

# COVID-19: Economic Implications and Policy Response

April 14, 2021  
IRWA – Bay Area, Chapter 2  
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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

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- 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)

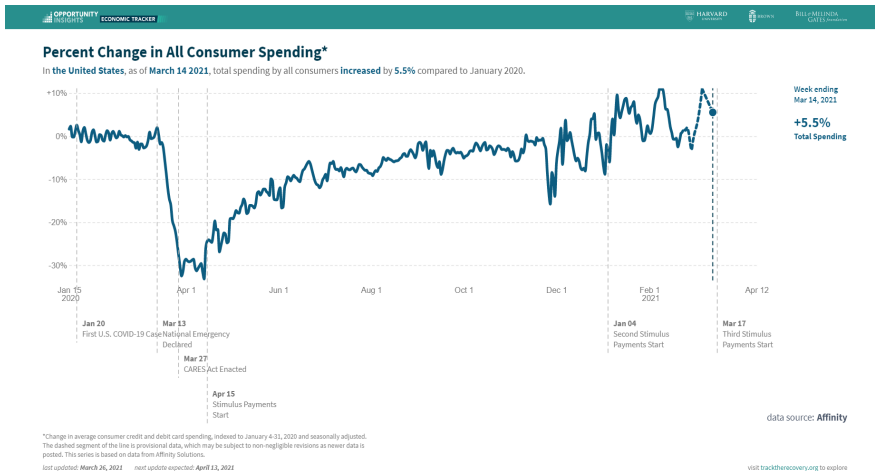
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# Outline

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

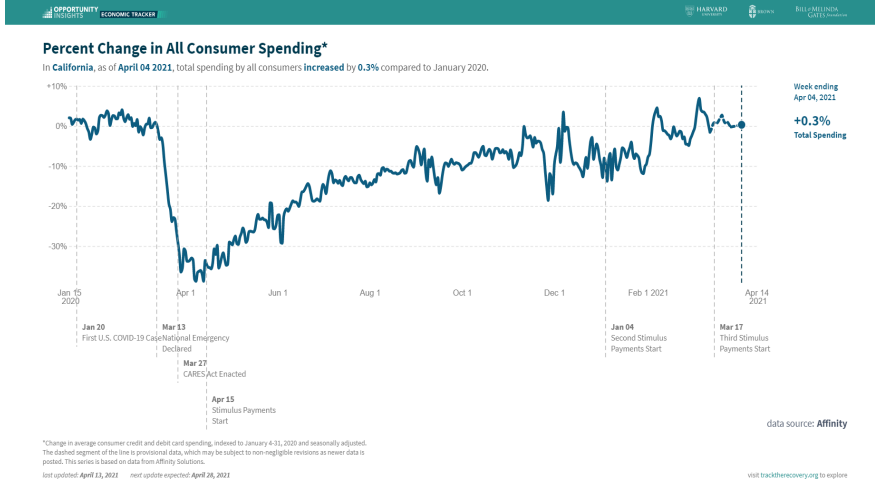
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# Spending Collapsed in March 2020



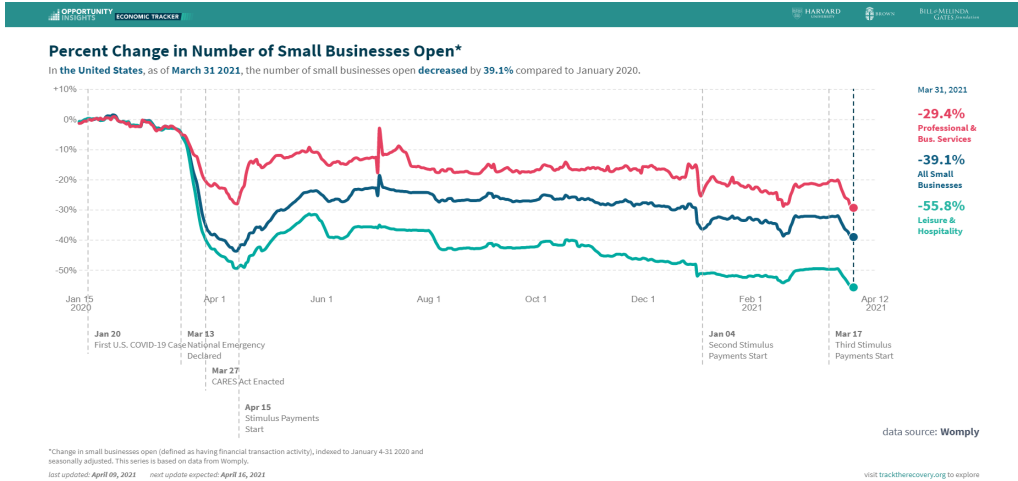
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# The Situation in California



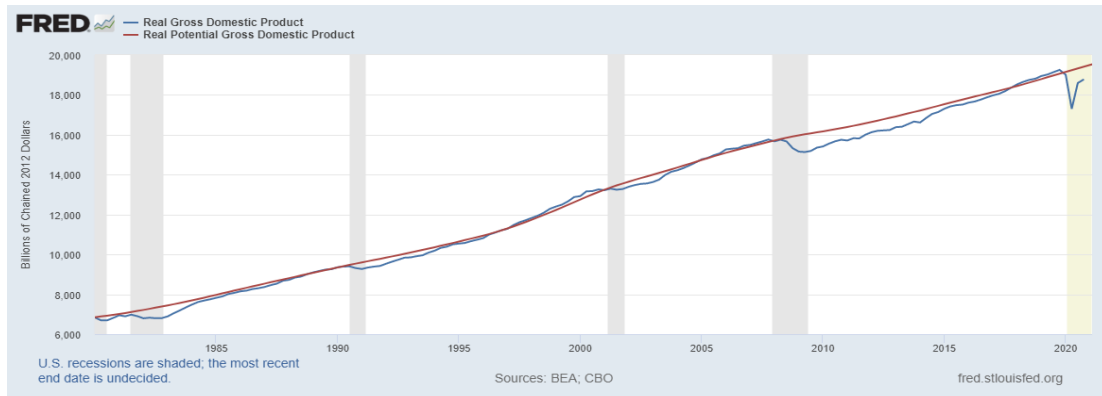
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# Implications of Reduced Spending



