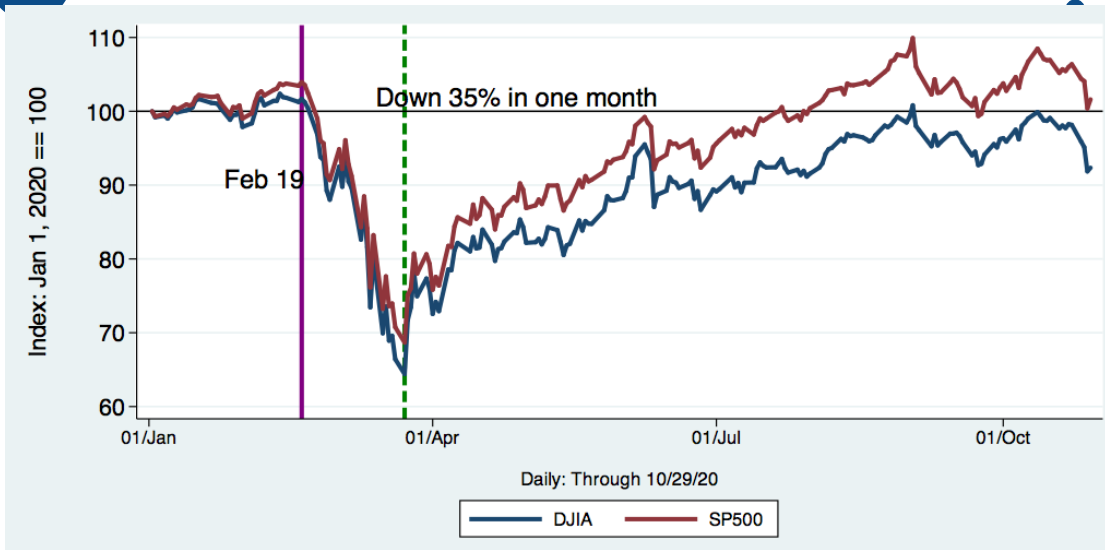
12

# Unemployment Rate



13

# DJIA and S&P 500



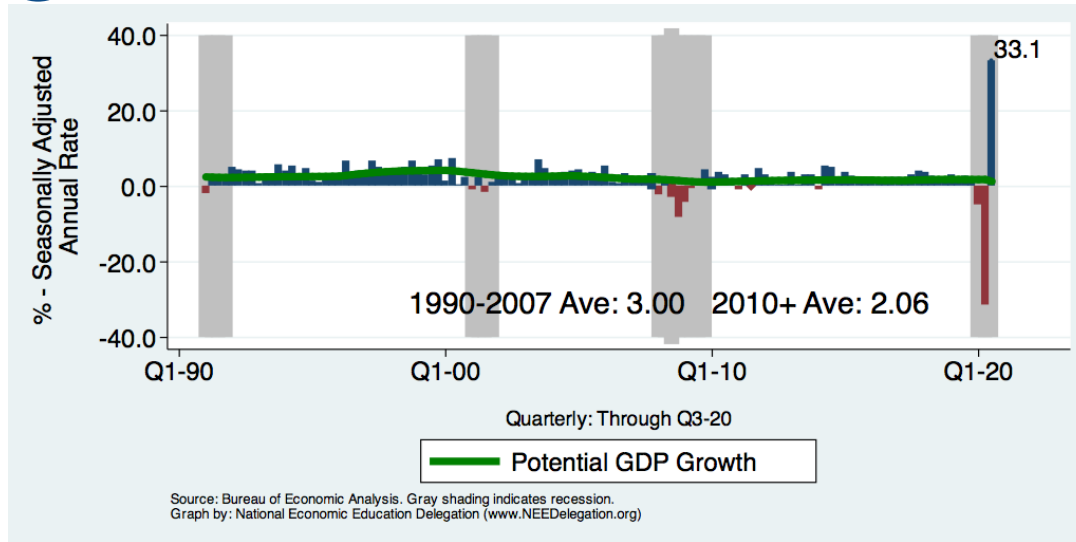
14

# A Note on Thursday's Q3 GDP Release

- **33.1%**
- **How should we feel about this?**
  - Not that great. Still down significantly for the year.
  - Recovery started stalling out in September.
    - Employment growth was slow.
    - Labor force dropouts increased.
    - More temporary layoffs became permanent.
- **Bottom line: # needed to be 51% for recovery of Q4-2019 levels.**

