



COVID-19: Economic Implications and Policy Response

Rotary Club of Denver
03/18/2021

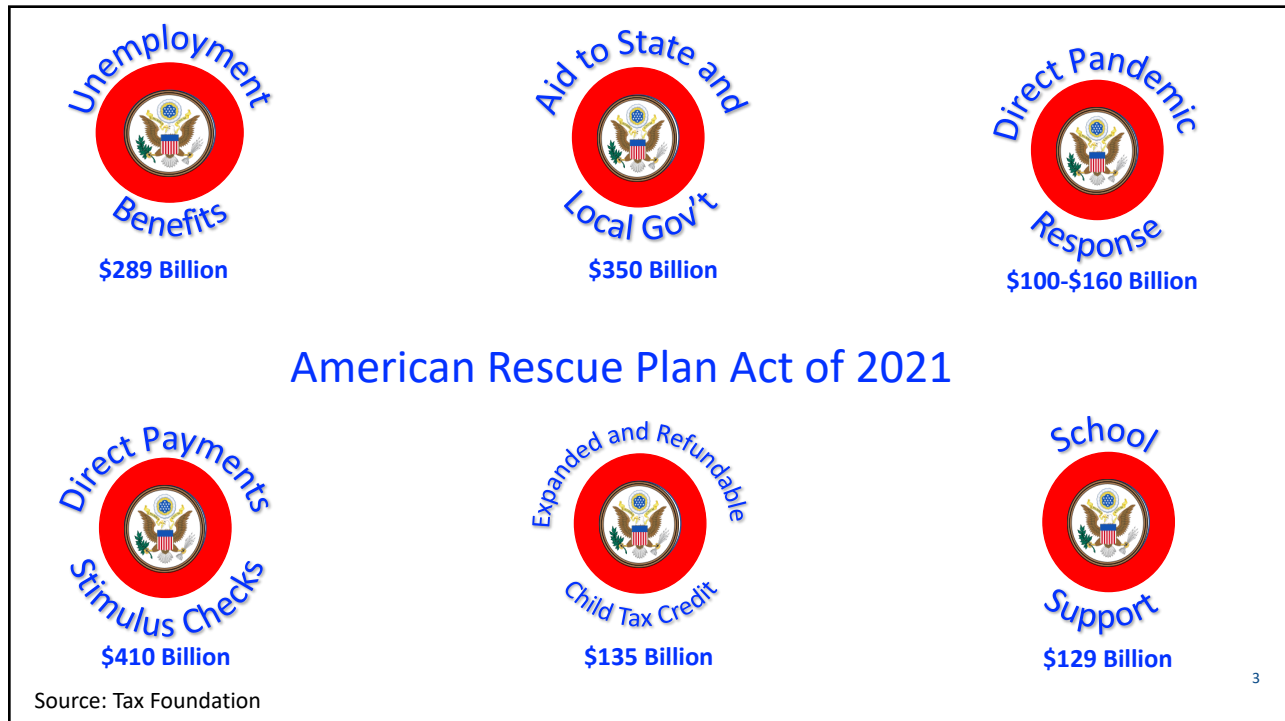


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Outline for Today's Talk

- Discuss President Biden's Proposed 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

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Conclusion

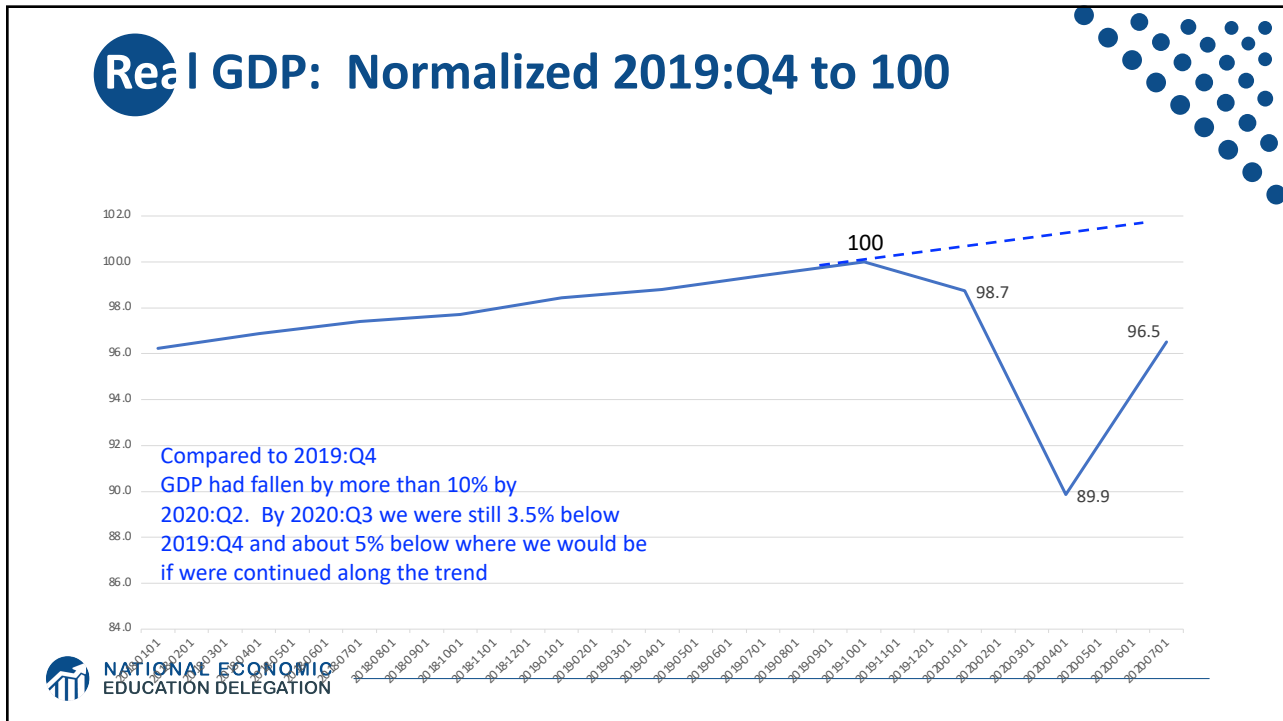
The economic recovery in 2021 depends crucially on

- 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.

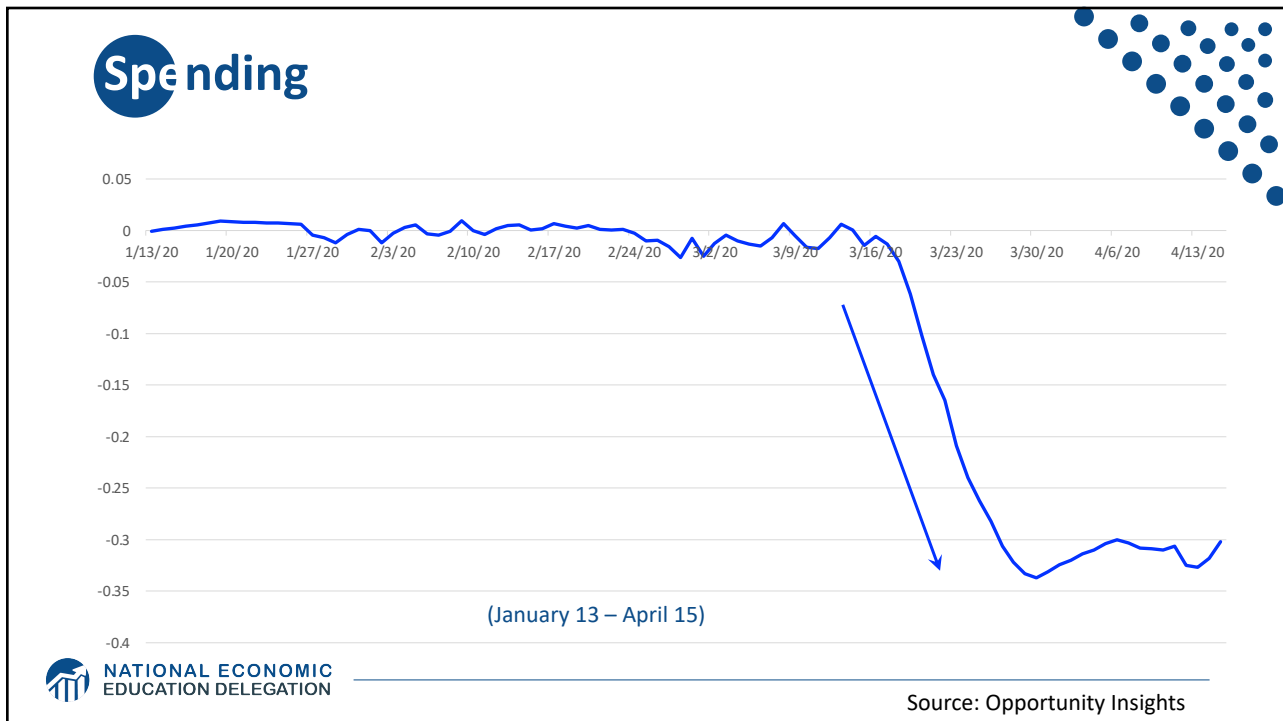
The recovery in the Q2 and Q3 of 2020 was supported by an “improvement” in the health situation and fiscal and monetary support.