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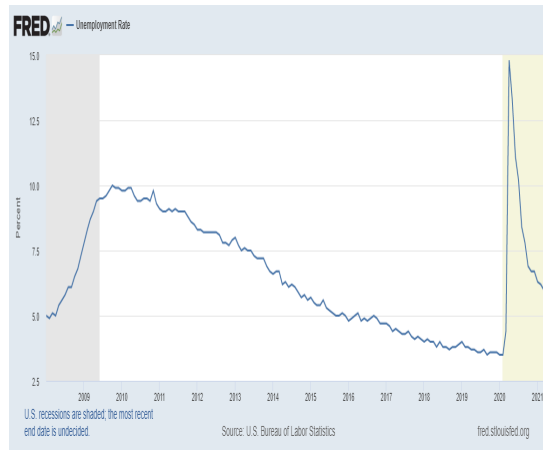
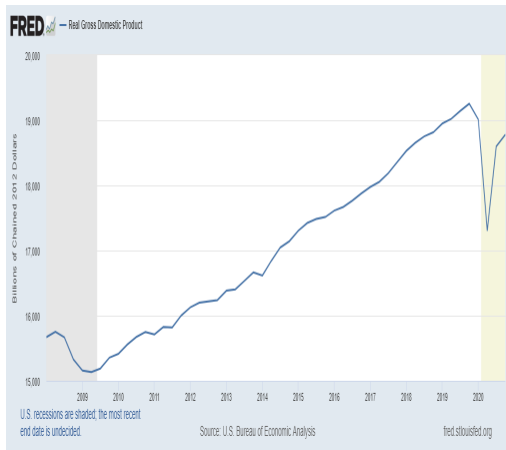
# Where are We ?



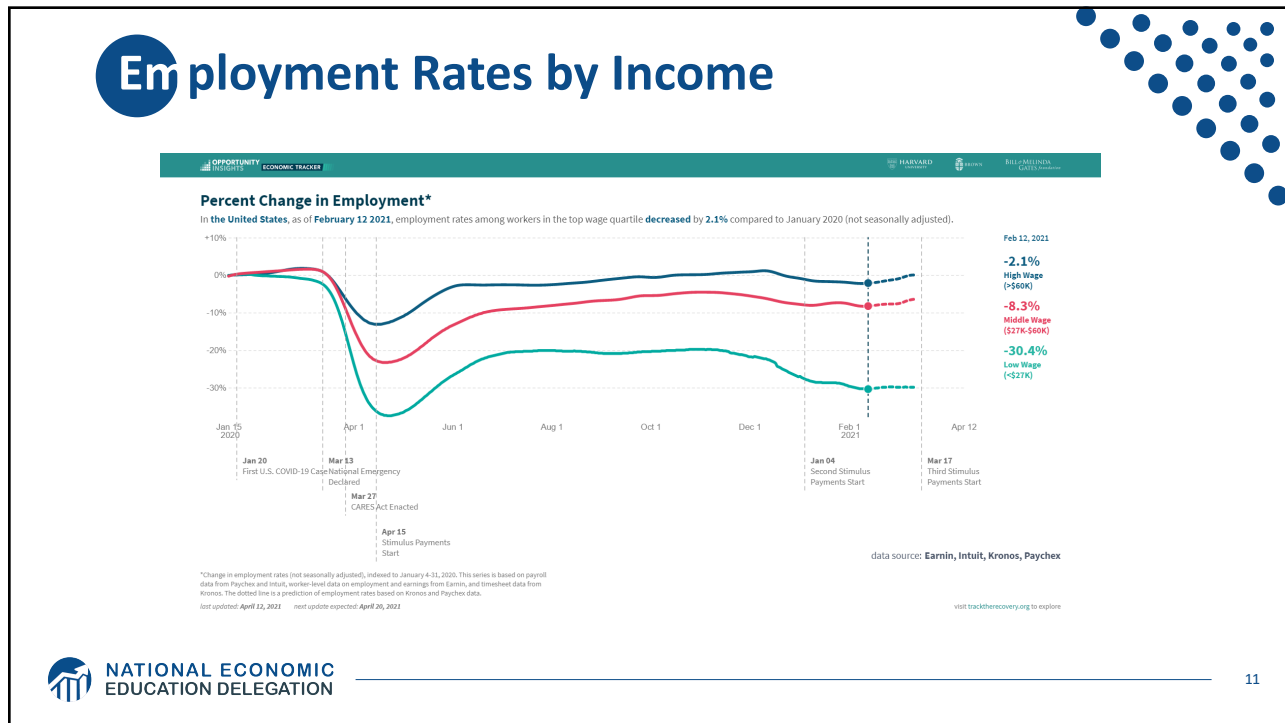
Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

Still a negative Output Gap compared to the start of the pandemic.

# Where are we? What kind of a recovery?



As of April 2021: Looks "V" shaped to me! But, is it a K shaped recovery?



# Where are we now? - Summary

- Household spending on goods is largely recovered (+), but spending on services remains far below pre-pandemic levels (-)
- Repeated cash injections from government have increased household personal income and savings (+)
- Interest rates are at historic lows, but trending up since Feb. (+/-)
- More than 1/3 of small businesses have stopped operations (-)
- Unemployment rolls remain elevated and employment is below pre-pandemic levels (7.5 million jobs less) (-)
- Many Americans – both men and women - have left the labor force (as of March 2 million men and 1.9 million women) (-)

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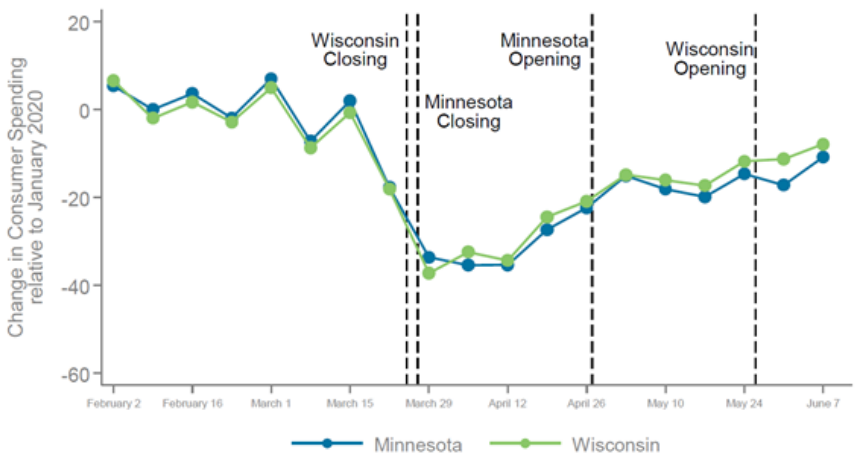
# A Tale of Three Policy Efforts

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

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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