15

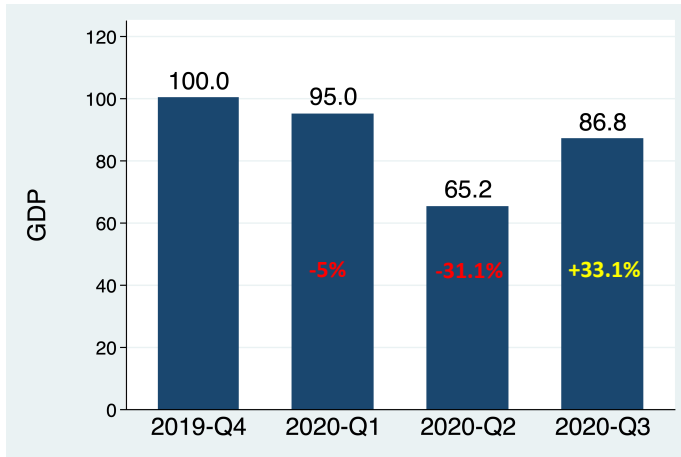
# GDP – Quarterly Growth



16



## Don't Let the Size of GDP Growth Fool You!



**31.1 Drop – from a high level!**

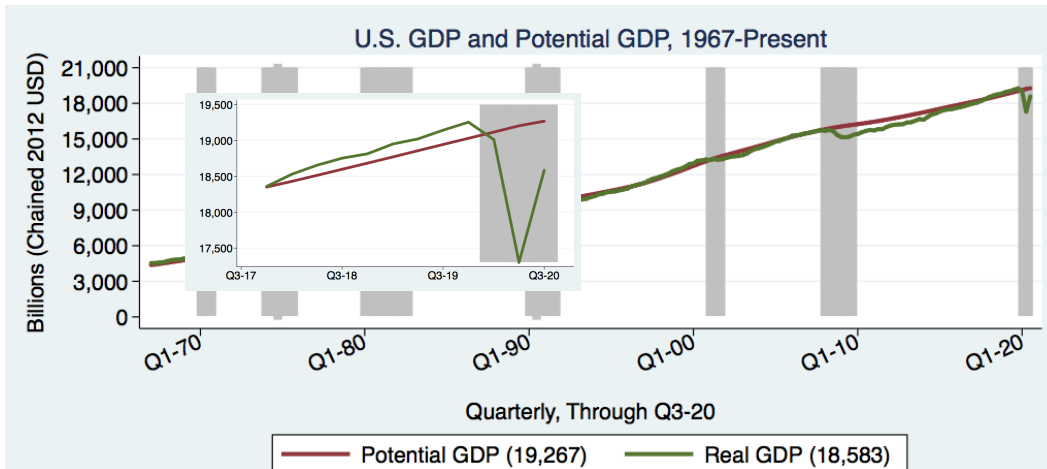
**33.1 Growth – from a low level.**

**Still down by about 13% relative to 2019-Q4**

**Down by MORE relative to where we Otherwise would have been.**

17

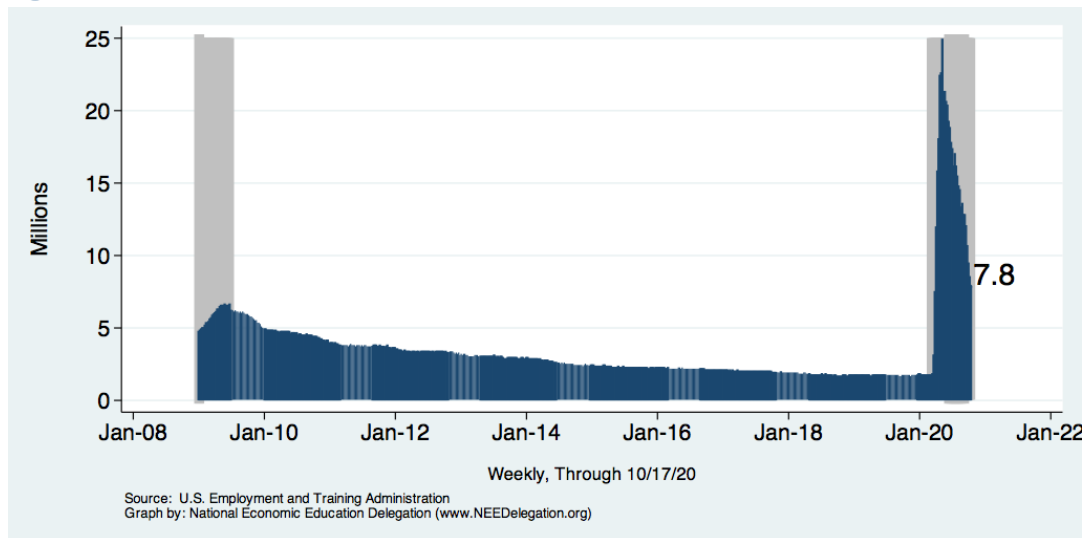
## GDP Trajectory: Pandemic Plunge!



Source: BEA and CBO. Gray shading indicates recession.  
Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