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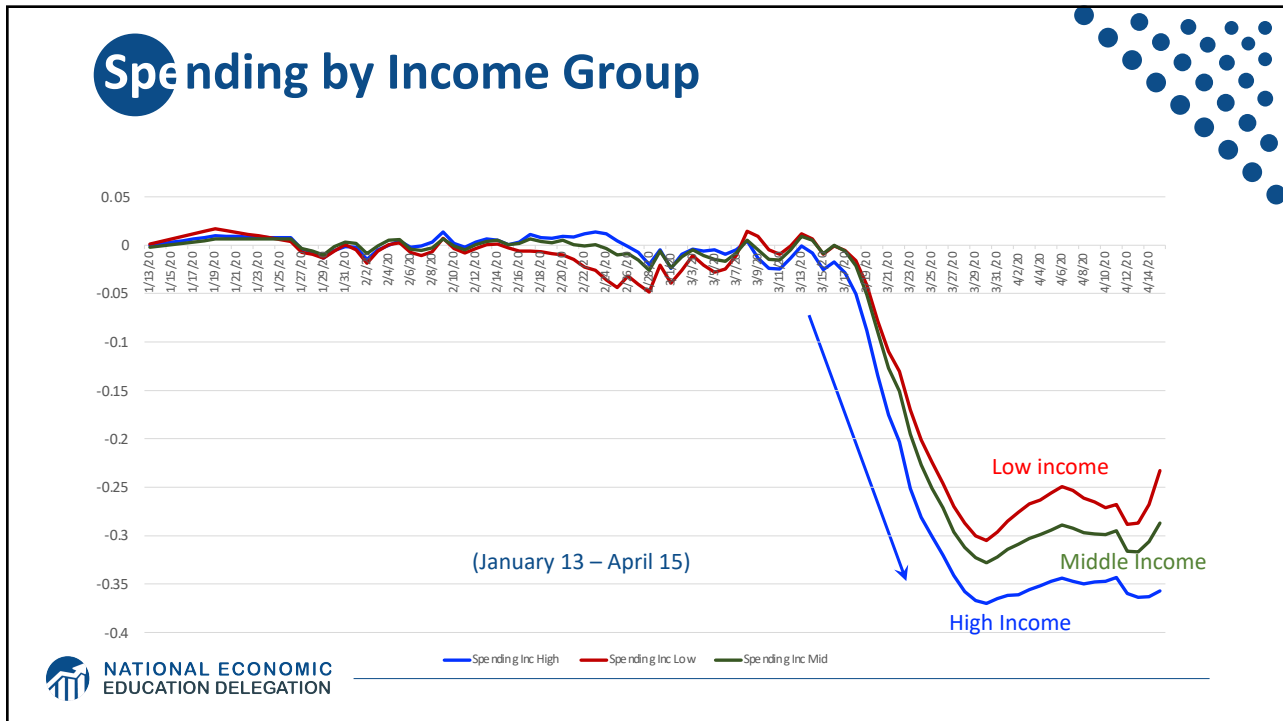
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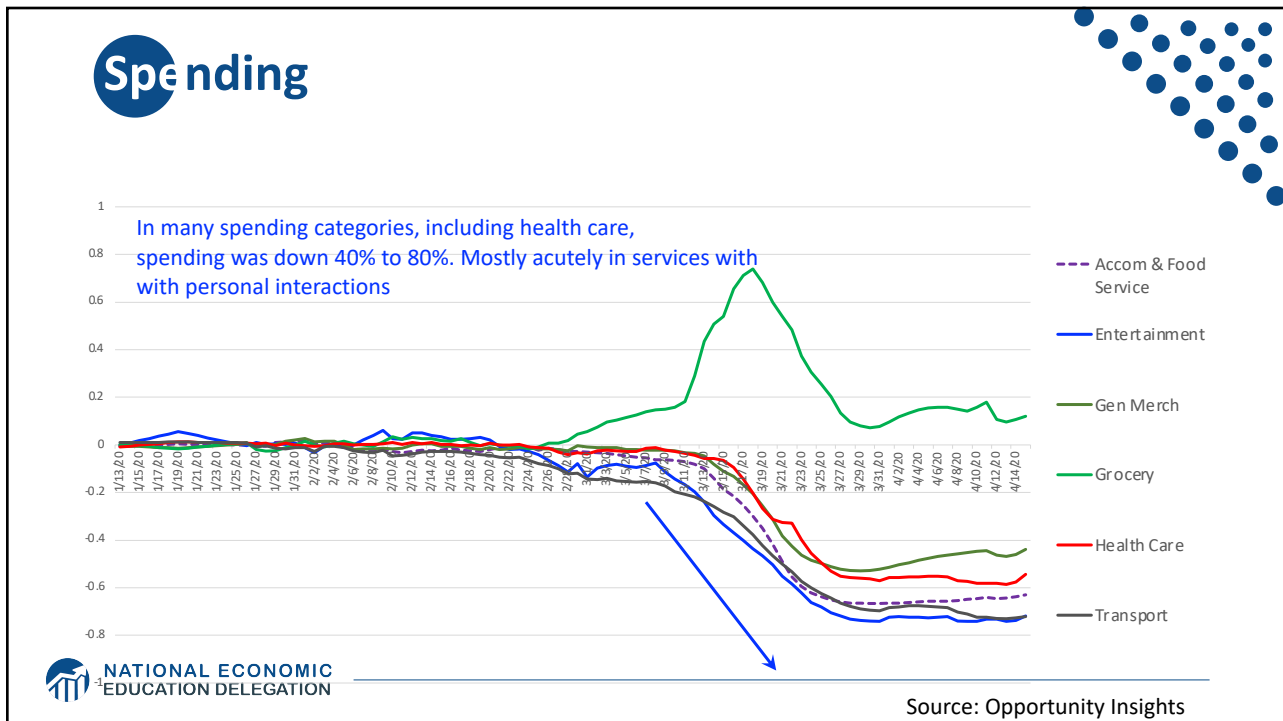
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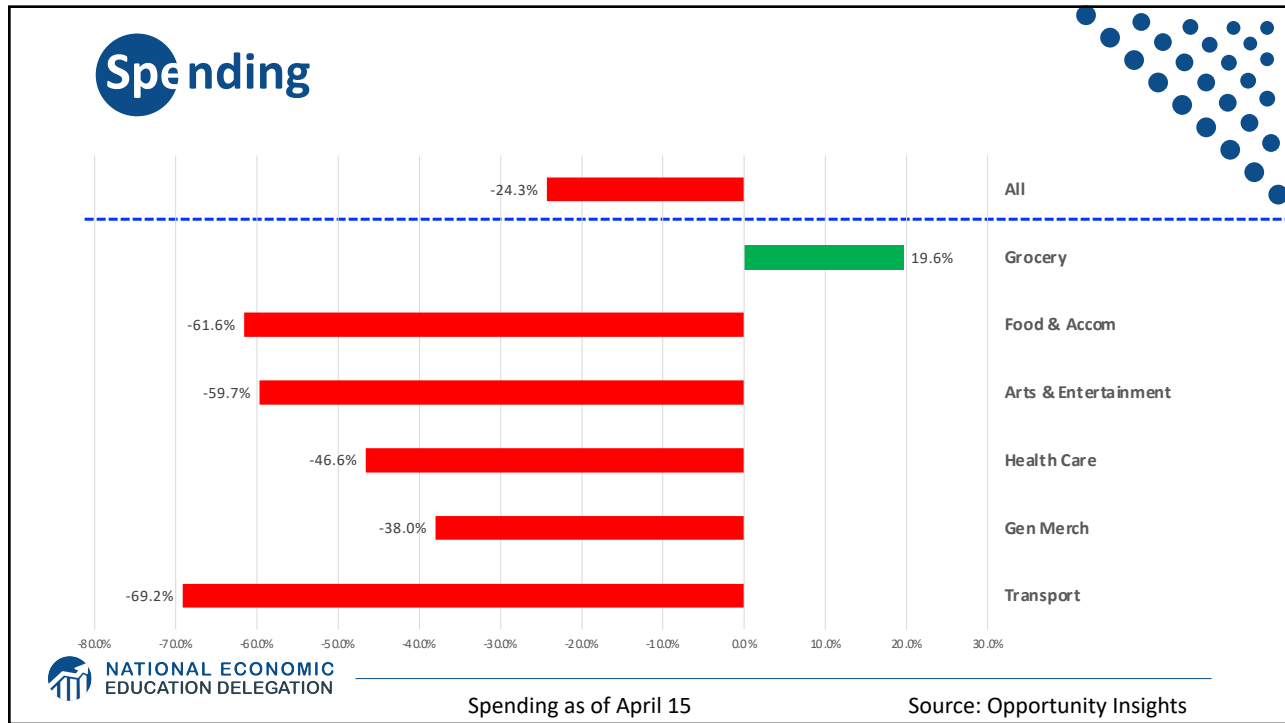
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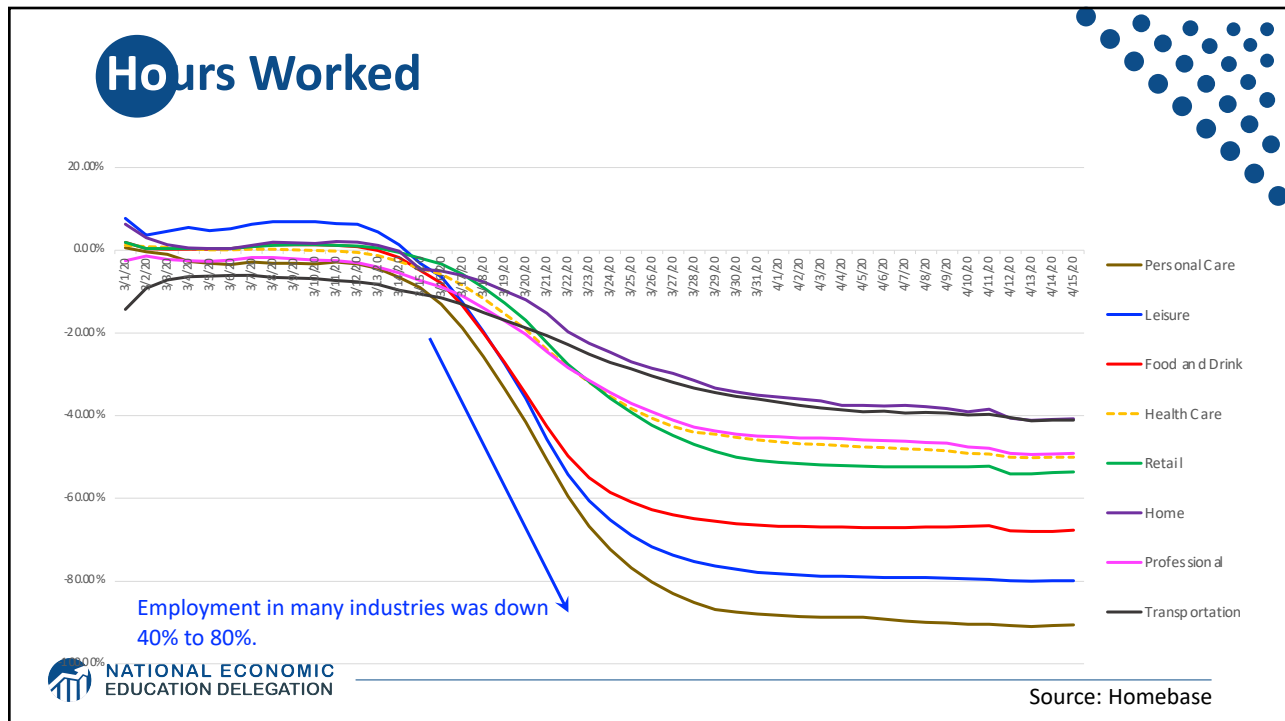
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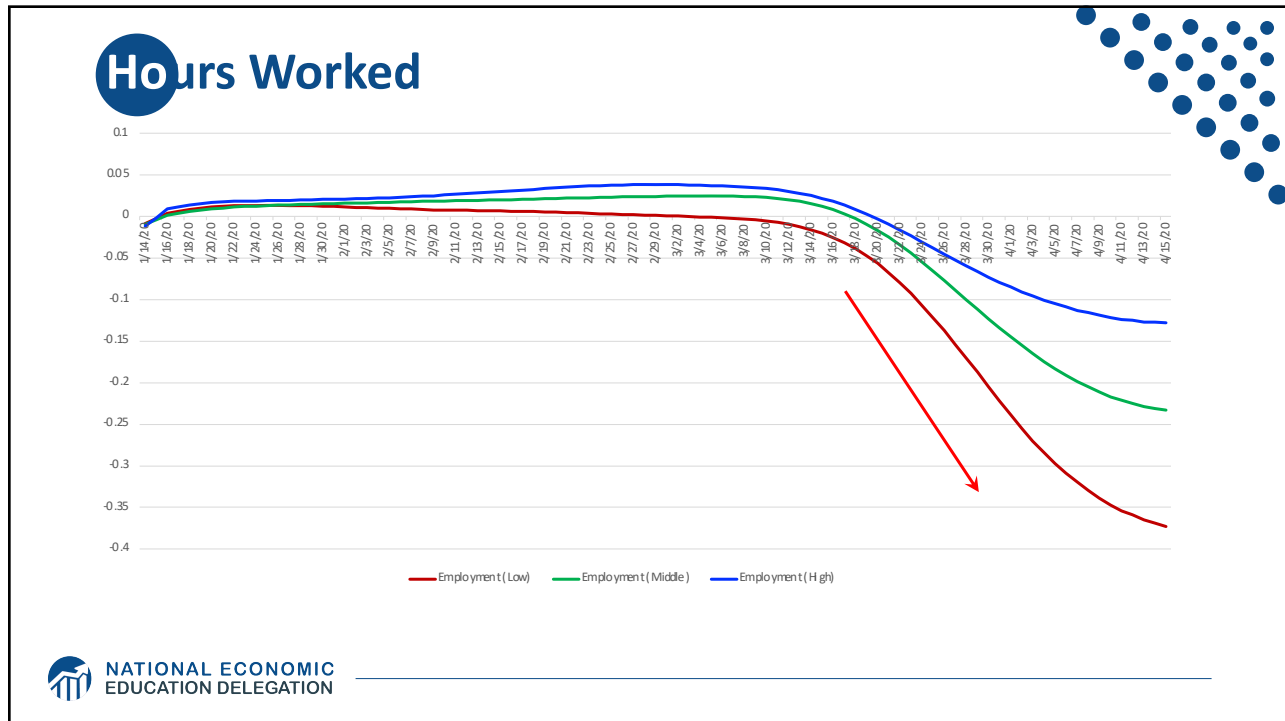
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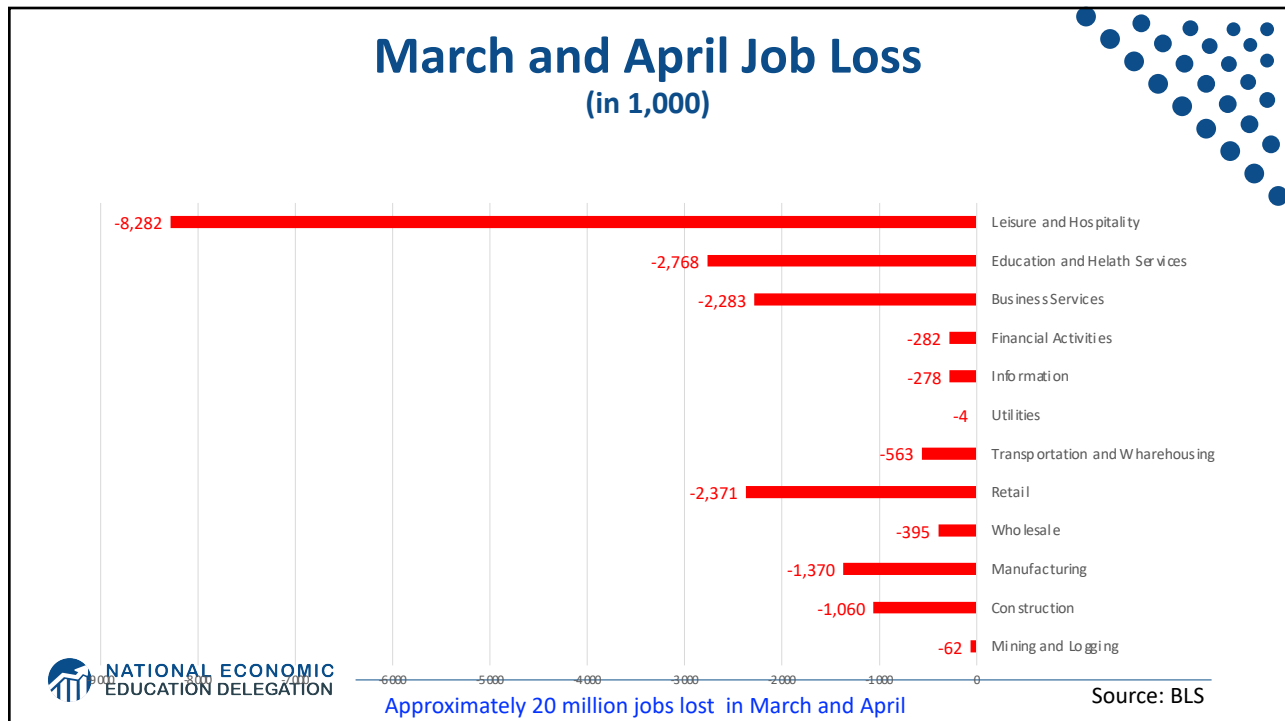