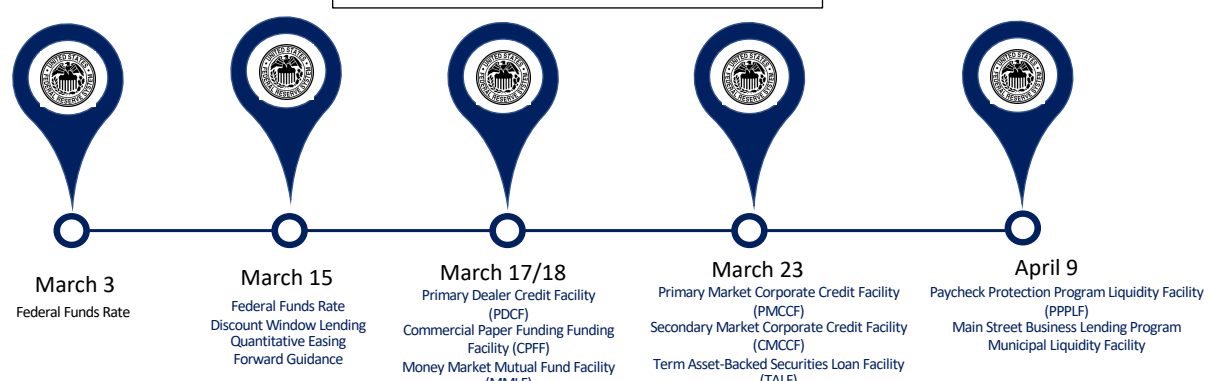


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## Monetary Policy – Federal Reserve – 2020

**Primary objectives:**

- Stabilize the economy
- Maintain liquidity of the system



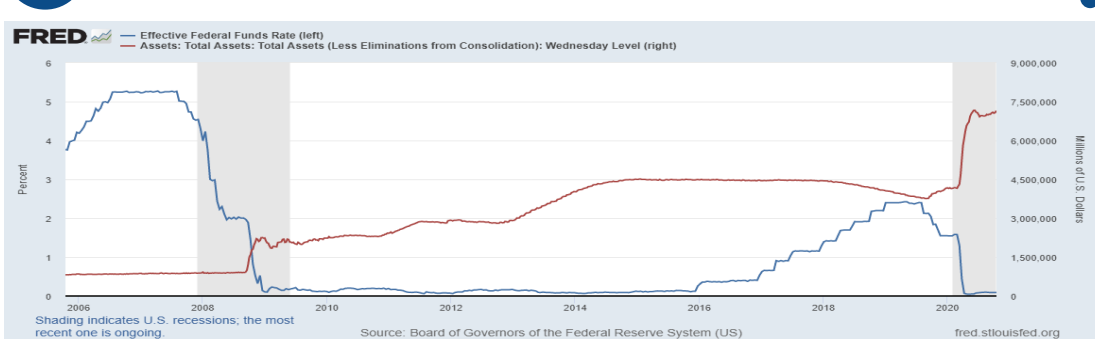
The timeline shows five key dates in 2020 with corresponding Federal Reserve actions:

- 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 Facility (CPFF), Money Market Mutual Fund Facility (MMLF)
- March 23:** Primary Market Corporate Credit Facility (PMCCF), Secondary Market Corporate Credit Facility (SMCCF), Term Asset-Backed Securities Loan Facility (TALF)
- April 9:** Paycheck Protection Program Liquidity Facility (PPPLF), Main Street Business Lending Program, Municipal Liquidity Facility

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## Federal Funds Rate and Balance Sheet



The chart displays two metrics over time from 2006 to 2020:

- Effective Federal Funds Rate (left axis, blue line):** Starts at approximately 5.25% in 2006, peaks at 5.5% in 2007, then drops sharply to near 0% by 2008. It remains at 0% until late 2019, when it rises to about 2.4% by early 2020, before dropping back to 0% in March 2020.
- Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level (right axis, red line):** Starts at approximately \$1.5 trillion in 2006, remains relatively flat until 2014, then rises to about \$4.5 trillion by 2018. In early 2020, it spikes dramatically to over \$7.5 trillion.

Shading indicates U.S. recessions; the most recent one is ongoing. Source: Board of Governors of the Federal Reserve System (US). fred.stlouisfed.org

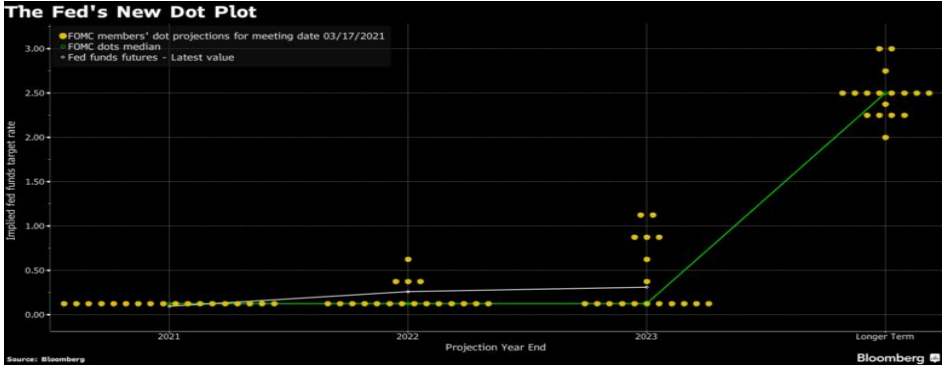
Monetary Policy acted quickly and effectively to prevent a financial market meltdown and keep credit flowing. But the Fed lends and does not spend; so there is a limited impact on spending.

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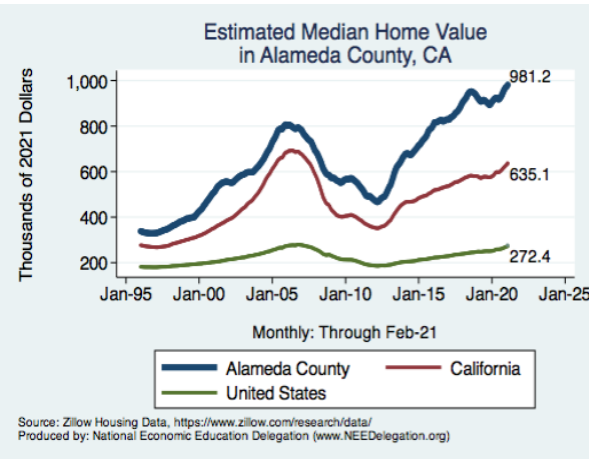
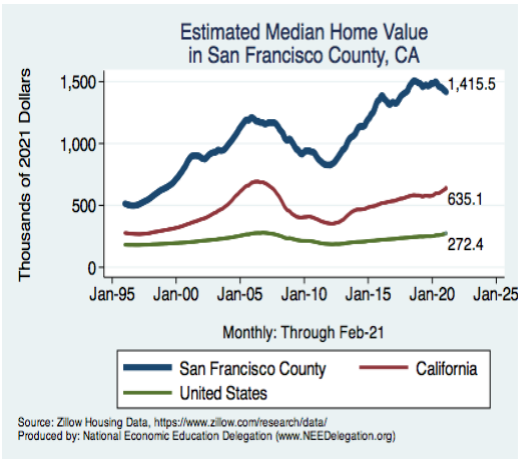
# Interest Rate Outlook



But longer term interest rates (10-yr Treasury bond rate) are already trending upward since Feb. 2021.