18

## Continuing Unemployment Claims

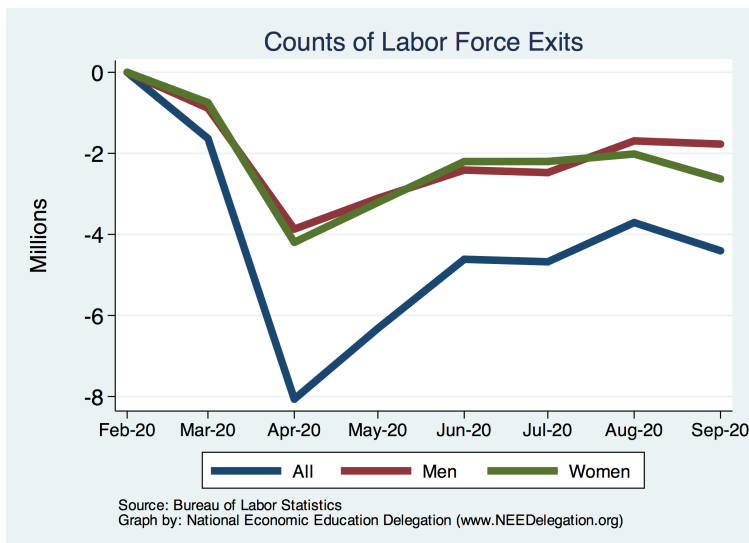


NATIONAL ECONOMIC EDUCATION DELEGATION

19

19

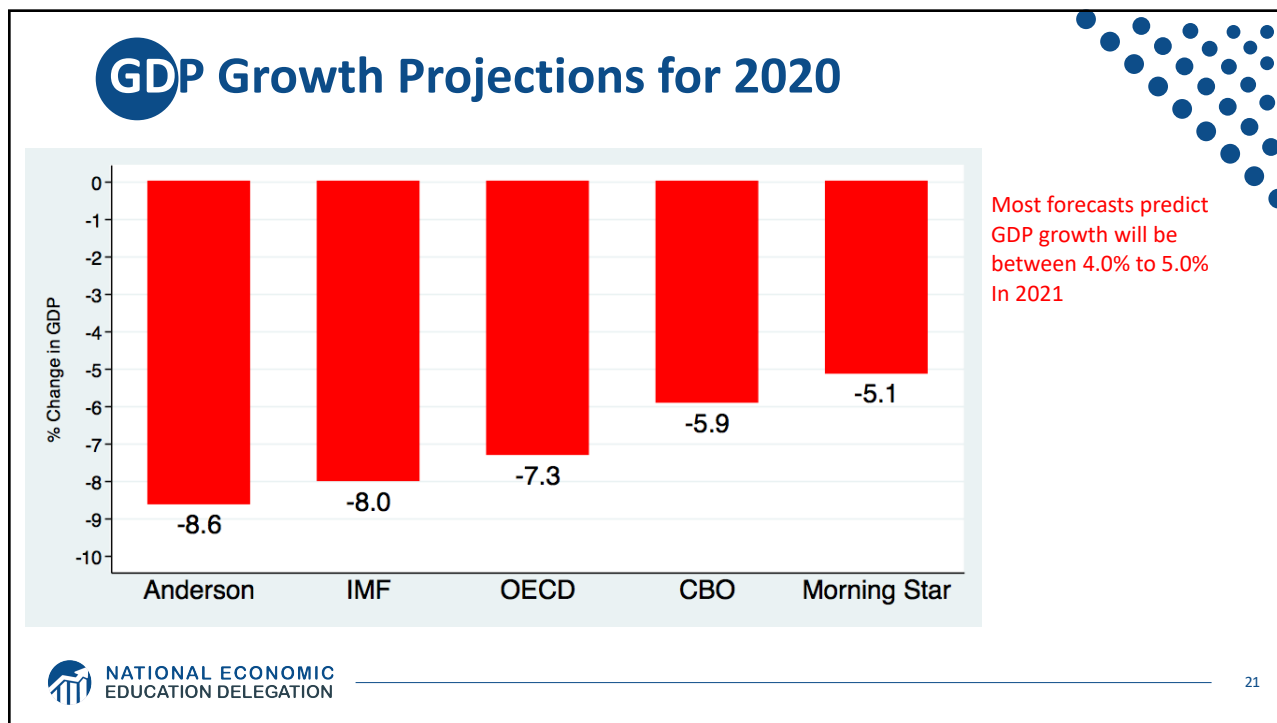
## Labor Force Declines



NATIONAL ECONOMIC EDUCATION DELEGATION

20

20



21

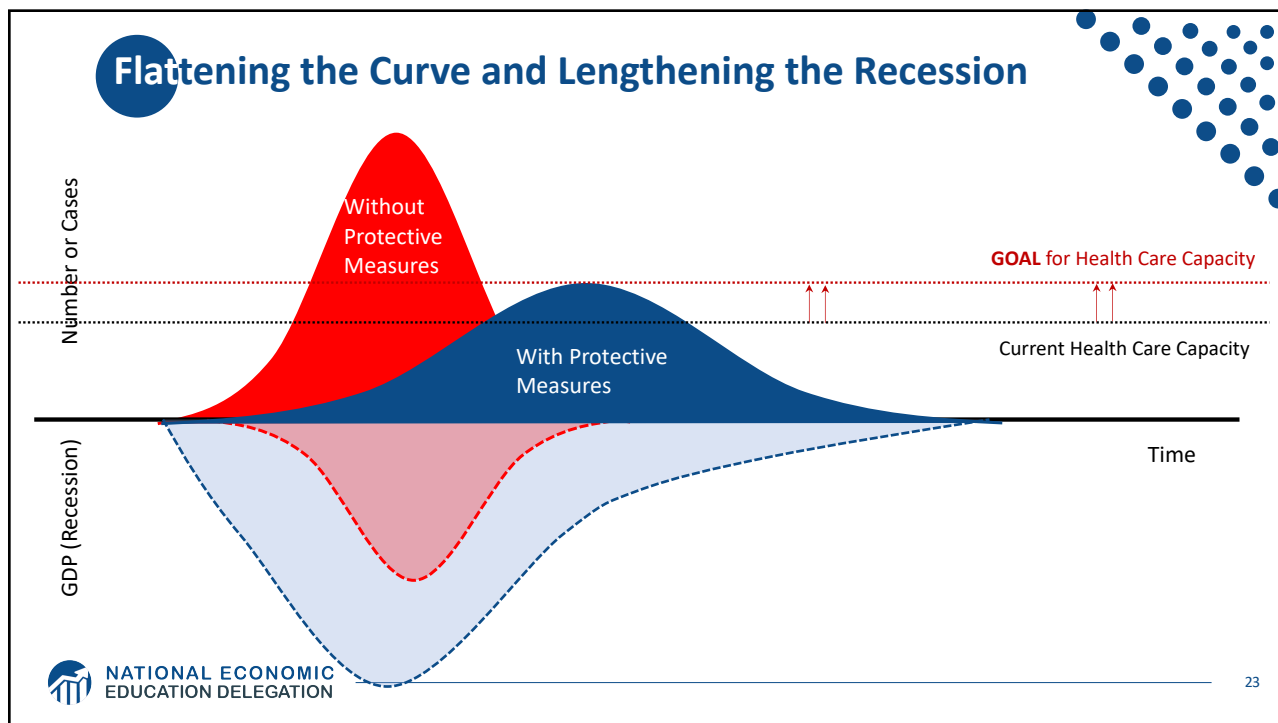
## A Tale of Three Policies Efforts

- Social policy: Social Distancing
- Fiscal Policy
- Monetary Policy

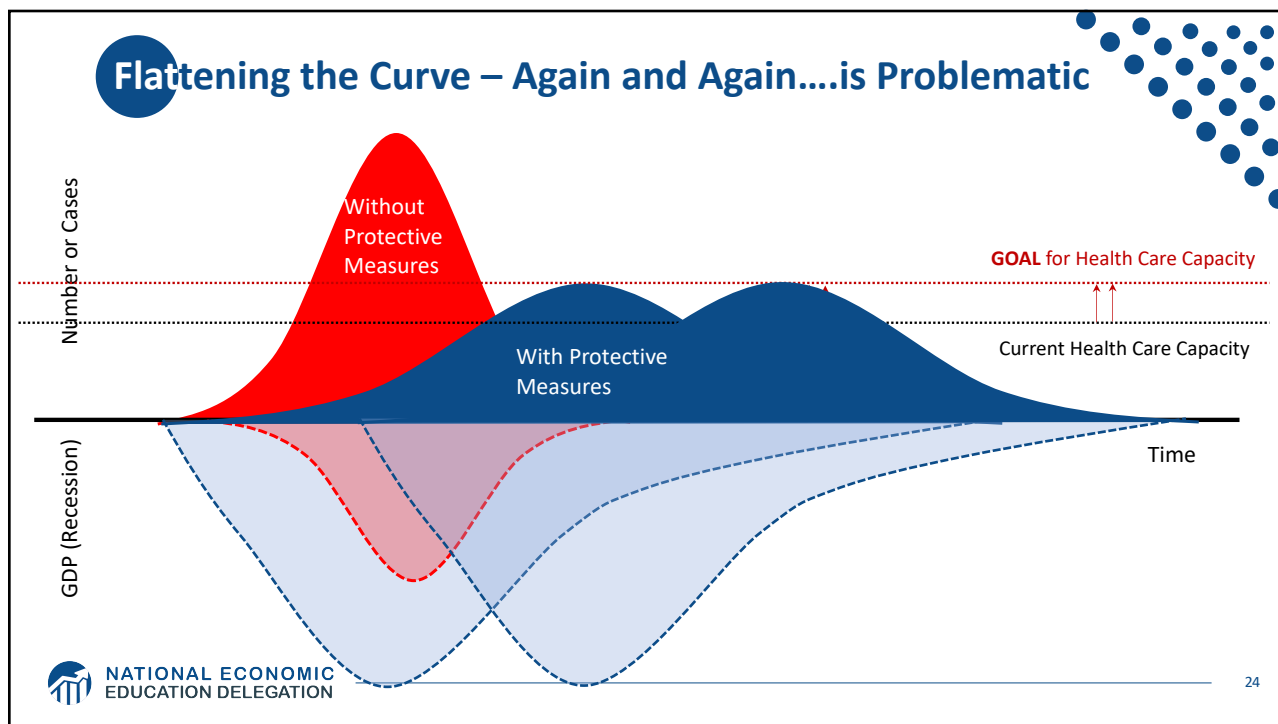
NATIONAL ECONOMIC EDUCATION DELEGATION

22

22



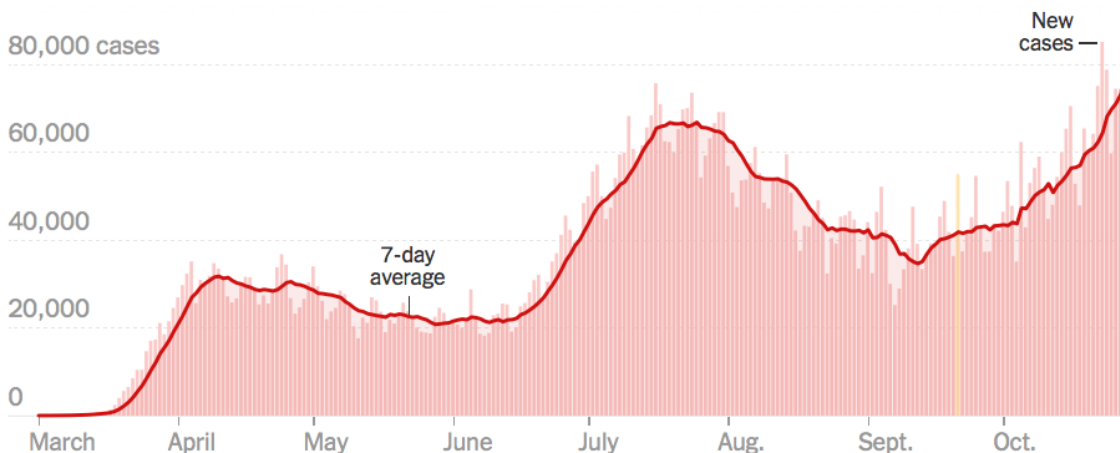
23



24