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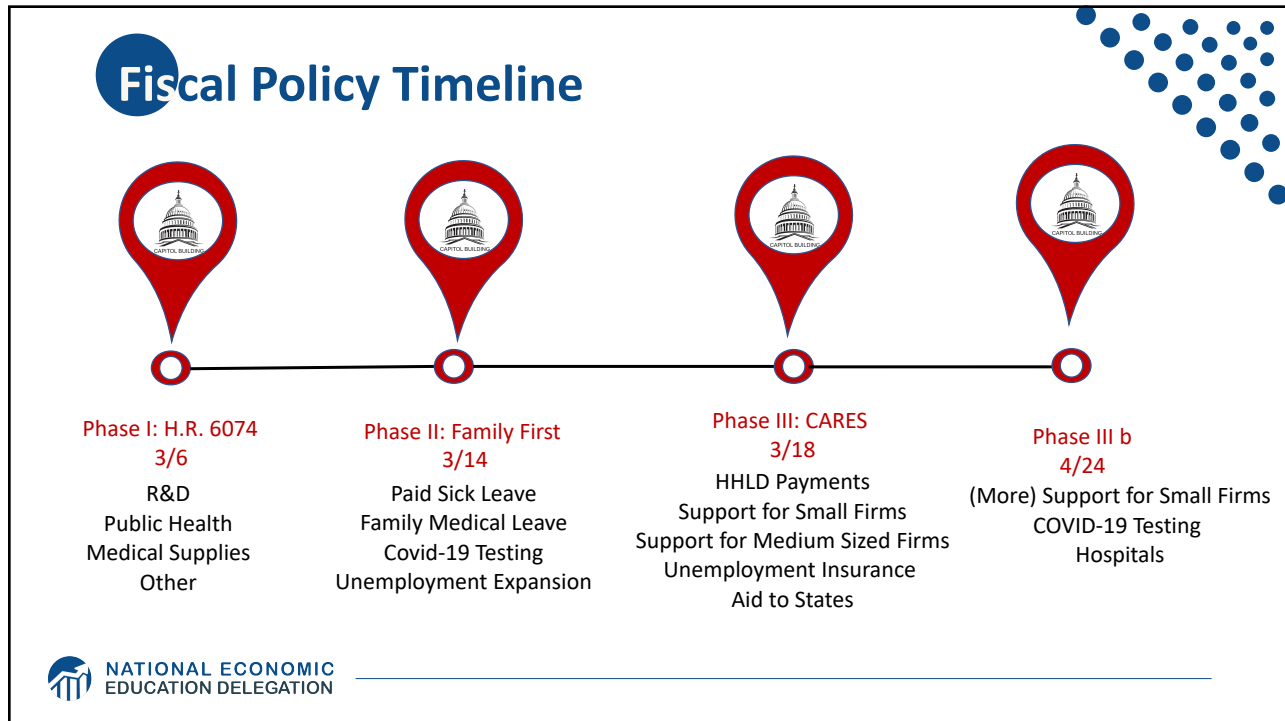
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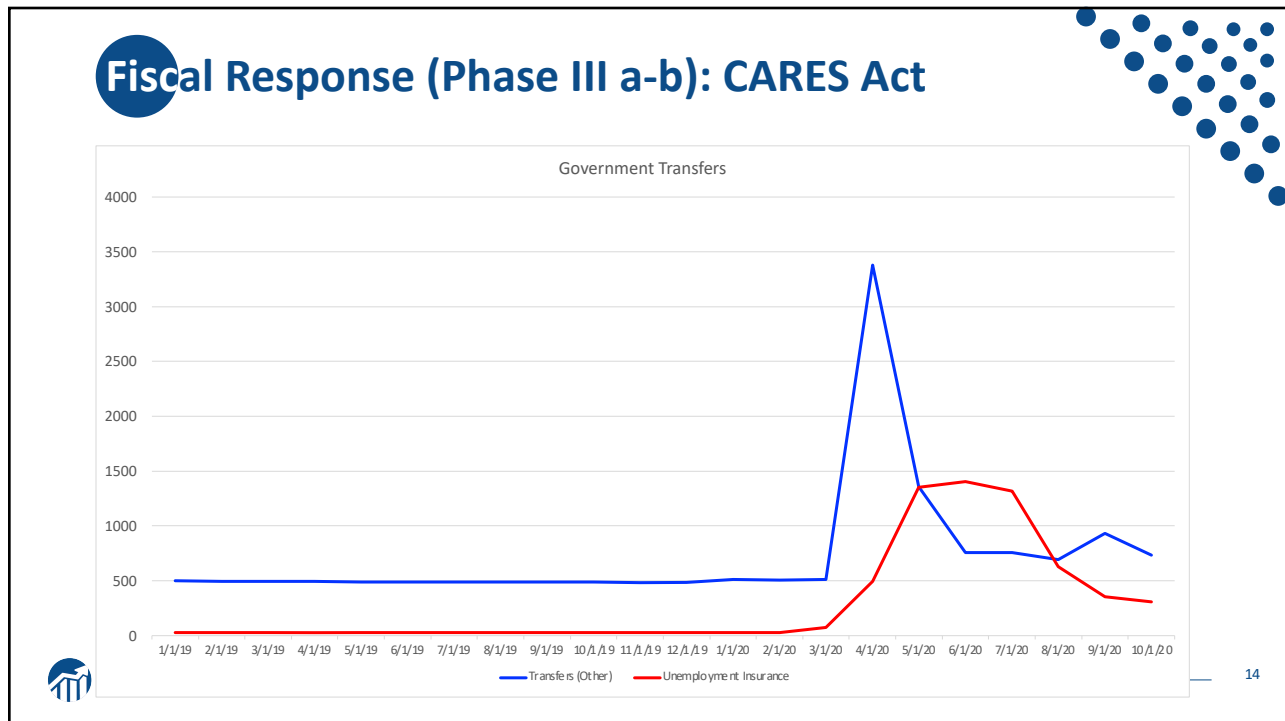
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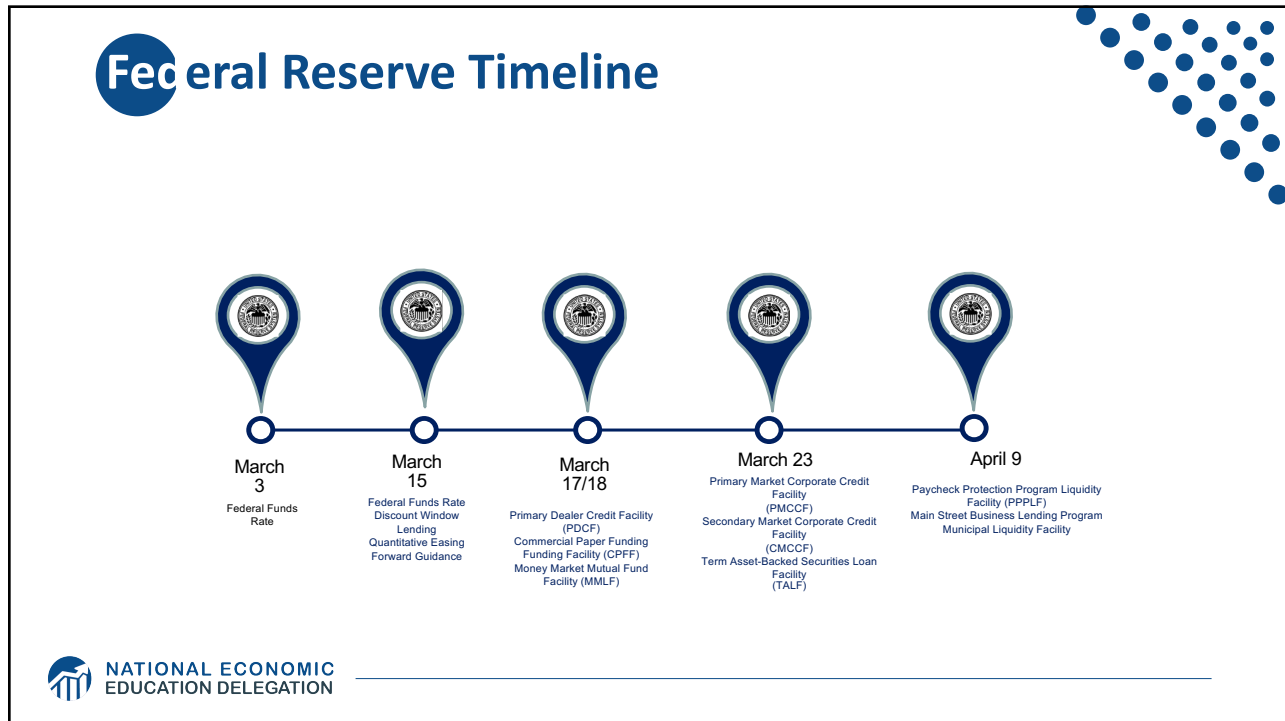
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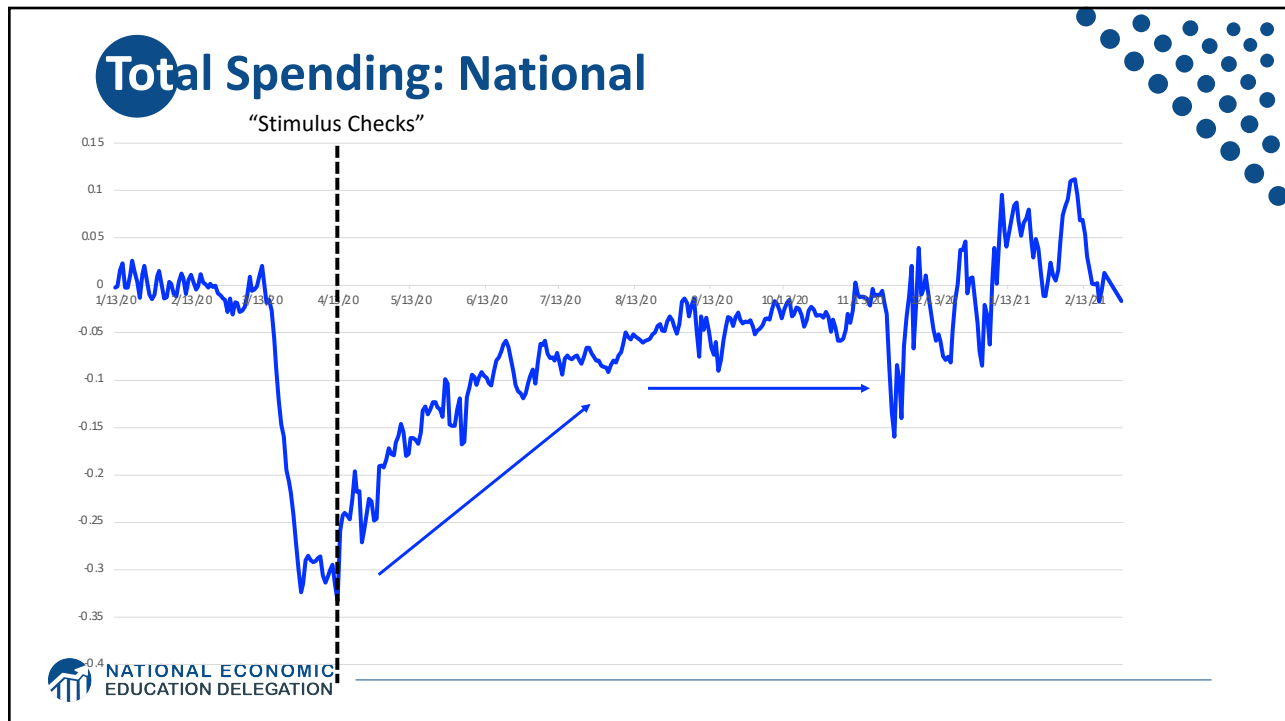
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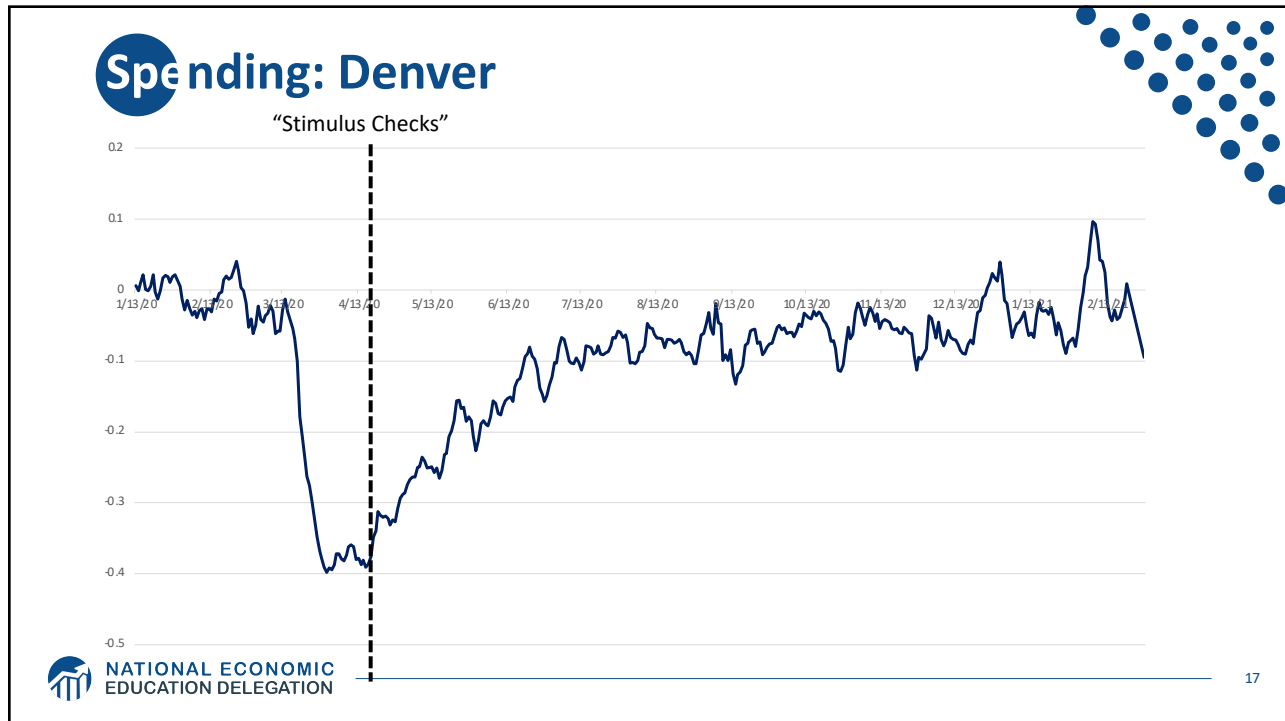