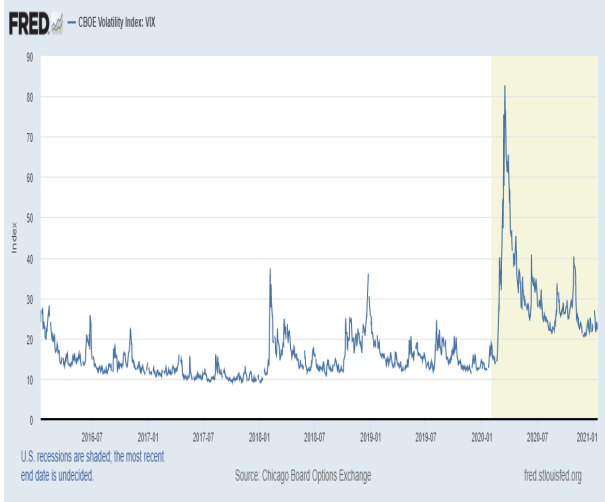
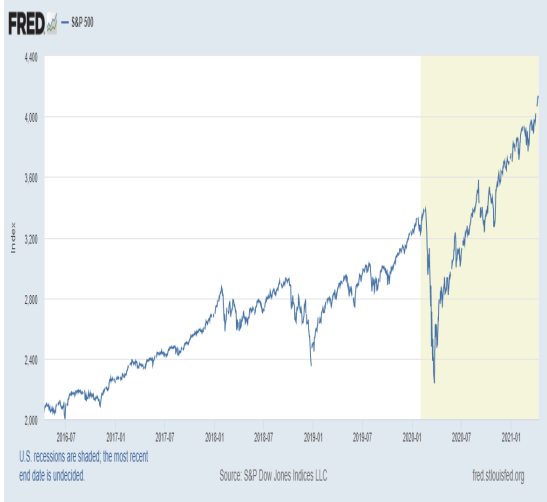
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# Local Housing Market

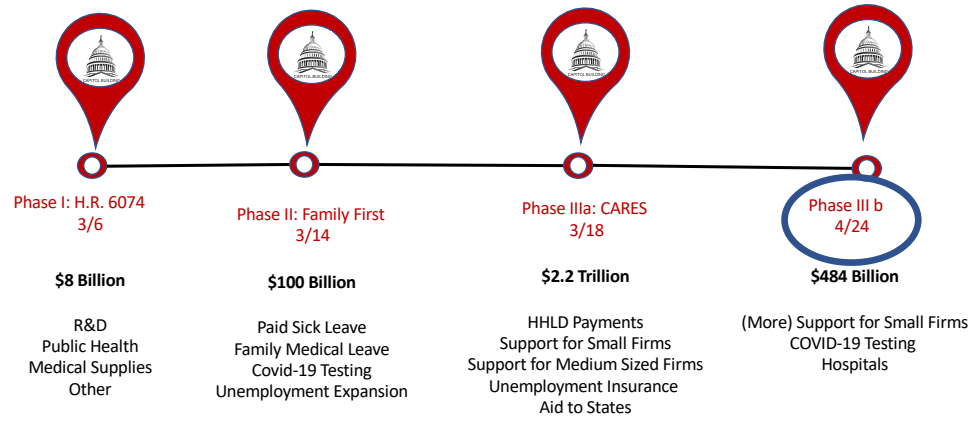


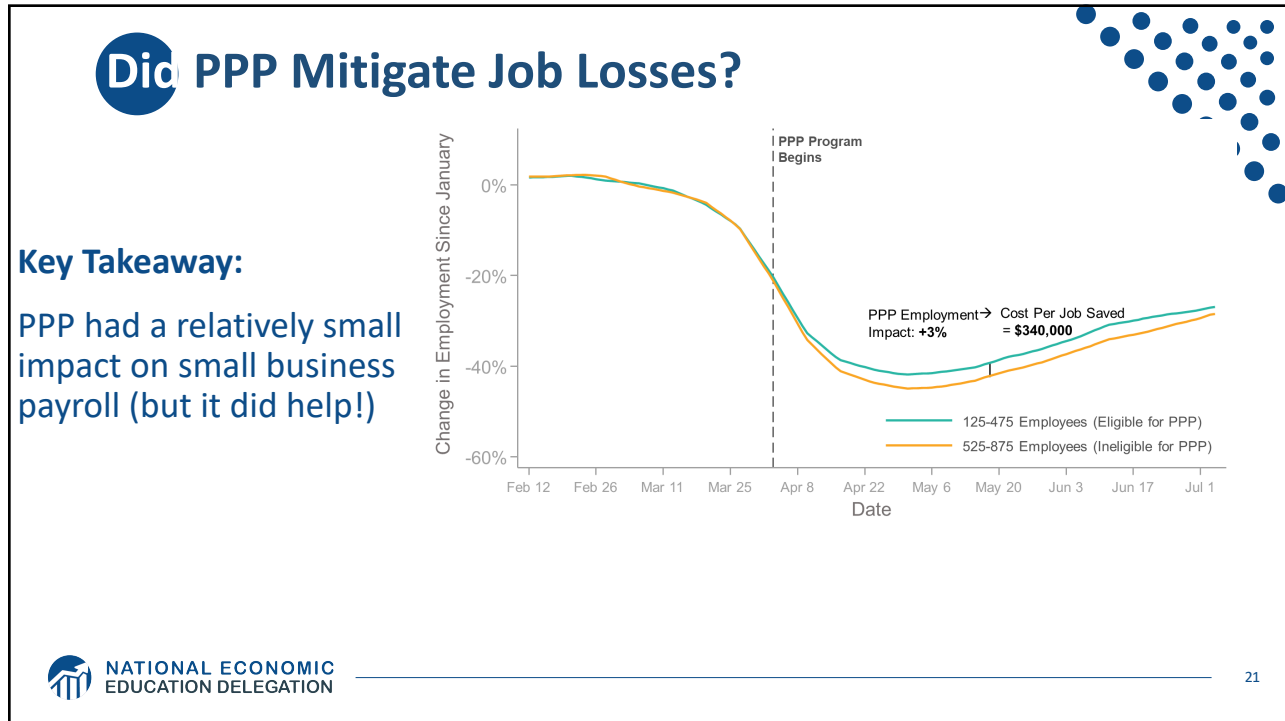
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# Stock Market Impact