## Repeated Reopenings...

### New reported cases by day in the United States



NATIONAL ECONOMIC  
EDUCATION DELEGATION

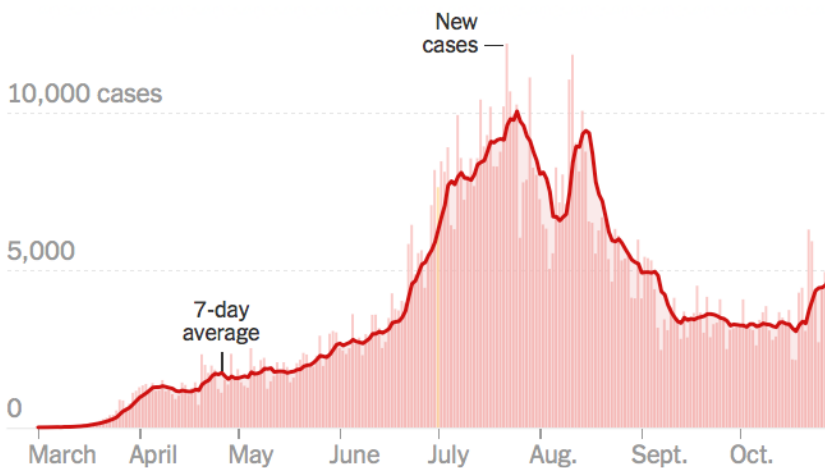
Source: NYTimes

25

25

## California Also Ticking Up

### Daily reported new cases

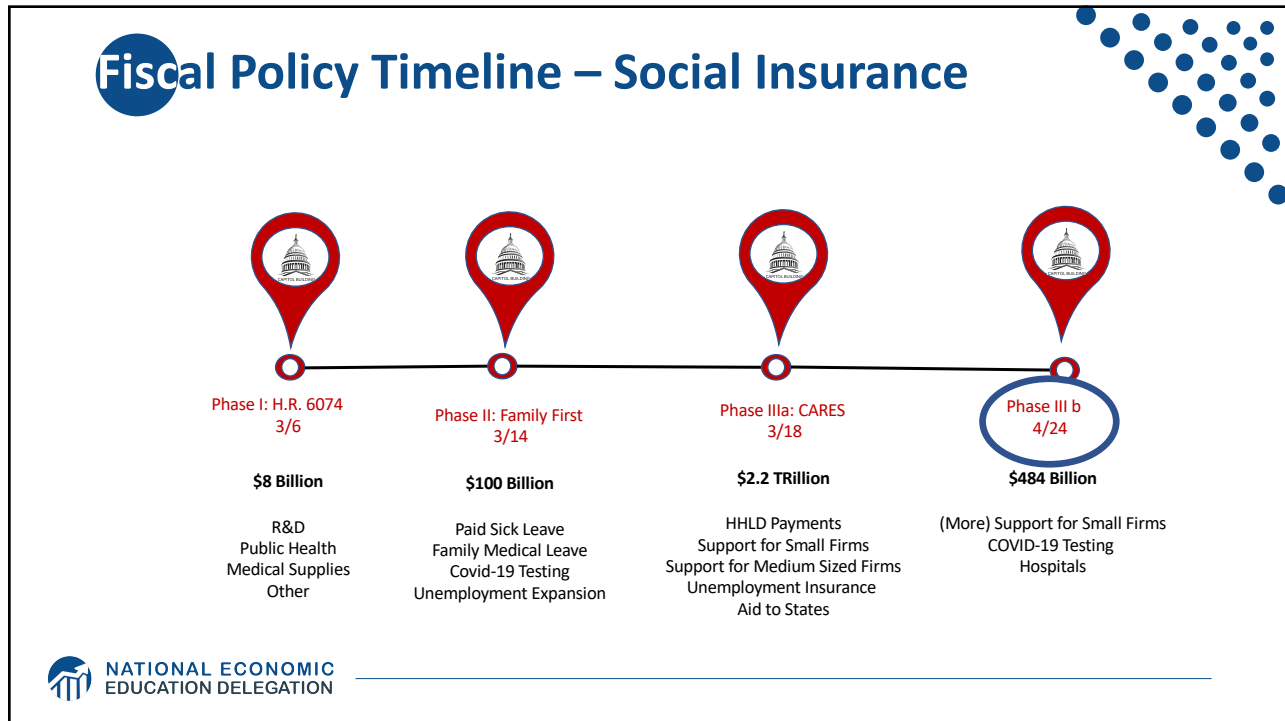


NATIONAL ECONOMIC  
EDUCATION DELEGATION

Source: NYTimes

26

26



27

## Monetary Policy – Federal Reserve

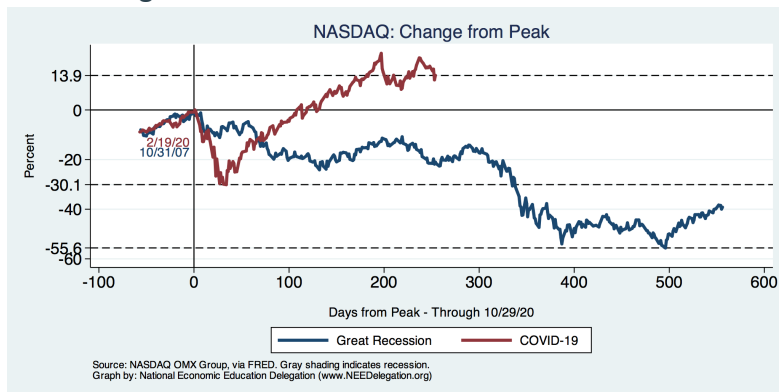
- **Two primary objectives**
  - Stabilize the economy
  - Maintain liquidity of the system
- **Actions in three forms:**
  - Traditional interest rate stimulus
  - Inject cash into the system