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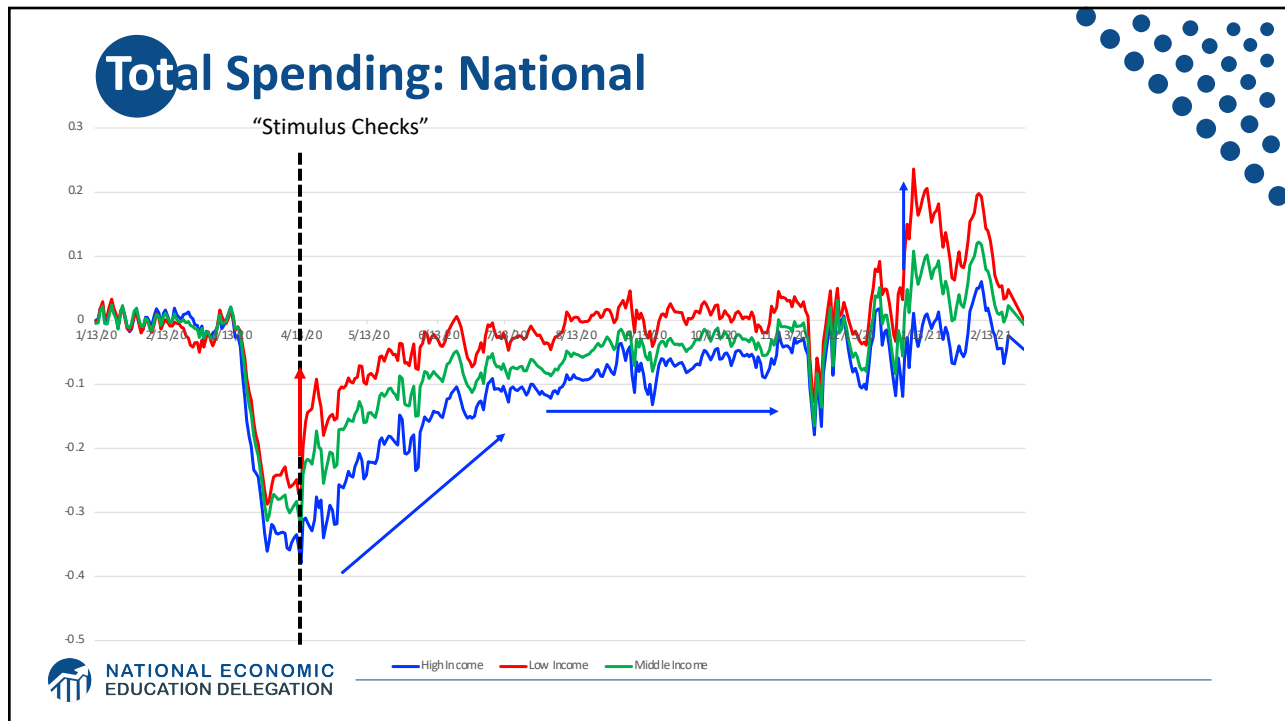
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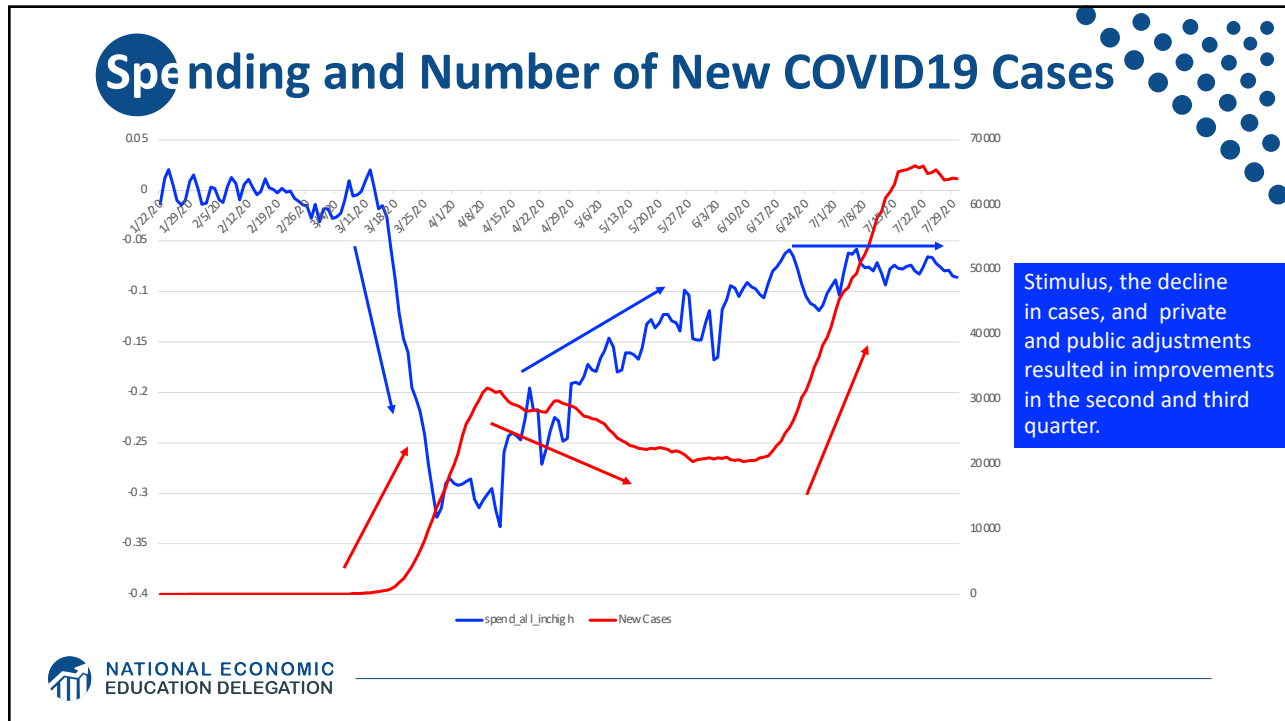
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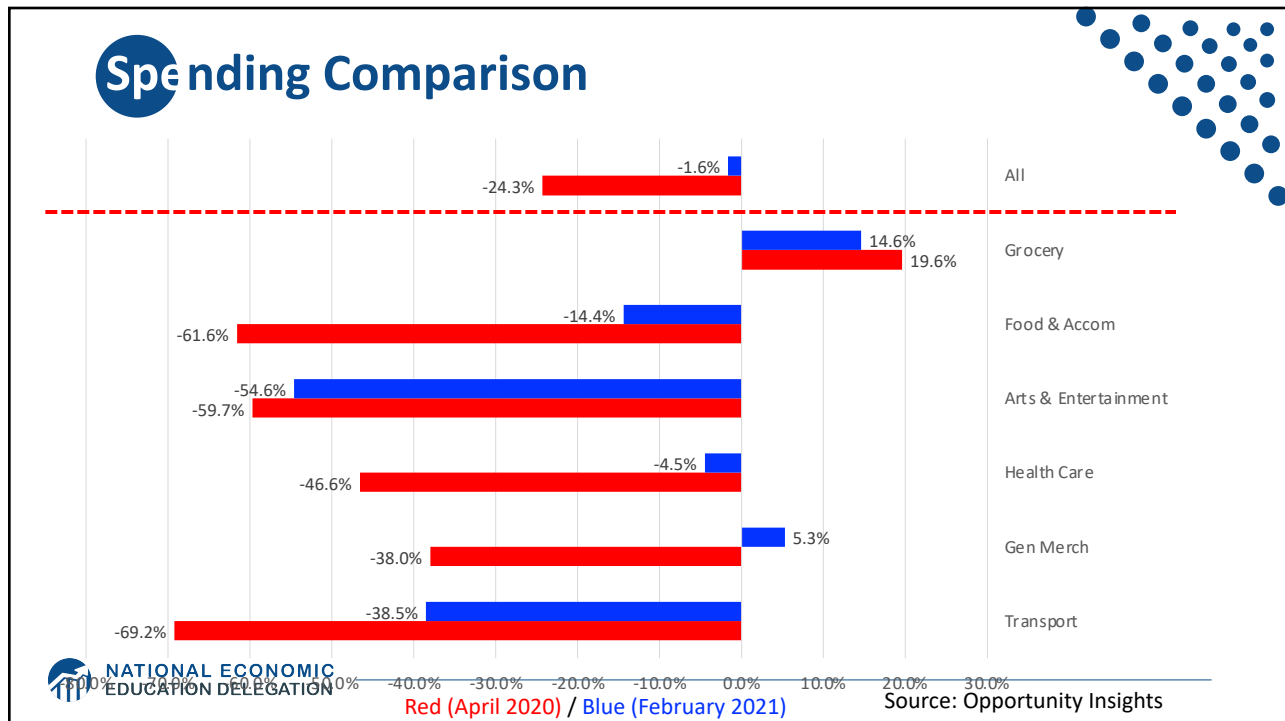
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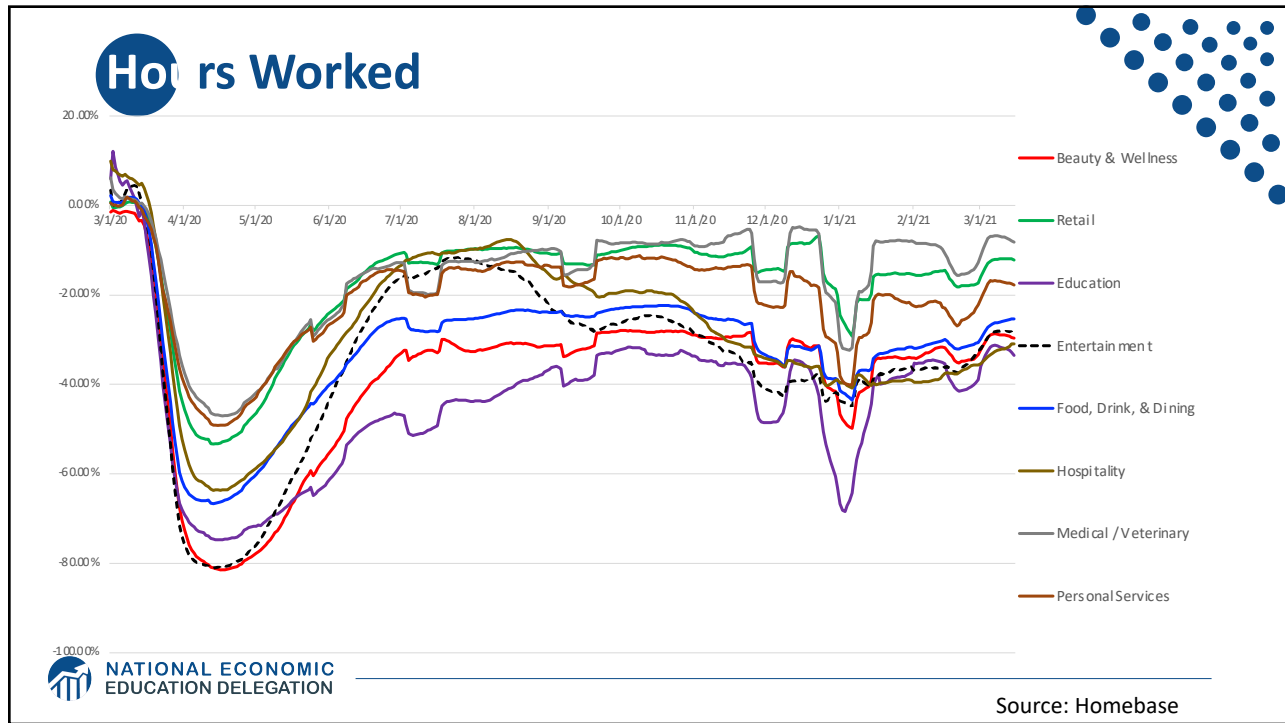
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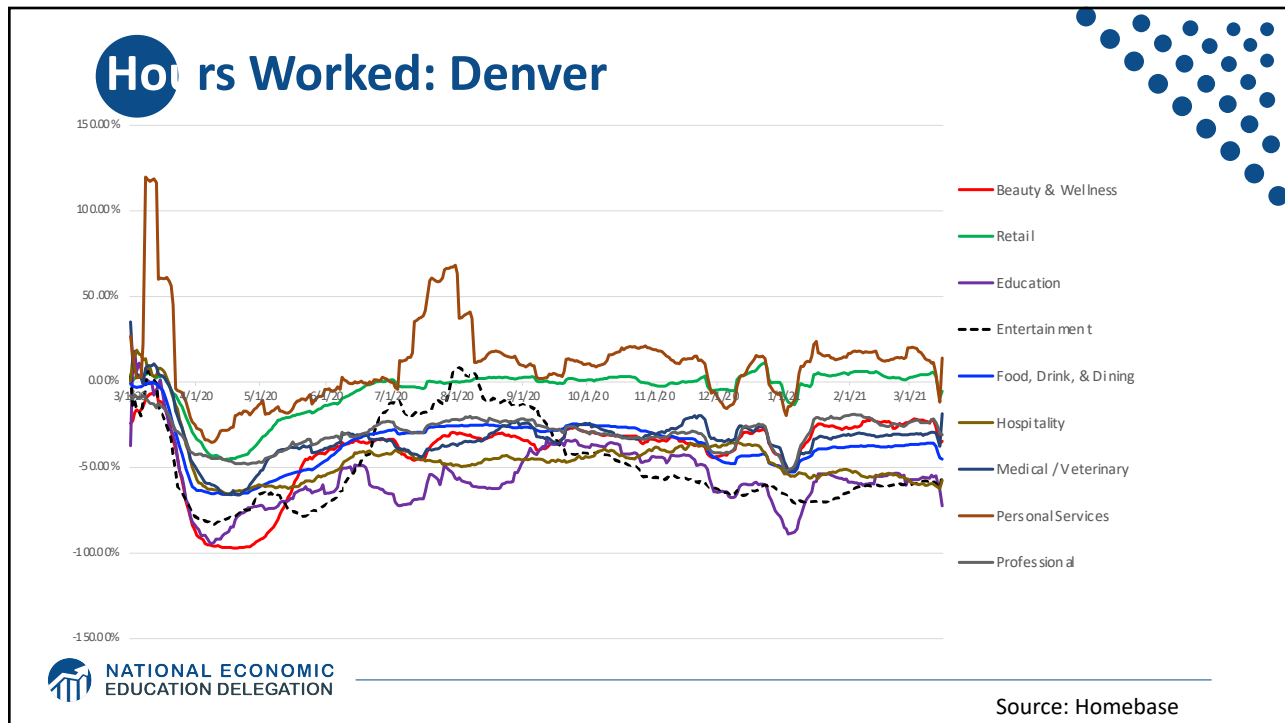
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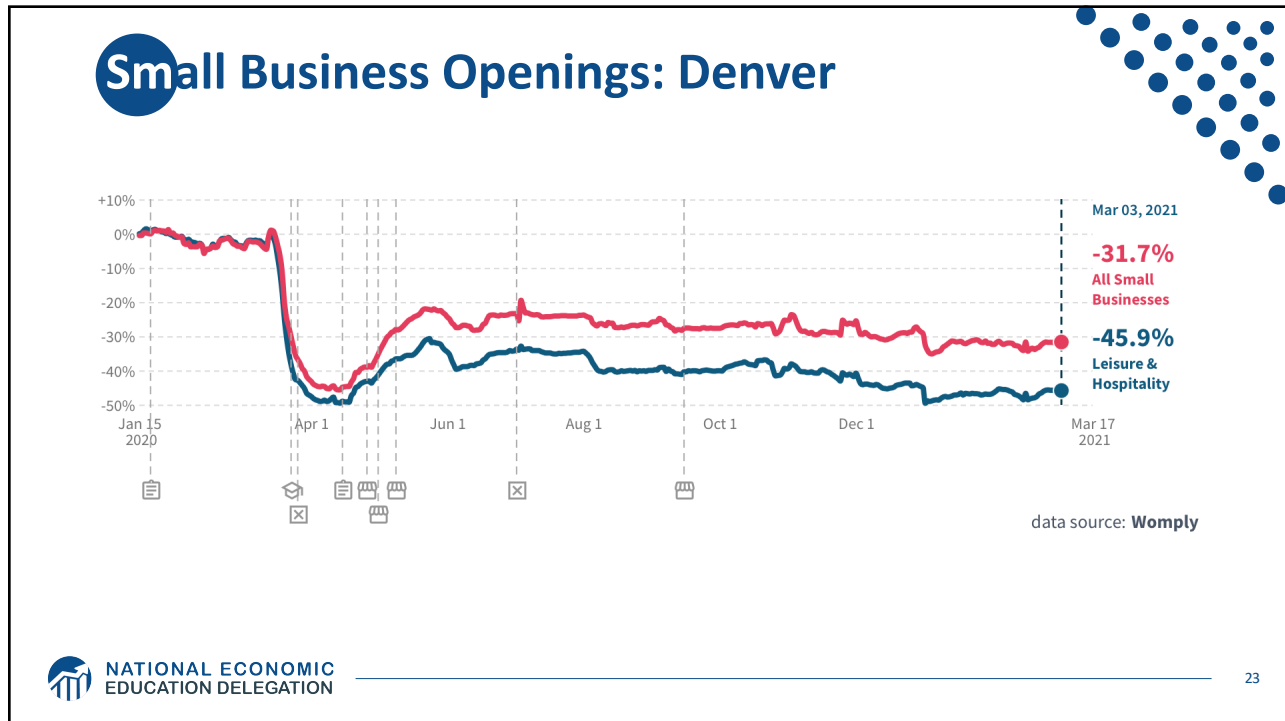
