

COVID-19: Economic Implications and Policy Responses

March 18, 2021
Green Valley Kiwanis Club

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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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Credits and Disclaimer

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

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- **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).



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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)



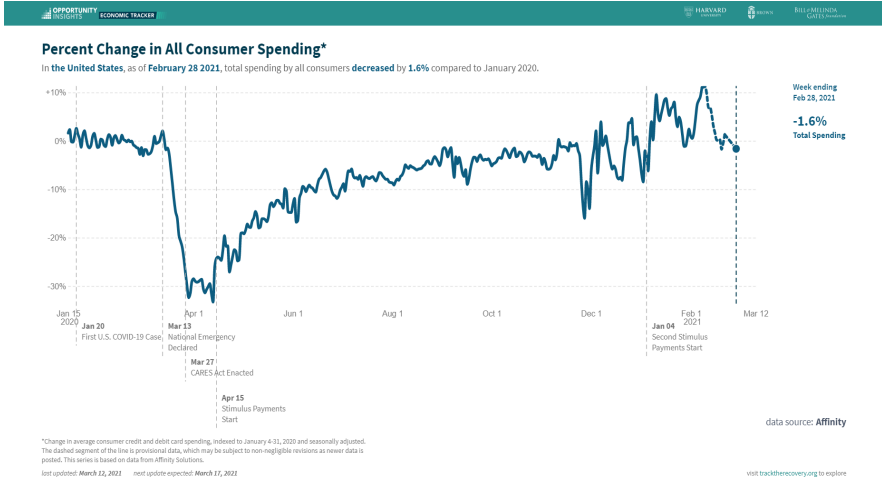
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Outline

- What is the current state of “the economy”?
- What have been the effects of policy?
- What are the risks to recovery?
- Is progress equitable?

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Spending Collapsed in March 2020



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The Situation in Clark County



Percent Change in All Consumer Spending*

In Clark, as of February 28 2021, total spending by all consumers decreased by 5.5% compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.
last updated: March 22, 2021 next update expected: March 22, 2021

data source: Affinity

visit tracktherecovery.org to explore



<https://tracktherecovery.org>

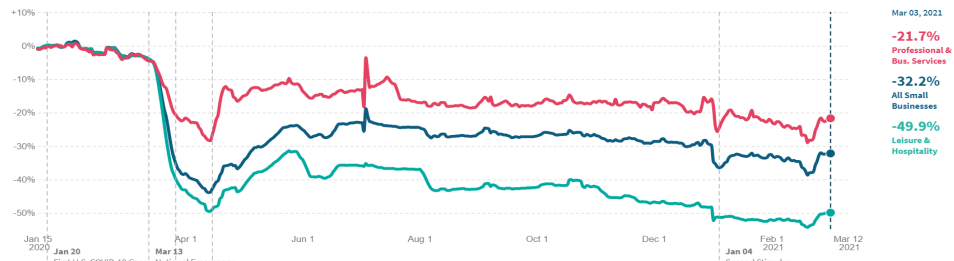
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Implications of Reduced Spending



Percent Change in Number of Small Businesses Open*

In the United States, as of March 03 2021, the number of small businesses open decreased by 32.2% compared to January 2020.



*Change in small businesses open (defined as having financial transaction activity, indexed to January 4-31 2020 and seasonally adjusted). This series is based on data from Womply.
last updated: March 12, 2021 next update expected: March 15, 2021

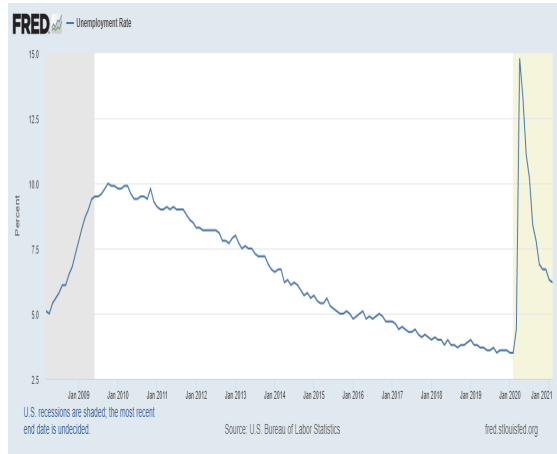
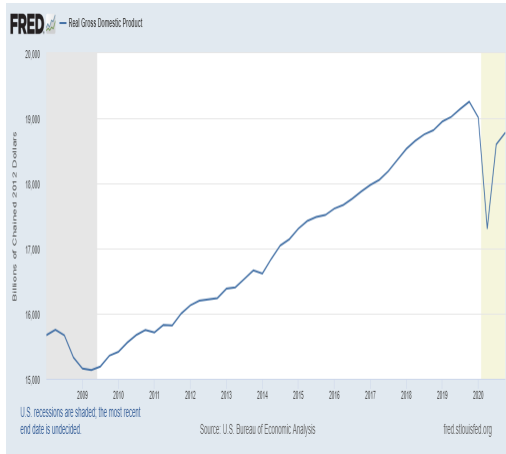
data source: Womply