  - Shore up existing debt and structures

NATIONAL ECONOMIC EDUCATION DELEGATION 28

28

## Thoughts on Policies to Date

- **Costs are enormous, but we are doing the right thing!**
  - And we are doing it **VERY QUICKLY!**



29

## Thoughts on Policies to Date

- **Costs are enormous, but we are doing the right thing!**
  - And we are doing it **VERY QUICKLY!**
- **Monetary policy: Heroic! A+**
- **Fiscal policy grade: Emergency Pass**
  - Direct cash payments
    - Are they really getting into the hands of those most in need?
      - Corporate or otherwise?
  - Right strategy to maintain employee-employer ties?
  - What about states and local governments?
  - Fiscal policy gap!



30

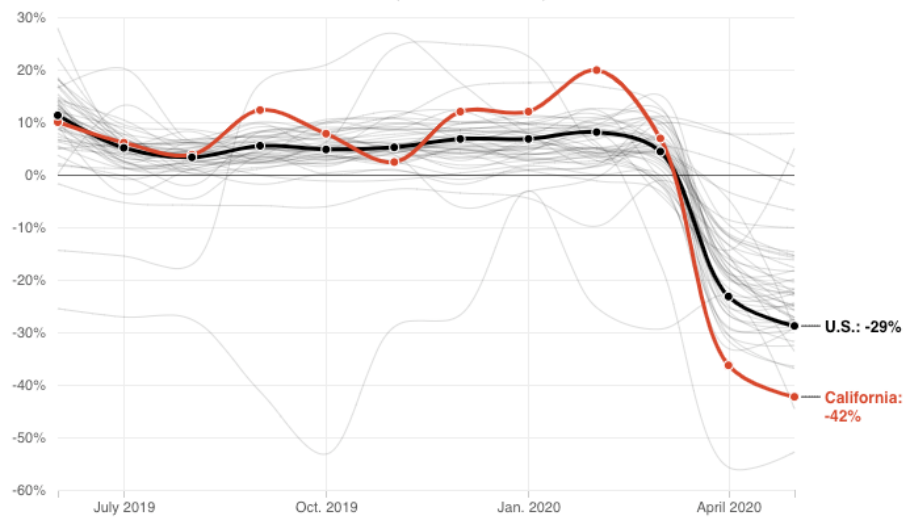
## There is an Enormous Fiscal Policy Gap

- The last time Congress acted was April 24.
- Unemployment payments are not sufficient.
- Low wage workers are in trouble.
- Small businesses are struggling.
- Renters can't pay rent.
- Lines at food banks are very long.
- States and local governments are slashing budgets.

31

## California's Revenue Shortfall

CHANGE IN MONTHLY REVENUE VS. PREVIOUS YEAR (3-MONTH AVERAGE)