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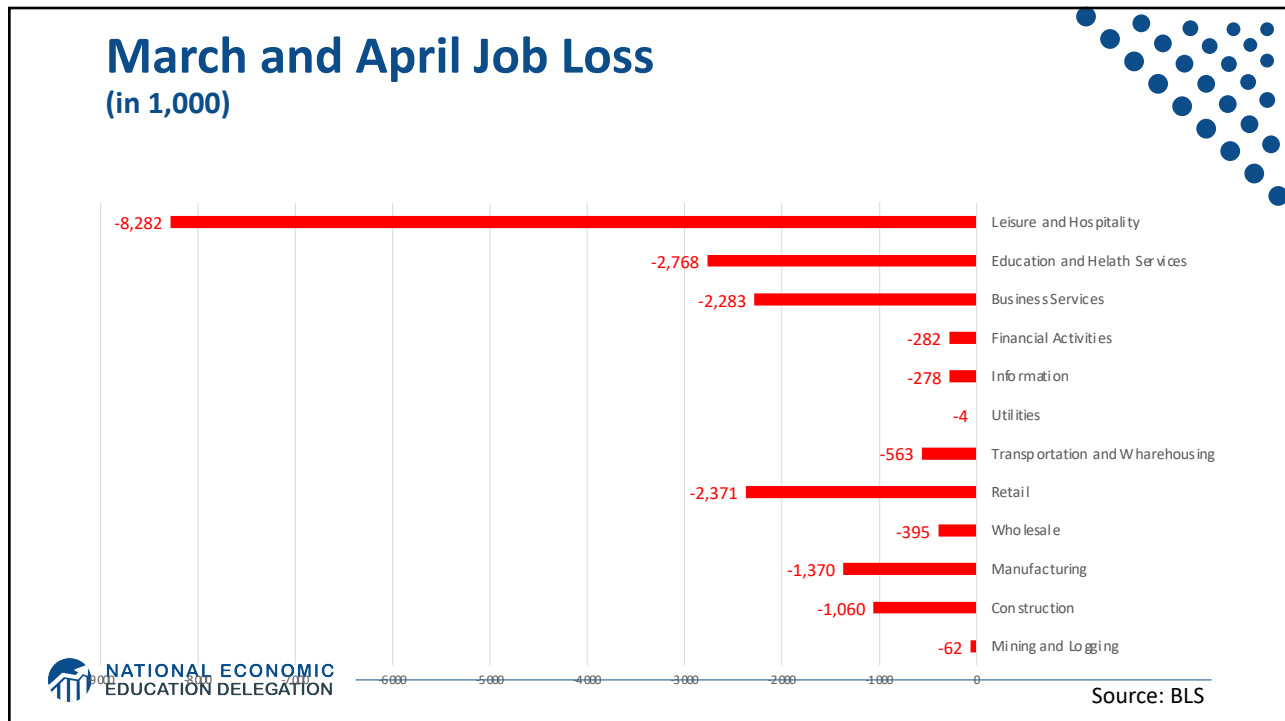
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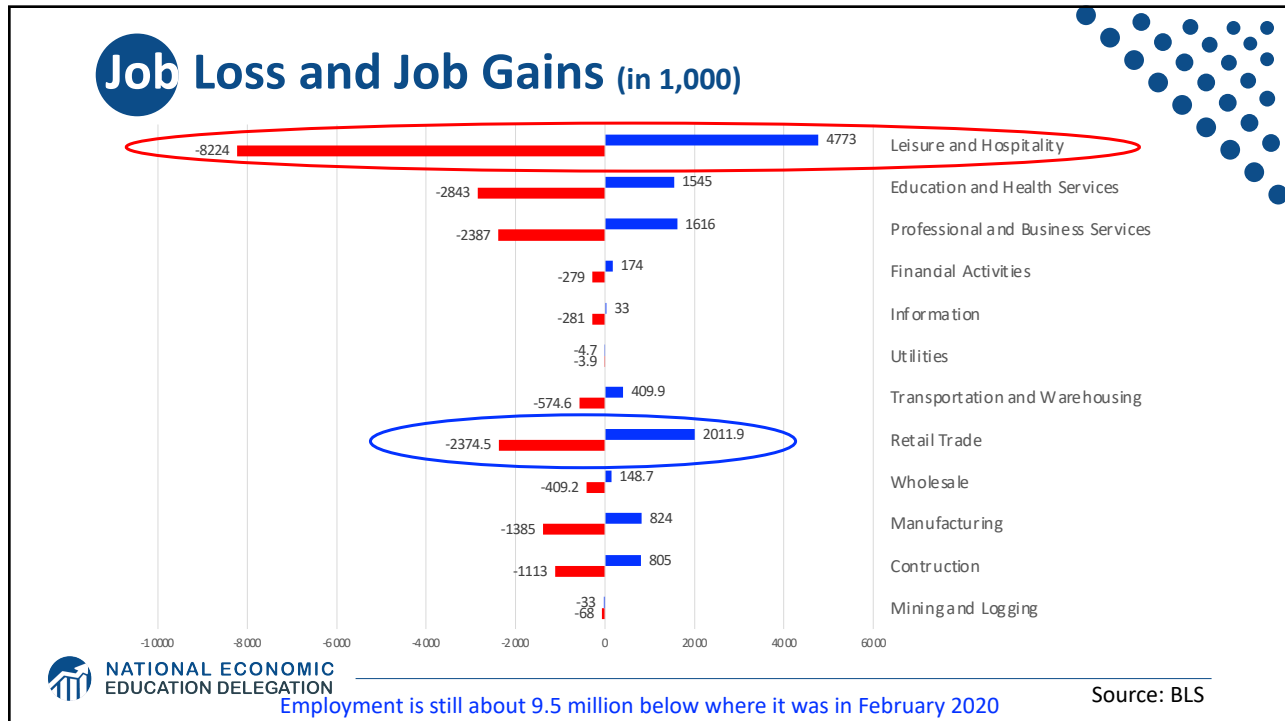
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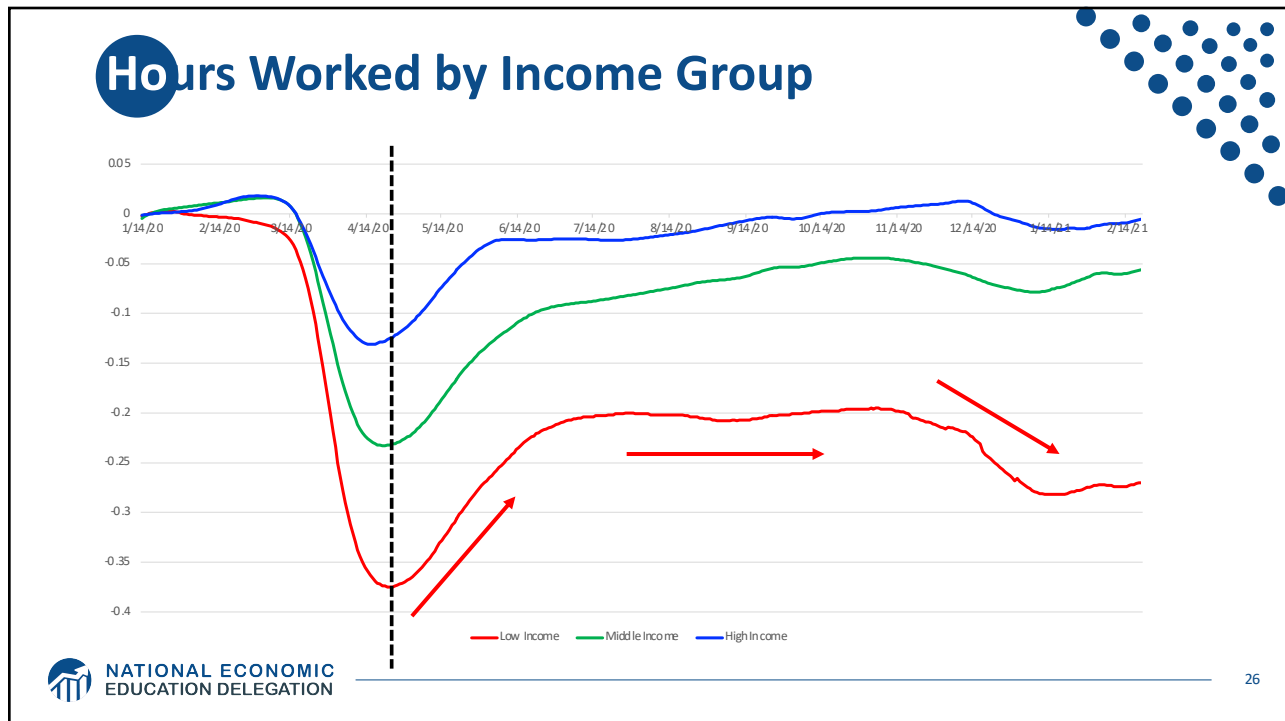
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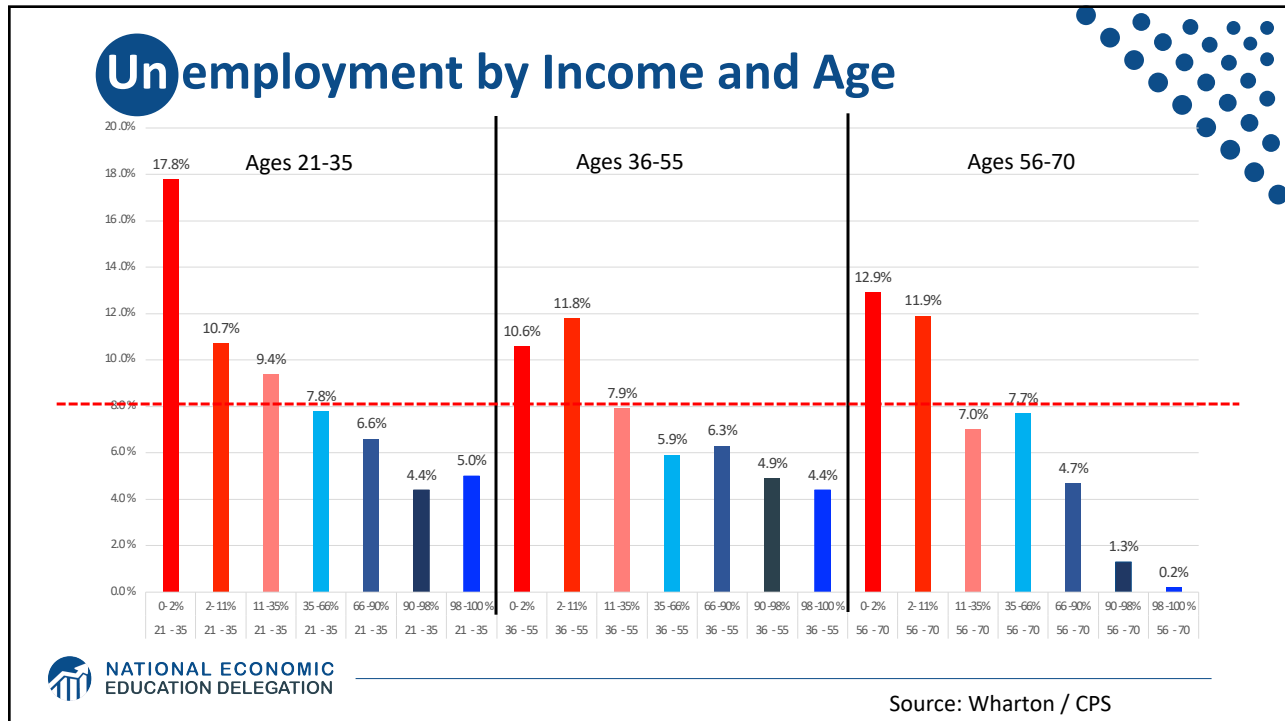
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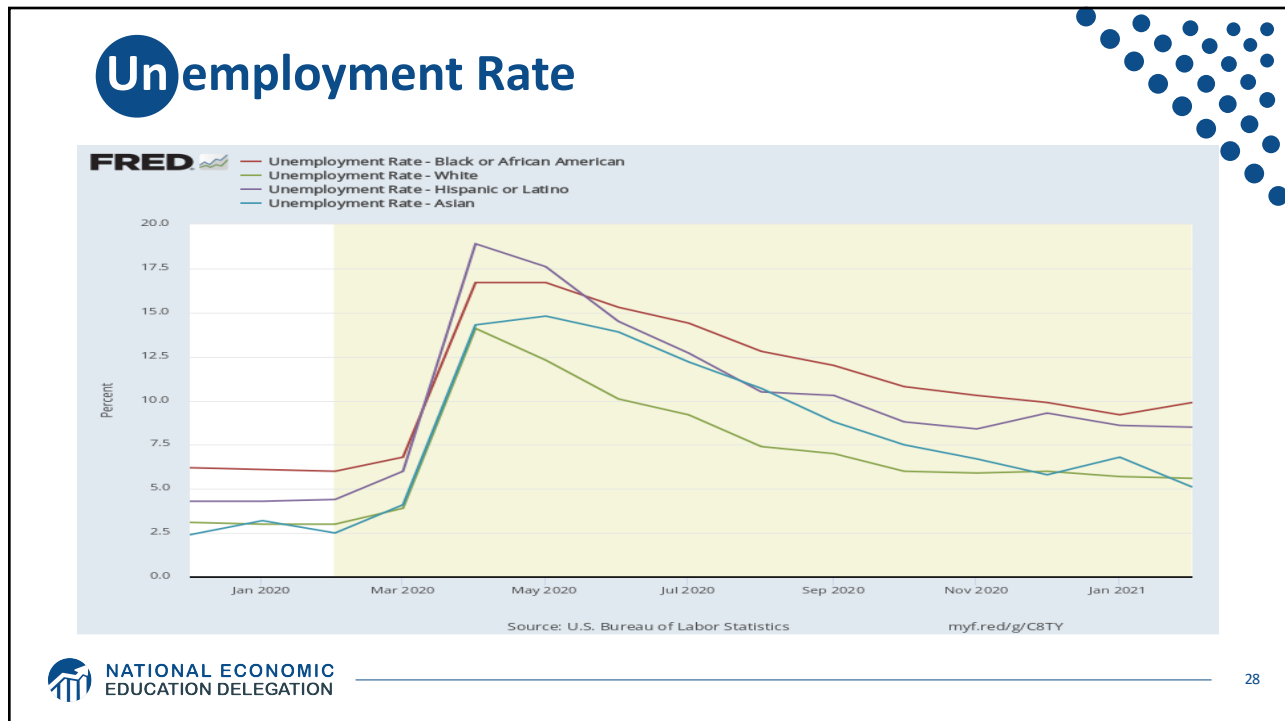
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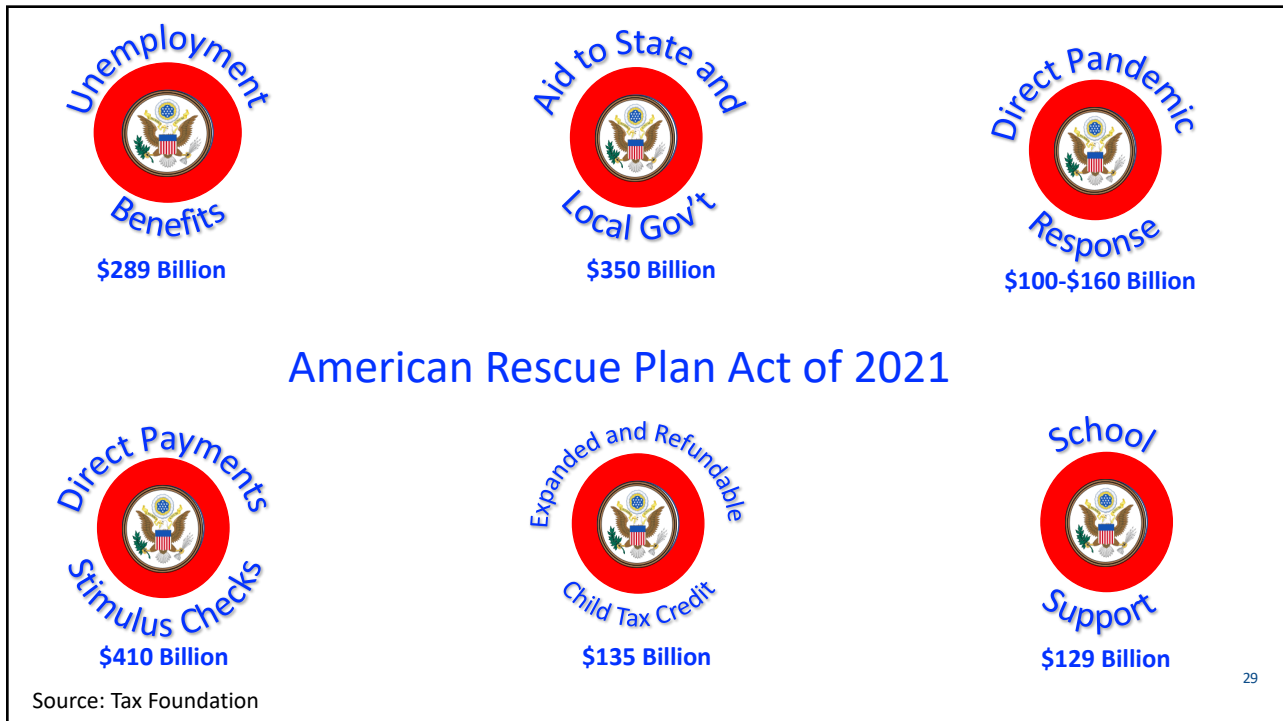