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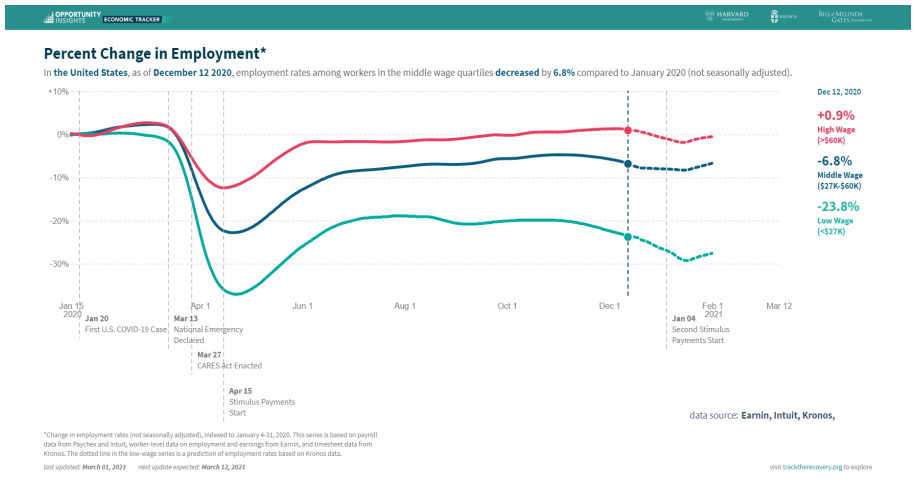
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Where are we? What kind of a recovery?



Extreme volatility in economic data. Q2:2020 unprecedented negative economic growth.

Employment Rates by Income



Where are we now?

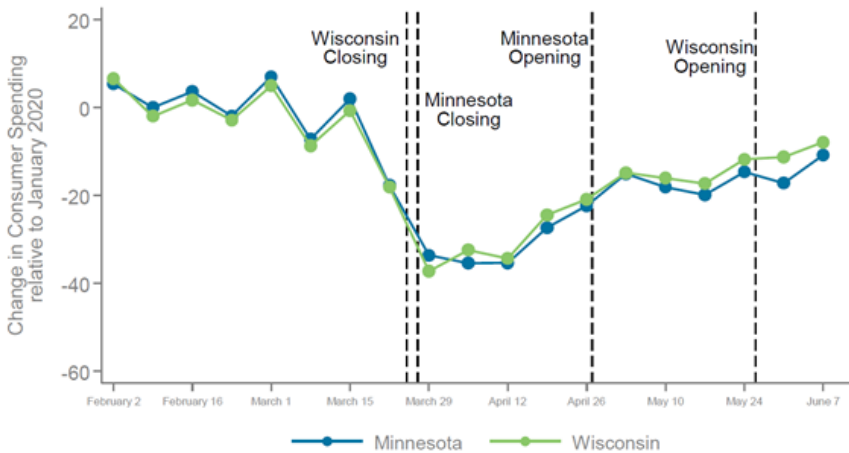
Executive Summary

- Household spending on goods is largely recovered (+), but spending on services remains far below pre-pandemic levels (-)
- Cash injections from government have increased household personal income (+), but also savings.
- Interest rates are at historic lows (+/-)
- About 1/3 of small businesses have stopped operations (-)
- Unemployment rolls have remained significantly elevated (-)
- Many individuals – both men and women - have left the labor force (Men 69.3% to 67.5% and Women 57.8 to 55.7%, 2.5m women versus 1.8m men) (-)