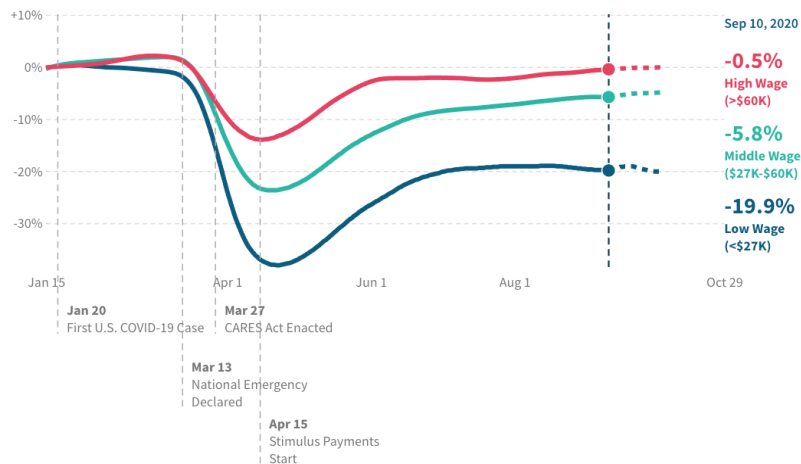


32



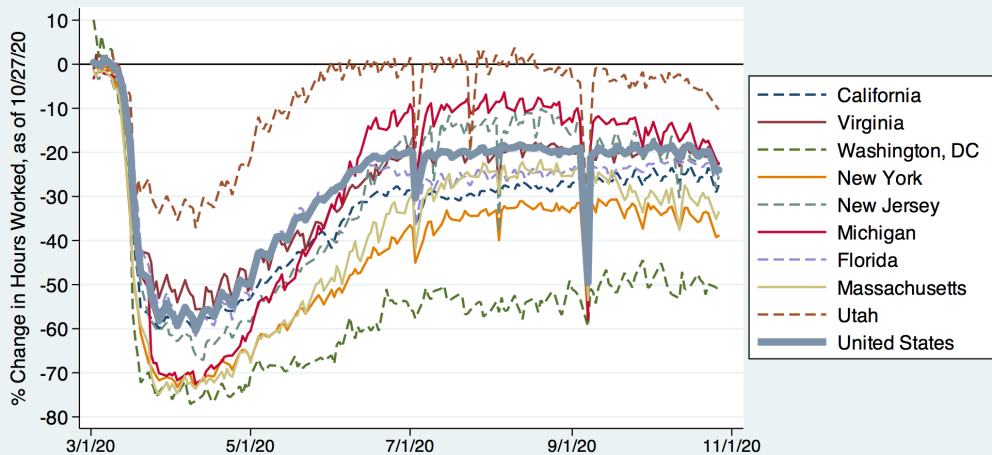
## Low Wage Employment is Lagging

In the United States, as of September 10 2020, employment rates among workers in the bottom wage quartile decreased by **19.9%** compared to January 2020 (not seasonally adjusted).



33

## Hours Worked – Hourly Workers

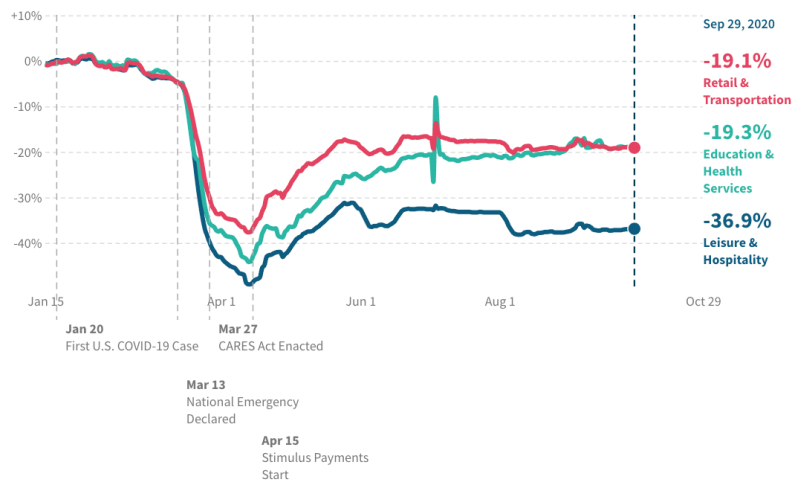


Source: HomeBase - Values are relative to the January Daily Average  
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

34

# Small Businesses are Struggling

In the United States, as of September 29 2020, the number of leisure and hospitality small businesses open decreased by 36.9% compared to January 2020.



35

# Reopening, It's Not This Simple



36

## Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
  - With enormous built-in inequities.
- **GDP will likely contract between 6.0 and 9.0 percent this year.**
  - Positive growth will likely return in 2021
- **Significant structural changes.**
  - Telecommuting, telehealth, retail decline.
- **Gov't spending induced growth in Q3**
  - Spending has stopped.
- **Policy gap will create enormous hardship.**
  - Hunger, evictions, foreclosures, additional deaths.
  - Loss of GDP: 4-5%                      Unemployment: up 4-5 pts.
- **It might just be time to shut down again.**
  - For both our health and the economy.



37

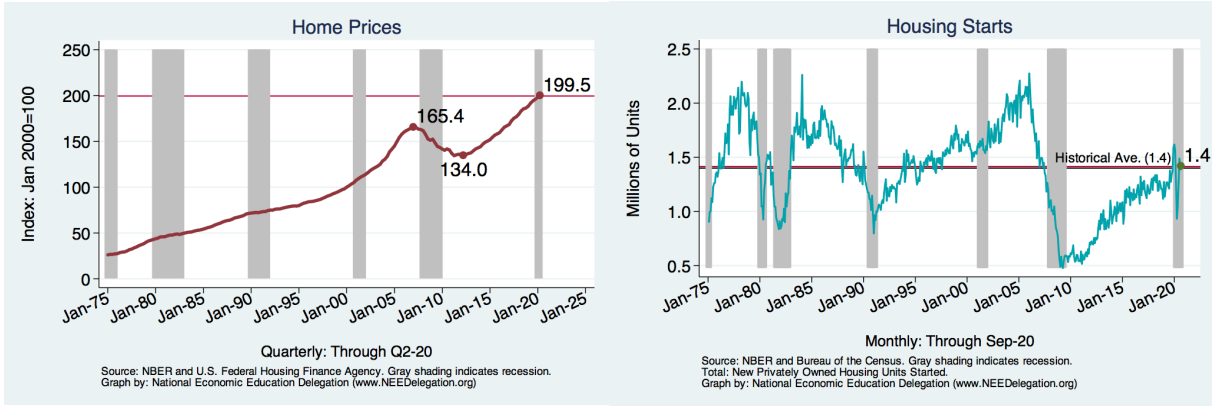
## Real Estate

- **Residential**
- **Commercial**
- **In either case:**
  - Timing of what comes next: Who knows?
  - Pay no attention to averages.
    - The average applies to exactly nobody!