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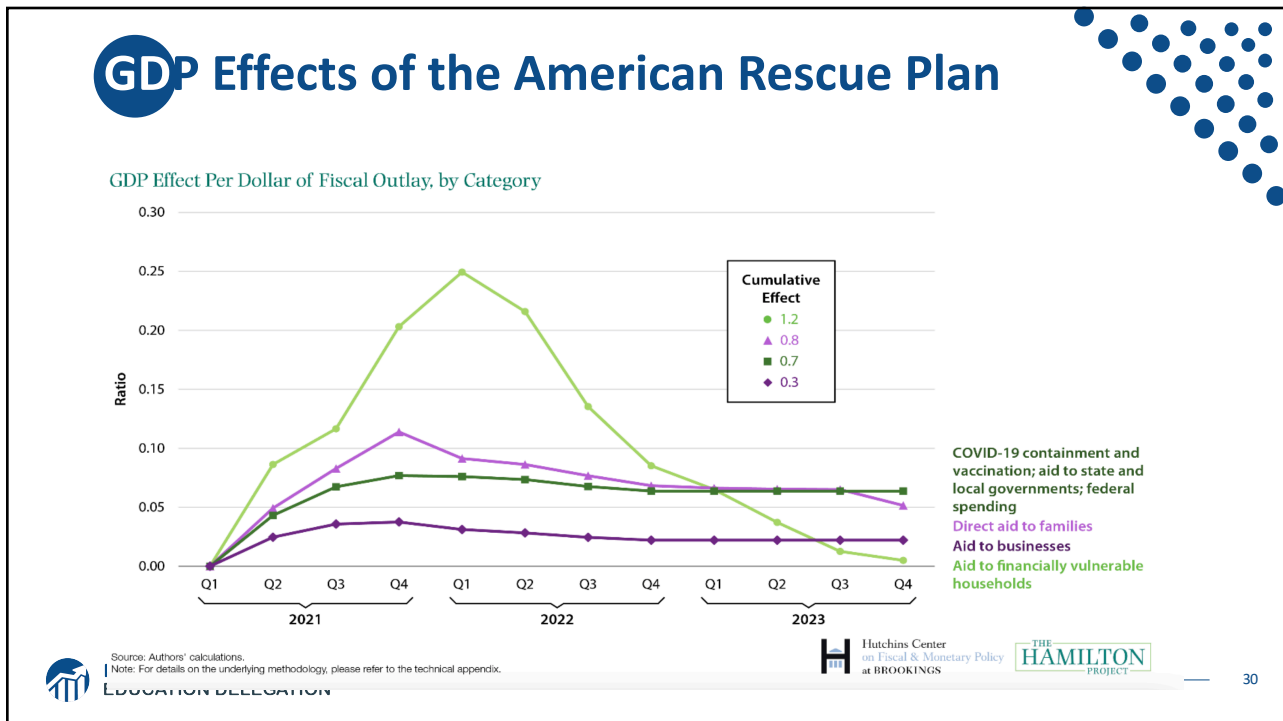
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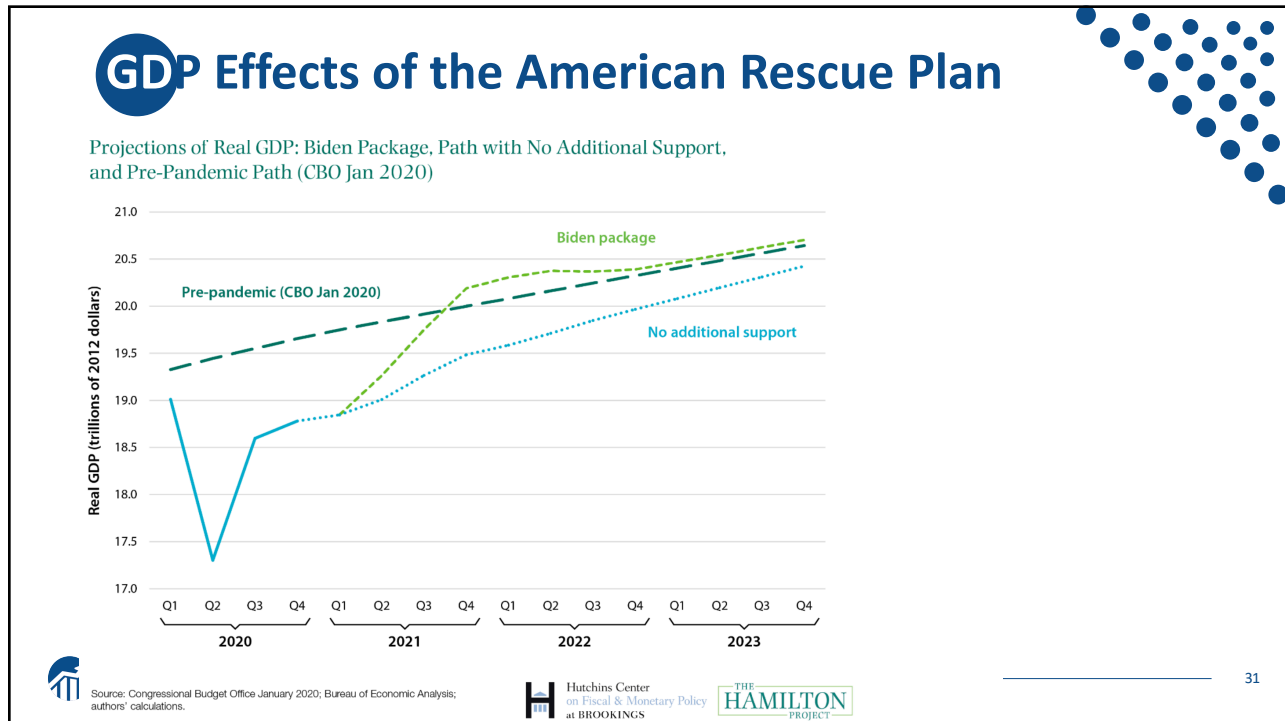
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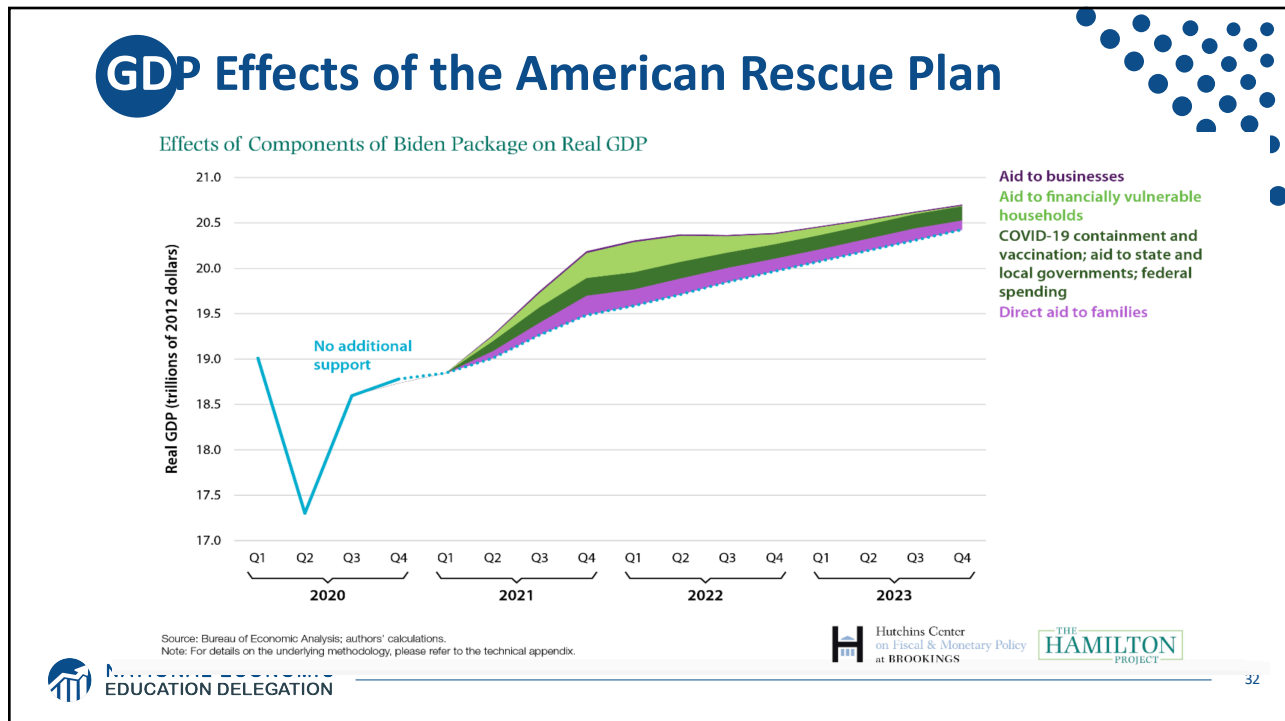
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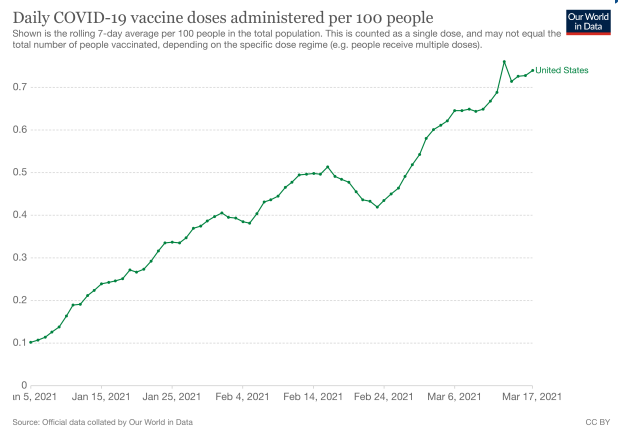
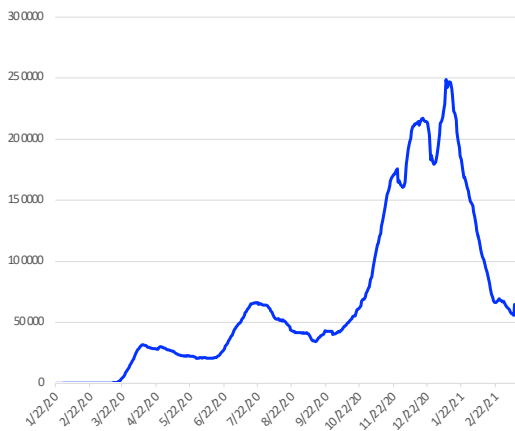
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Conclusion