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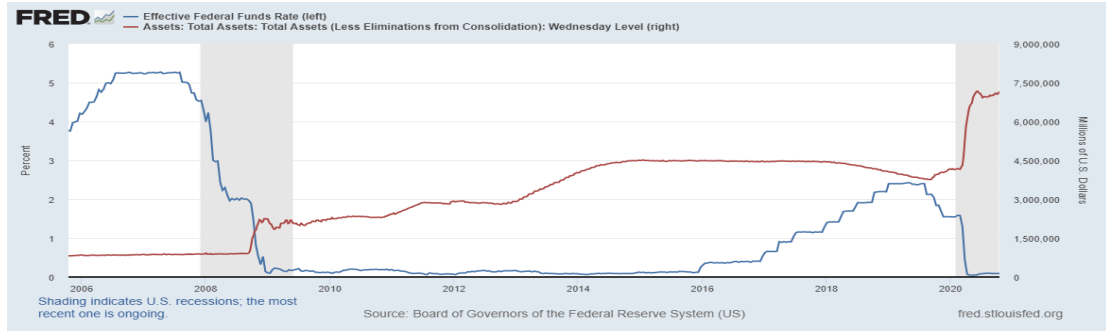
How impactful is government? – Social Policy

Causal Effects of Re-Openings on Economic Activity: Event Studies
Case Study on Business Re-Openings: Minnesota vs Wisconsin



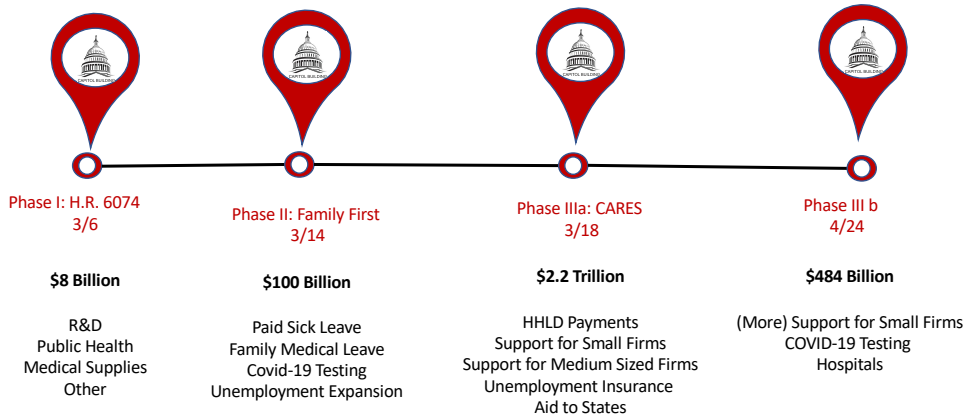
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Federal Funds Rate and Balance Sheet



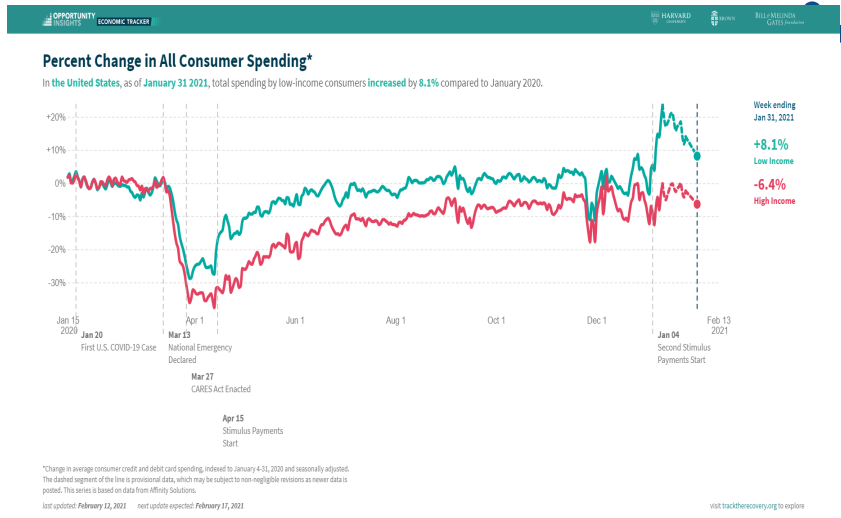
Monetary Policy acted quickly and effectively to prevent a financial market meltdown and keep credit flowing. But the Fed lends and does not spend; so there is a limited impact on spending.