38

# Home Prices and Housing Starts



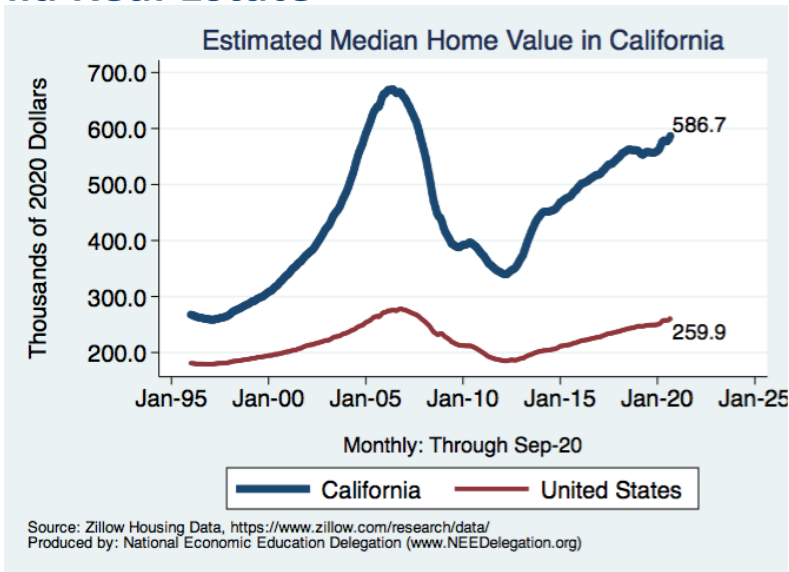
39

# Residential Real Estate

- **Rental markets**
  - Significant difficulty
  - Eviction moratoria are not the answer
- **Owned homes**
  - Depends on location.
    - San Francisco – sluggish
    - Marin County – increased demand
  - Size matters: large homes are selling particularly well.

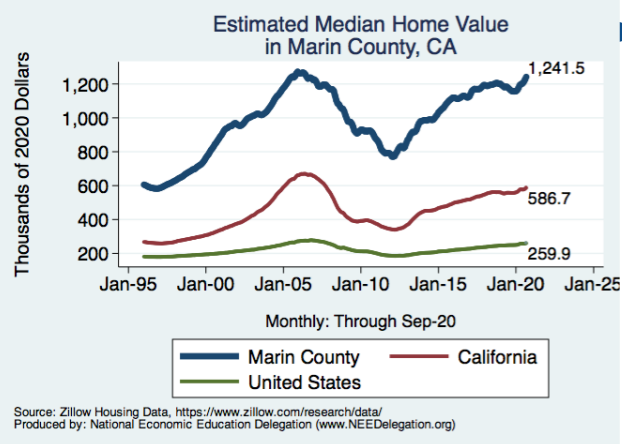
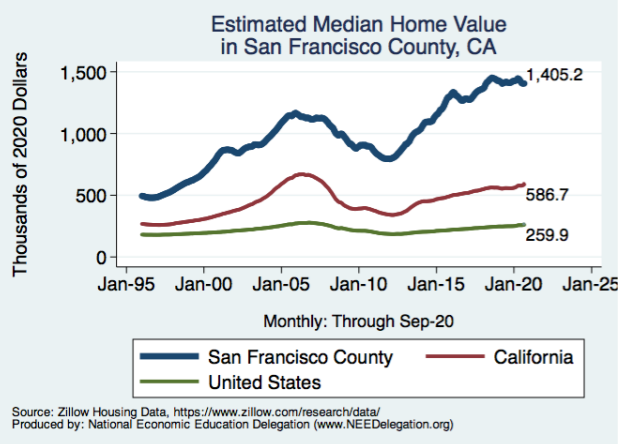
40

# California Real Estate



41

# San Francisco vs Marin



42

## Commercial Markets

- **Short term – disaster**
- **Long term - unknown**
  - Really depends on how work location preferences shake out.
  - Telecommuting?
    - Reduced demand for space in inner core areas.
    - Increased demand for smaller spaces in suburban areas.



43

## Commercial RE

- **Implications of COVID**
  - Telecommuting and closures are the main story.
- **Long term implications**
  - Jack Dorsey – Twitter – never coming back to the office!
    - I believe we are in a telecommuting honeymoon.
  - 80% of pre-COVID occupancy
  - Depends on productivity/cost implications.
    - Uber/Lyft model writ large.
    - Individual level vs firm level productivity.
- **When is the long term?**



44

## Commercial RE

- **Dispersion across asset classes**
  - Hospitality – slower recovery, because of industry.
  - Tech – slower recovery because of telecommuting.
  
- **Dispersion across geography**
  - Coastal – slower recovery because of telecommuting.
  - Interior – perhaps quicker recovery.
  
- **Recovery will take a lot of time.**
  - Economic recovery of Jan 2020 levels in 2023.
  - Recovery of Comm RE will be well after that.



NATIONAL ECONOMIC  
EDUCATION DELEGATION

45

45

## Thank you!

# Any Questions?

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

Jon D. Haveman

Jon@NEEDelegation.org

Contact NEED: [info@NEEDelegation.org](mailto:info@NEEDelegation.org)

Submit a testimonial: [www.NEEDelegation.org/testimonials.php](http://www.NEEDelegation.org/testimonials.php)

Become a Friend of NEED: [www.NEEDelegation.org/friend.php](http://www.NEEDelegation.org/friend.php)



NATIONAL ECONOMIC  
EDUCATION DELEGATION

46

46