The economic recovery in 2021 depends crucially on

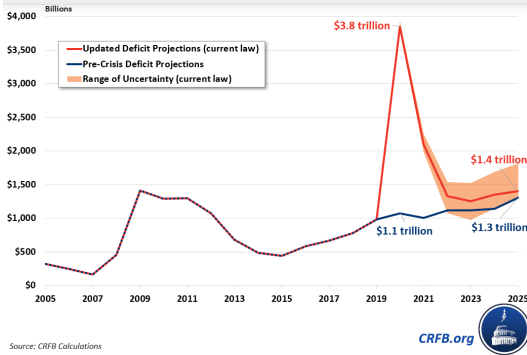
- The distribution of the vaccines.
- The efficacy of the vaccines and new strains.
- The response to the most recent fiscal stimulus.
- The willingness of the population to “continue” follow safety protocols.
- The ability of businesses and households to (continue to) adapt.

Health of the Economy Depends on Health



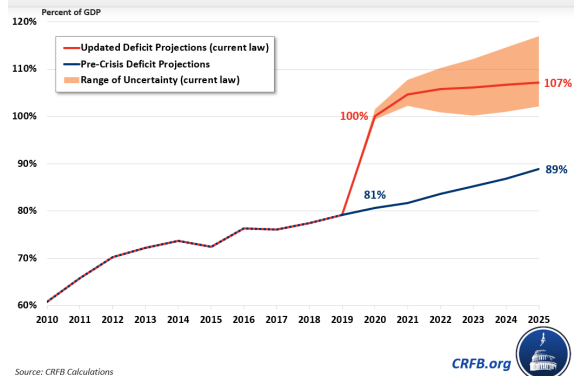
Looking Forward: Federal Budget Implications

Federal Deficit Will Reach Record Levels



Deficit may be nearly 20% of GDP

Debt Will Equal Size of Economy This Year



Debt will likely equal GDP this year

PPP Loans

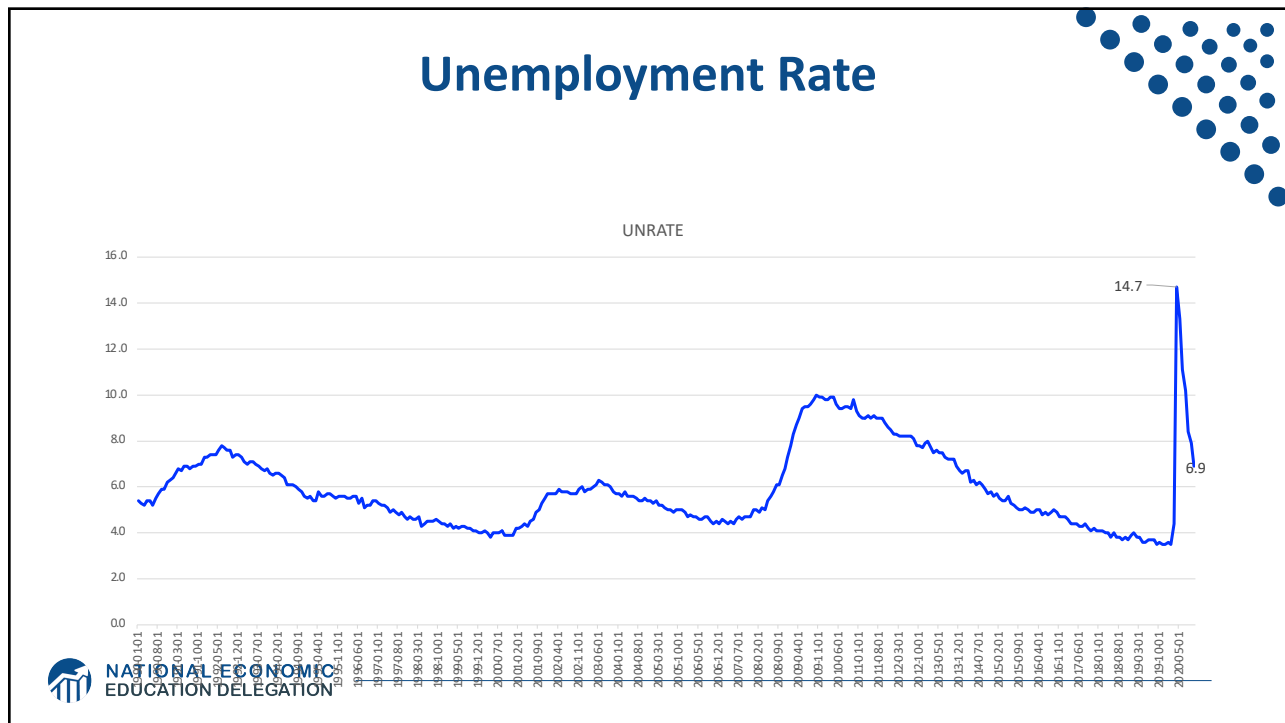


PPP loans assisted small businesses from various sectors

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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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

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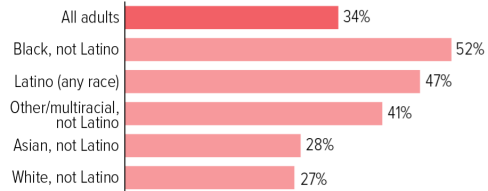
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Outlook

- **Additional Fiscal response is needed**

1 in 3 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

Source: CBPP analysis of Census Bureau Household Pulse Survey tables for October 28 – November 9, 2020

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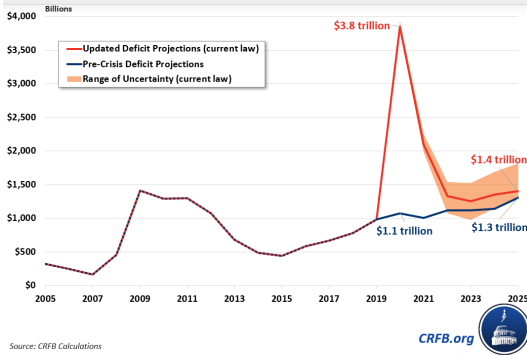
Of Course: The Economy in 2021 Depends

Daily change



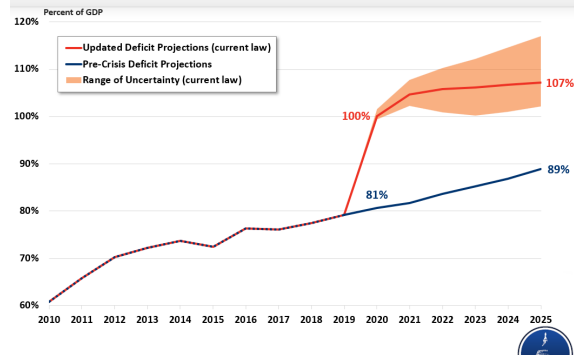
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Looking Forward

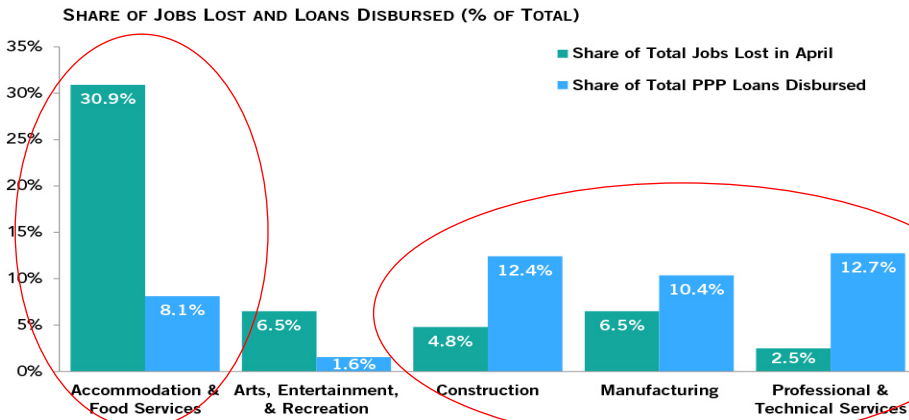
- Most GDP projections indicate that GDP growth will likely be positive in 2021 and likely well above 3.0 percent.
- According to NABE nearly 70% of their panelists expect GDP to expand by more than 3 percent.
- The Fed Reserve's range for growth is wide – I think this represents the Fed's uncertainty 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.

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PPP Loans



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.

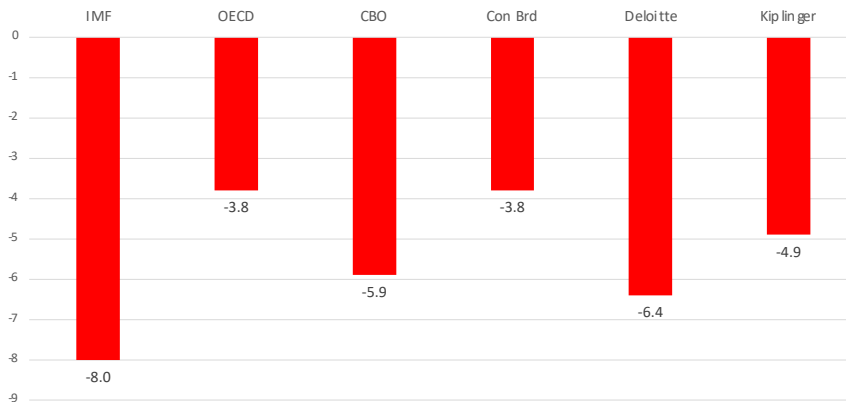
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Growth Projections for 2020



Most forecasts have expect positive real GDP growth



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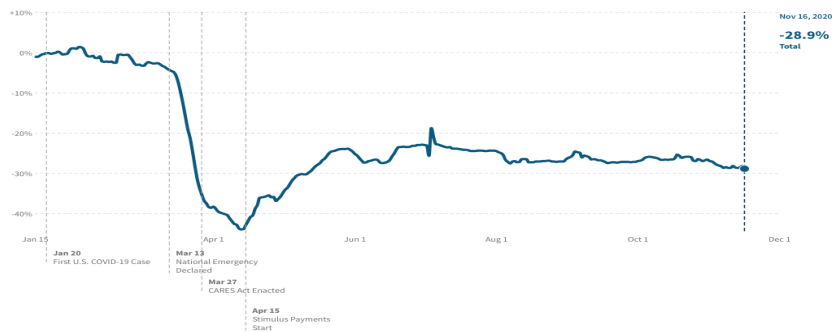
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Fiscal Response (Phase III a-b): CARES Act

- **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)**

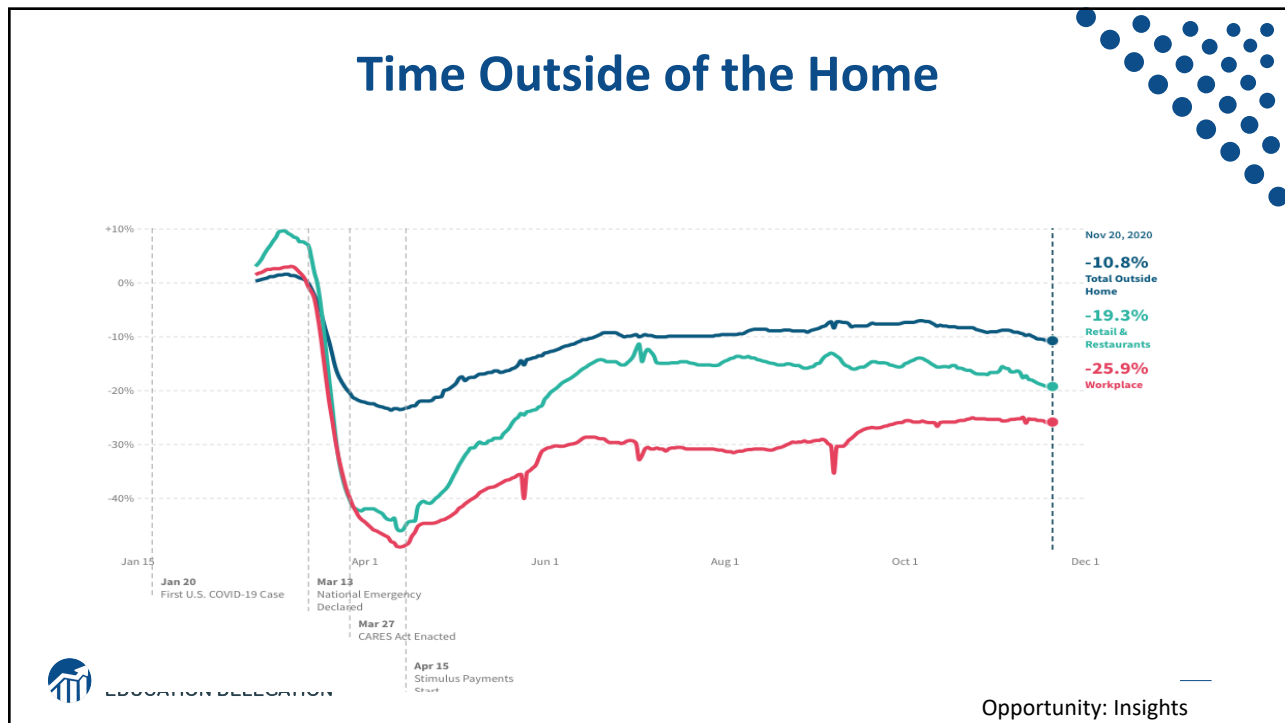
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Small Business Openings



National

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Investment Expenditures

- **Investment expenditures are composed of residential and non-residential spending.**
- **Residential spending refers to purchases of new homes.**
- **Non-residential spending refers to capital purchases and new inventory accumulation.**
 - Tools, machinery, new factories, commercial real estate.