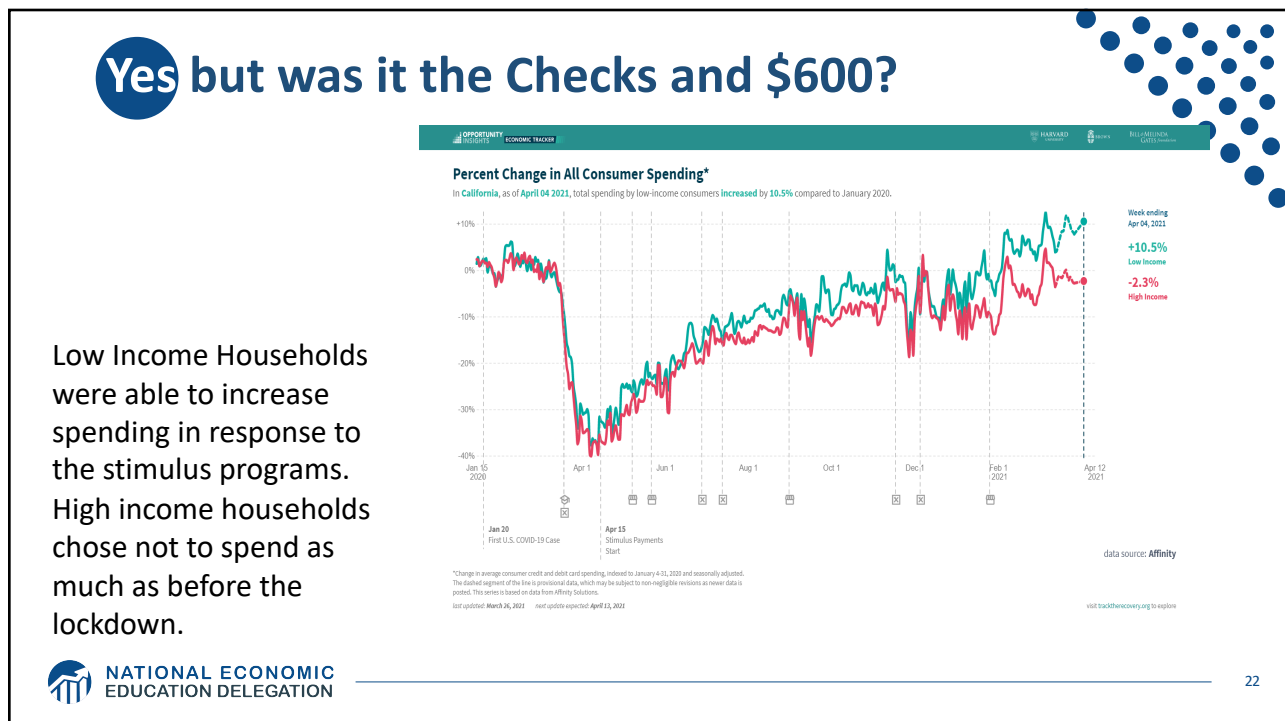


# Fiscal Policy Timeline – First Round



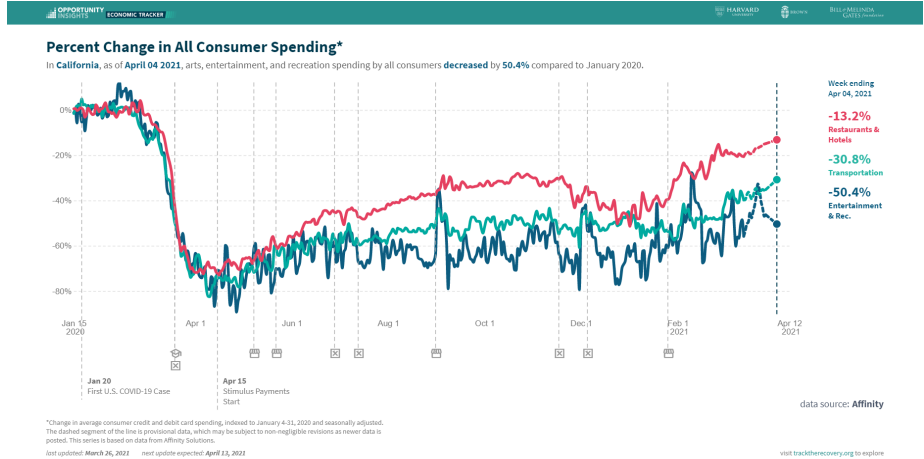


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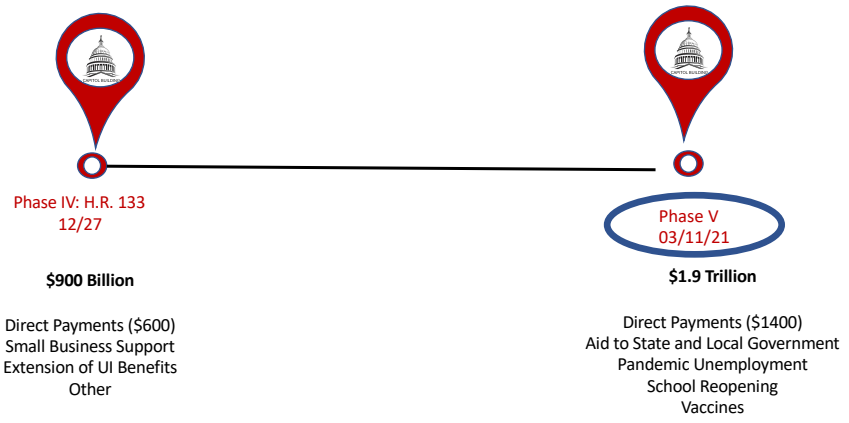