Fiscal Policy Timeline – First Round

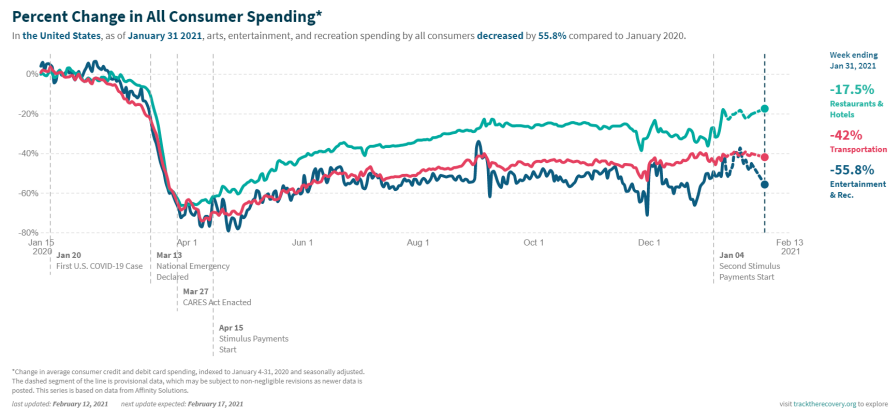


Yes but was it the Checks and \$600?

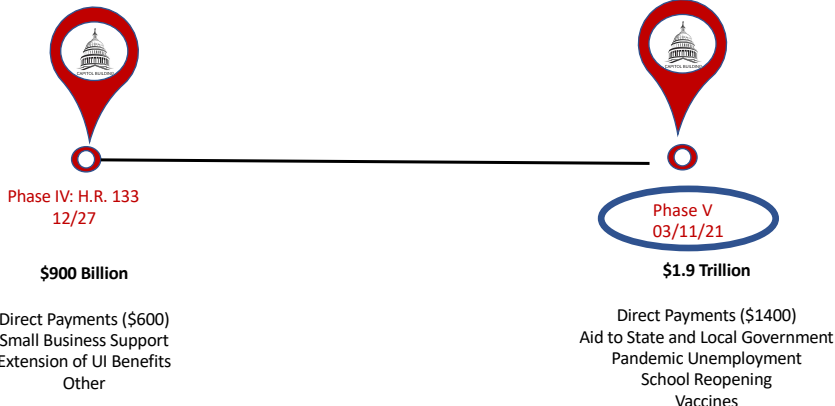
Low Income Households were able to increase spending in response to the stimulus programs. High income households chose not to spend as much as before the lockdown.



Hard Hit Sectors – uneven recovery among industries

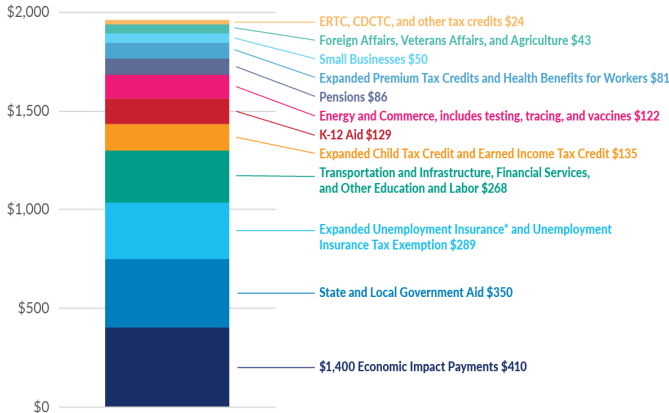


Fiscal Policy Timeline – Second and Third Round



What's in the \$1.9 Trillion American Rescue Plan Act?

Topline summary of relief in Billions of Dollars



Note: *Subject to change pending estimate of Senate version of unemployment insurance expansion. Source: Joint Committee on Taxation and Committee for a Responsible Federal Budget

Expected impact of the stimulus bill

- Updated expectations for U.S. economic growth: 5.95% - 7% Q42020 through Q42021 (WSJ survey/Oxford Economics)
- 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 reduction of child poverty as most benefits from the current bill go to households with incomes below \$90,000.



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.
- **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



A K-shaped recovery?

- Those with financial wealth/residential real estate have seen its value grow in excess of inflation
- High income earners (>60k/yr) have largely kept their jobs; middle and low income earners have depressed employment rates
- Women are (slightly) disproportionately exiting labor force
- Food insecurity is at an all time high
- Specific industries (vaccine reliant) are hit particularly hard
- The American Rescue Plan addresses the risks to an economic recovery after the pandemic



 Thank you!

Any Questions?

www.NEEDelegation.org

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