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Conclusion

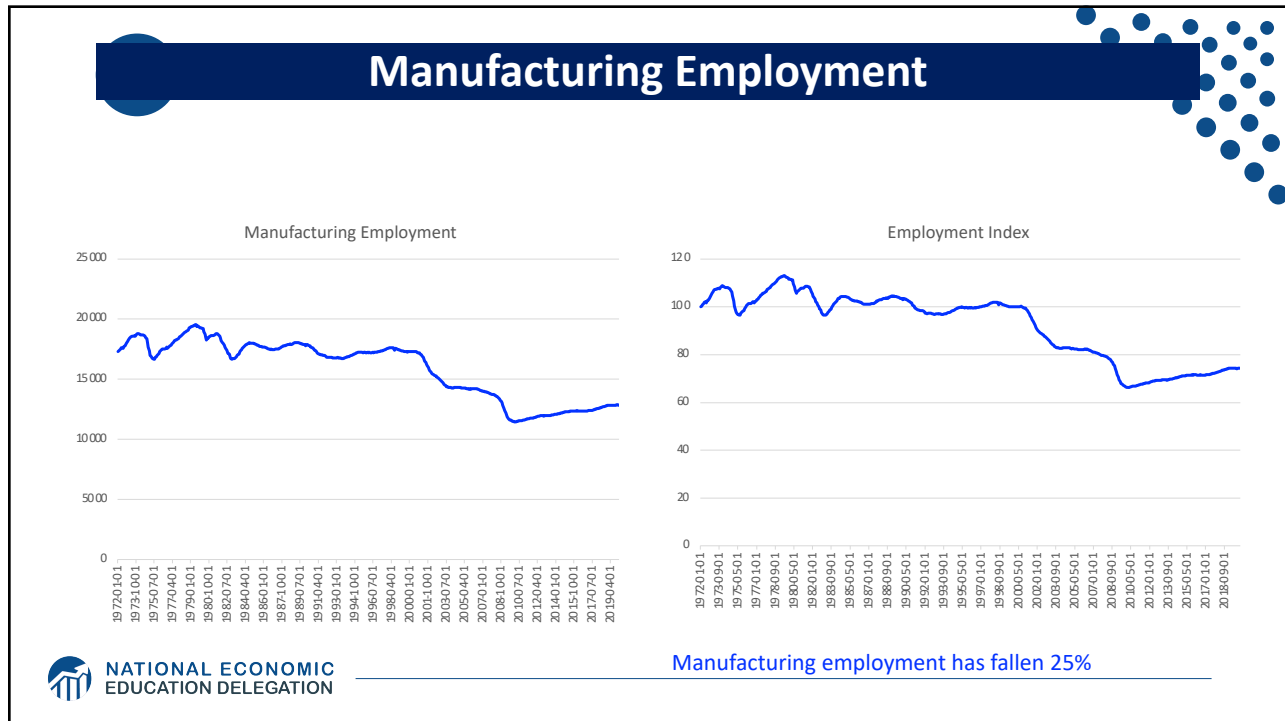
- **The economic recovery in 2021 depends crucially on**
 - The efficacy and the distribution of the vaccines
 - The willingness of the population to “continue” follow safety guidelines.
 - The ability of the fiscal response to provide some income support for households and support small businesses.
 - The ability of businesses and households to adapt
 - Resolution of political uncertainty



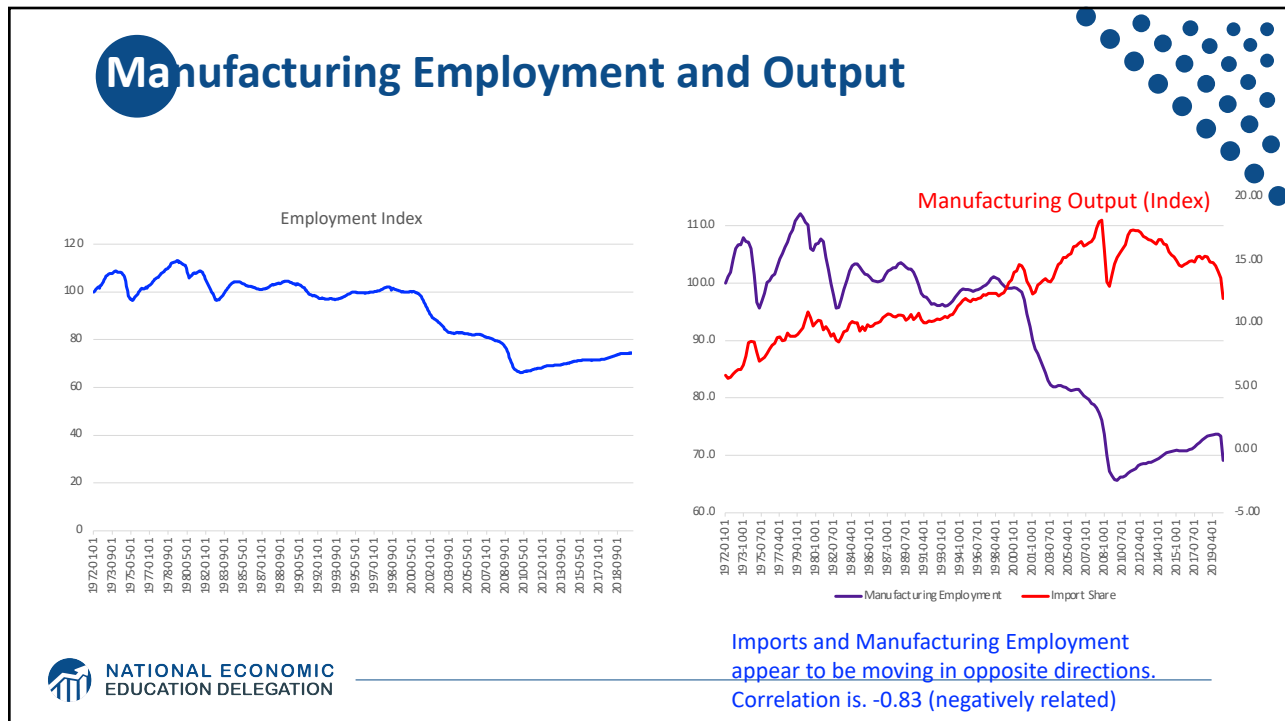
2020 -- This Time is Different

- **Great Depression**
 - A Financial Crisis which and (initial) flawed policy response
 - -- resulted in persistent high unemployment
- **Great Recession**
 - A Financial Crisis that spilled over into the real economy
- **Oil Crisis of 1975 : Supply Shock due to a sharp rise in the price of oil**
- **Prior to the pandemic none of the above:**
 - Financial markets were not in trouble.
 - Real GDP growth was strong buoyed by strong consumer spending.
 - Unemployment and inflation were both low.
 - Oil prices were falling.
- **COVID-19 – “Health Shock”**
 - Supply Shocks: Disrupted supply chains
 - Demand Shocks: Limit market transaction in order to reduce the spread
 - Sudden Demand Stop
- **Spanish Flu (1918)**
 - Structure of production and consumption is notably different



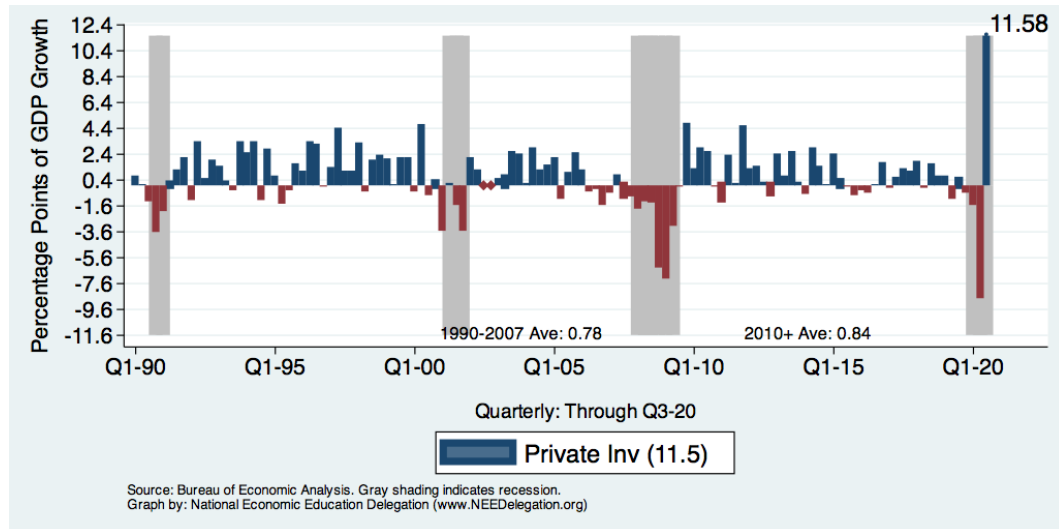


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Contributions to GDP: Private Investment



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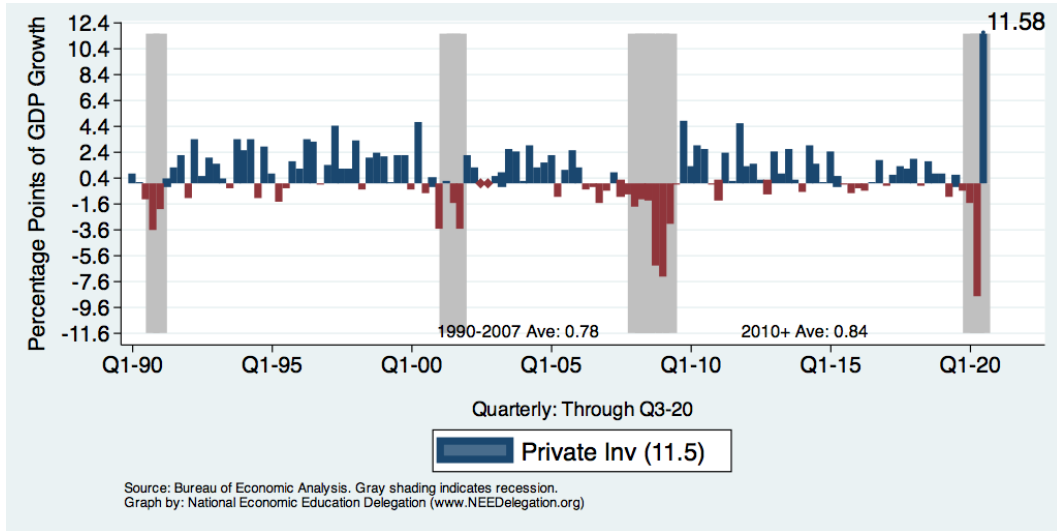


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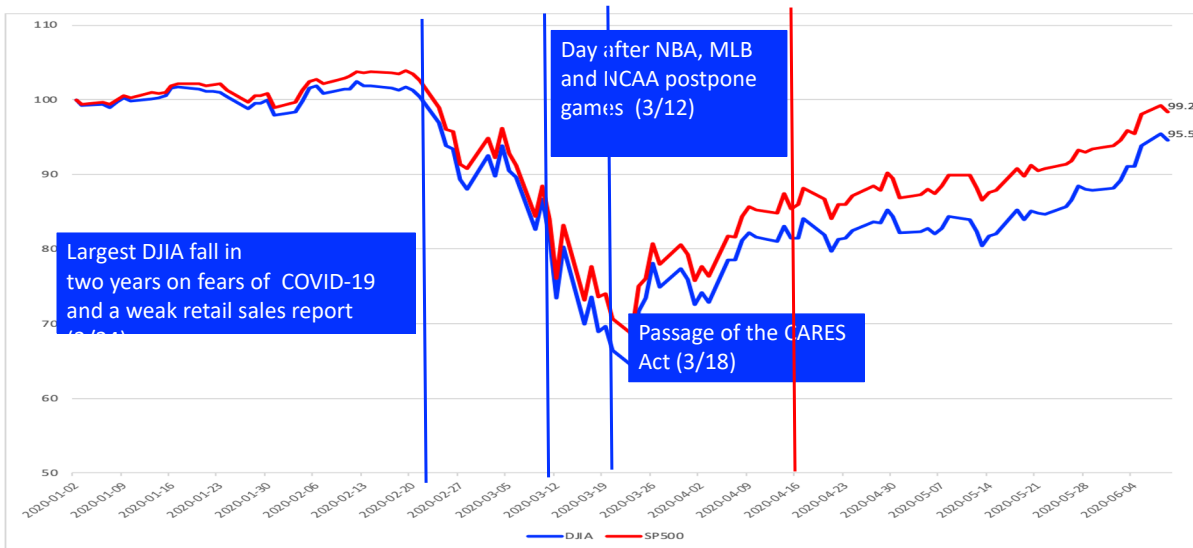
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Contributions to GDP: Private Investment



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Dow Jones and S&P 500



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