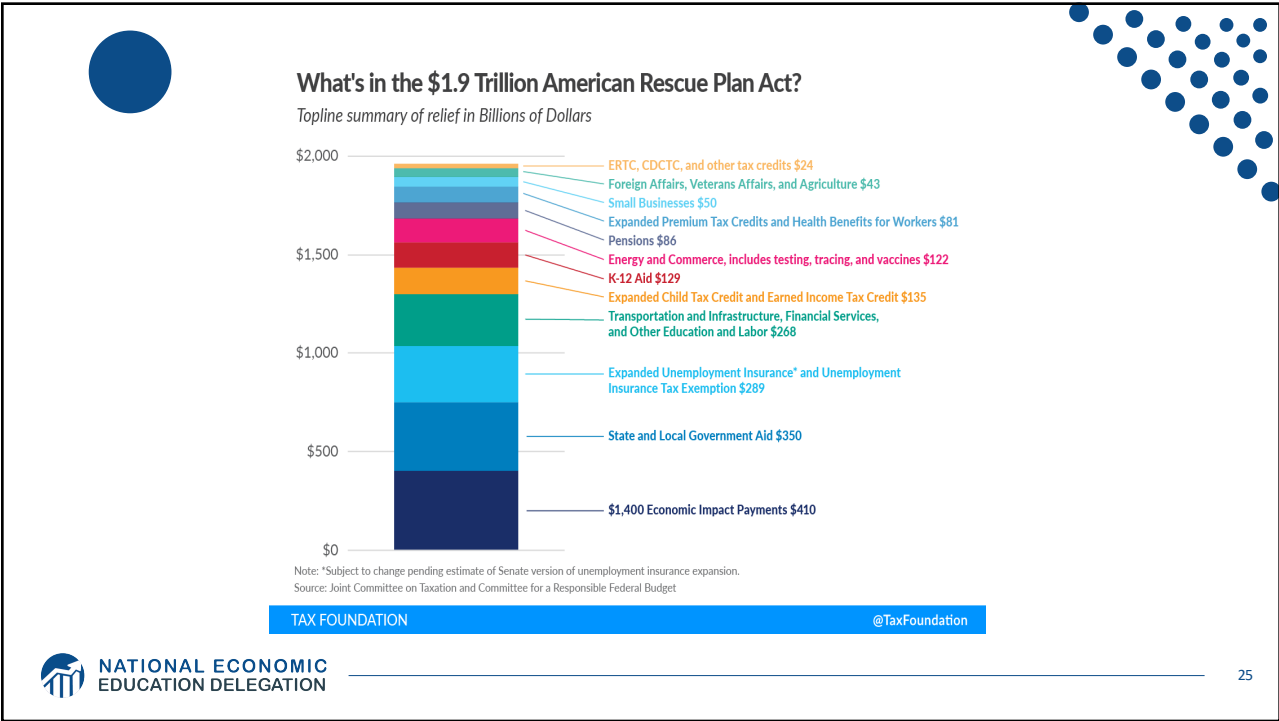
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# Hard Hit Sectors – uneven recovery among industries



# Fiscal Policy Timeline – Second and Third Round





### 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.

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## 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. Slight uptick in inflation (CPI rose 2.6% at annual rate in March 2021).
- **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



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## A "K-shaped" recovery?

### Executive Summary

- 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



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# What are the risks to recovery?

- 1. Continuation of the virus with mutations and insufficient vaccine roll-out (like 1918)
- 2. Lack of additional and appropriately targeted fiscal support to prevent debt default, evictions, and business failures (like 1929)
- 3. Damage to State and Local Budgets leading to cuts in jobs and discretionary spending (like 2009)

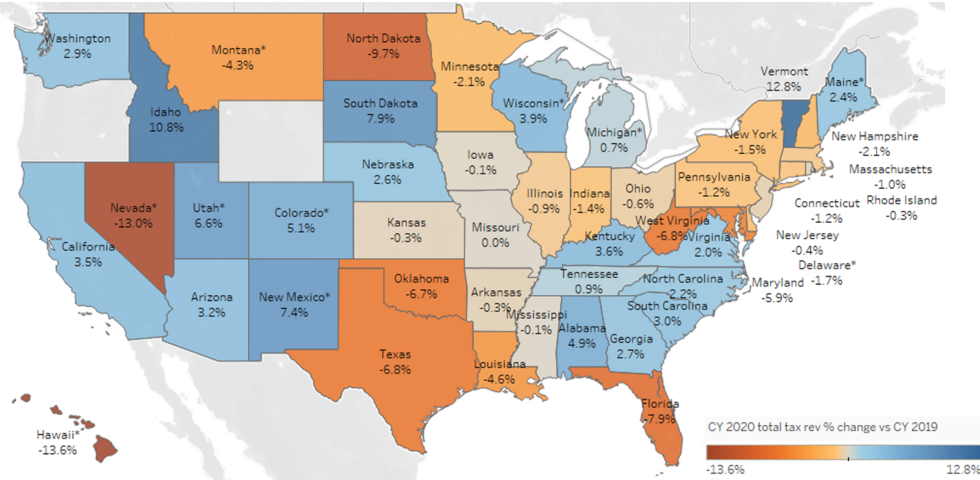
**Key Risk #1: Temporary economic downturn becoming permanent**

**Key Risk #2: An inequitable recovery**

**Both risks are directly addressed with the American Rescue Plan.**



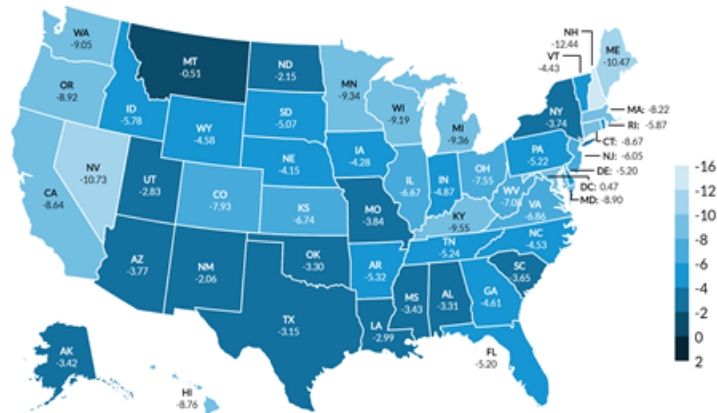
# 2020 State Tax Receipts Relative to 2019



<https://markets.jpmorgan.com/research/email/9oirrqaq/jA9jthJ33avL4Z96Lz3vA/GPS-3630418-0>

## Employment Losses Don't Match Revenue

PUBLIC  
State and local public employment, December 2020  
(percent change year over year, seasonally adjusted)



Source: Bureau of Labor Statistics via the State Economic Monitor

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## Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
  - With enormous built-in inequities.
- **GDP contracted 2.5% in 2020, much less than anticipated.**
  - Positive growth will return in 2021. Forecast: 5 – 7% for 2021.
- **Significant structural changes.**
  - Telecommuting, telehealth, retail decline, other business failures. Increased concentration of market power.
- **Policy gap and economic reallocations have created hardship.**
  - Hunger, evictions, foreclosures, additional deaths.
- **Long-term effects:** Educational opportunities, labor force participation changes, reallocations that require retraining, increasing inequality.
- **Wide agreement that an 'American Rescue Plan' is needed, but debate over the size of additional fiscal stimulus to 'building back better'.**

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**Thank you!**

# Any Questions?

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

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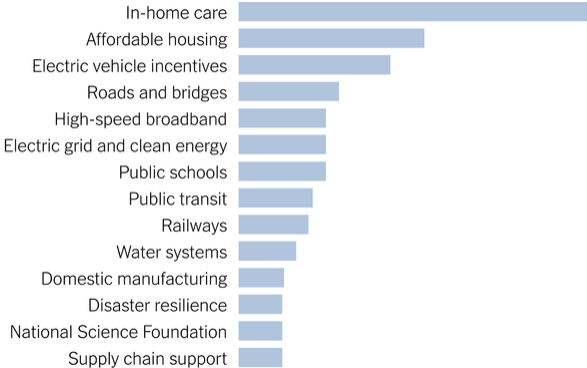
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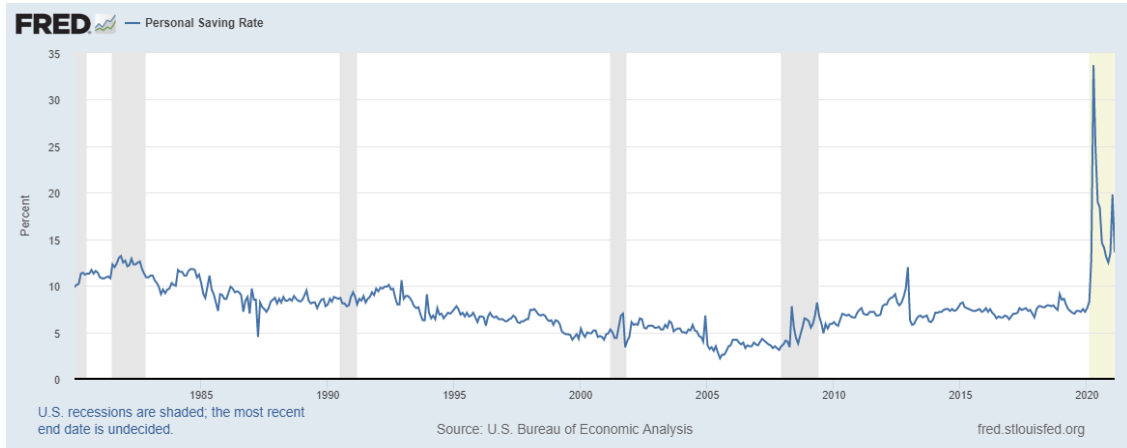
# President Biden’s Infrastructure Plan: \$2 Tr.



Source: New York Times, Mar. 31, 2021



## Personal Savings Rate – impact of Fiscal Policy



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## Causes for Optimism

- **There were no short-run macro problems at the start of the crisis**
  - The only obstacle to a quick recovery is damage that is being done while the pandemic continues (and the pandemic itself)
  - Main concern: temporary disruptions turning into permanent ones
- **Things are not as bad as they could be**
  - Federal Reserve prevented collapse in financial markets
  - Congress + White House prevented complete collapse in labor/productive markets; second and third rounds of stimulus will help
  - Aggregate household balance sheets in good position
- **Vaccine rollout should alleviate pressure on service industry**



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## Causes for Concern

- **Economic inequality is worsening**
  - Elevated/persistent unemployment + rising asset prices
  - Does not show up in aggregate data (problem of “averages”)
- **State/local governments may face deep budget shortfalls (13% of employment)**

<https://www.brookings.edu/events/the-covid-19-pandemic-and-state-local-budgets-past-present-and-future/>

  - Often the largest employers within a state
- **Eviction/foreclosure moratoria are shifting burdens to future as well as a drop in bankruptcies during the current recession**

## Gains by American Billionaires

**WEALTH OF U.S. BILLIONAIRES GROWS \$1.06 TRILLION (36%) IN 9 MONTHS**  
March 18, 2020 - December 7, 2020

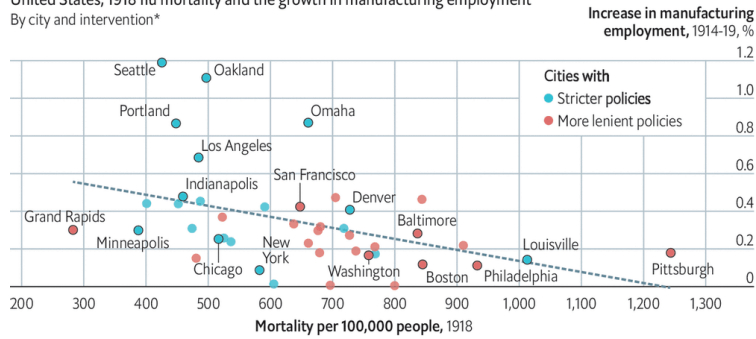
First Name	Net Worth Mar. 18, 2020 (\$ Billions)	Dec. 7 Real Time Worth (\$ Billions)	Wealth Growth, Mar. 18 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Mar. 18 to Dec. 7, 2020	Net Worth Feb. 8, 2019 (\$ Billions)	Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020	Source
Jeff Bezos	\$113.0	\$184.4	\$71.4	63.2%	\$131.0	\$53.4	40.8%	Amazon
Elon Musk	\$24.6	\$143.1	\$118.5	481.7%	\$22.3	\$120.8	541.7%	Tesla, SpaceX
Bill Gates	\$98.0	\$118.7	\$20.7	21.1%	\$96.5	\$22.2	23.0%	Microsoft
Mark Zuckerberg	\$54.7	\$104.8	\$50.1	91.7%	\$62.3	\$42.5	68.3%	Facebook
Warren Buffett	\$67.5	\$86.5	\$19.0	28.1%	\$82.5	\$4.0	4.8%	Berkshire Hathaway
Larry Ellison	\$59.0	\$82.0	\$23.0	38.9%	\$62.5	\$19.5	31.1%	Oracle
Larry Page	\$50.9	\$79.8	\$28.9	56.9%	\$50.8	\$29.0	57.2%	Google
Sergey Brin	\$49.1	\$77.6	\$28.5	58.0%	\$49.8	\$27.8	55.8%	Google
Steve Ballmer	\$52.7	\$72.9	\$20.2	38.4%	\$41.2	\$31.7	77.0%	Microsoft
Alice Walton	\$54.4	\$69.0	\$14.6	26.8%	\$44.4	\$24.6	55.4%	Walmart
Jim Walton	\$54.6	\$68.8	\$14.2	25.9%	\$44.6	\$24.2	54.2%	Walmart
Rob Walton	\$54.1	\$68.4	\$14.3	26.5%	\$44.3	\$24.1	54.5%	Walmart
MacKenzie Scott	\$36.0	\$58.8	\$22.8	66.2%	N/A	N/A	N/A	Amazon
Michael Bloomberg	\$48.0	\$54.9	\$6.9	14.4%	\$55.5	-\$0.6	-1.1%	Bloomberg LP
Phil Knight	\$29.5	\$52.1	\$22.6	76.5%	\$33.4	\$18.7	55.9%	Nike
<b>SUBTOTAL</b>	<b>\$846.1</b>	<b>\$1,322.8</b>	<b>\$476.7</b>	<b>56.3%</b>	<b>\$821.1</b>	<b>\$501.7</b>	<b>61.1%</b>	
<b>ALL OTHERS</b>	<b>\$2,101.4</b>	<b>\$2,689.0</b>	<b>\$587.6</b>	<b>28.0%</b>	<b>\$2,289.9</b>	<b>\$399.1</b>	<b>17.43%</b>	
<b>TOTAL</b>	<b>\$2,947.5</b>	<b>\$4,011.8</b>	<b>\$1,064.3</b>	<b>36.1%</b>	<b>\$3,111.0</b>	<b>\$900.8</b>	<b>29.0%</b>	

Sources: All data in table is from Forbes and available here. March 18, 2020 data: Forbes, "Forbes Publishes 34th Annual List Of Global Billionaires," March 18, 2020; Dec. 7, 2020 data: Forbes, "The World's Real-Time Billionaires: Today's Winners and Losers" accessed Dec. 8, 2020; Feb. 8, 2019 data: Forbes 2019 World's Billionaires.

# Public Health versus the Economy? Lives versus Livelihood?

## Necessary precautions

United States, 1918 flu mortality and the growth in manufacturing employment  
By city and intervention\*



Source: "Pandemics depress the economy, public health interventions do not: evidence from the 1918 flu" by S. Correia, S. Luck and E. Verner, 2020  
\*Non-pharmaceutical measures, e.g. social distancing, closing schools and churches, mandatory face masks

The Economist

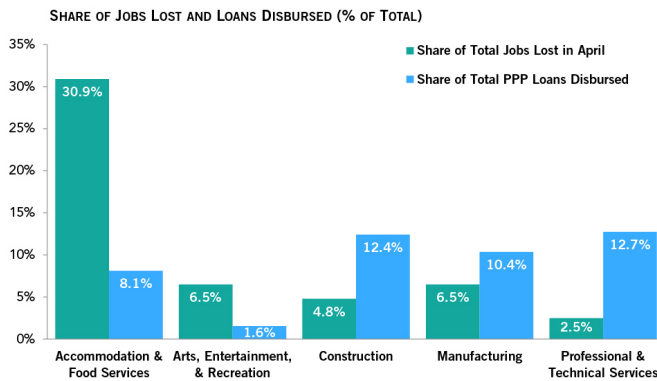


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# PPP Loans Didn't Go to the Right Firms



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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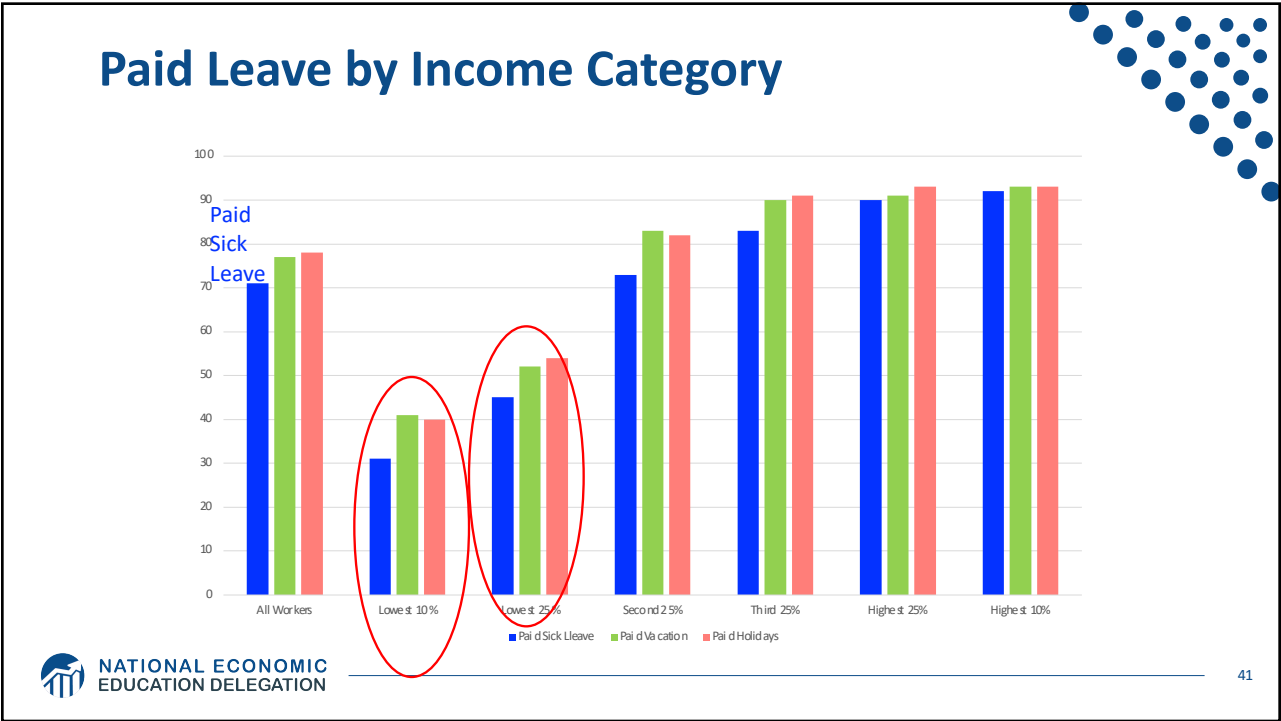
PGPF.ORG



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In addition, first round loans went disproportionately to predominantly white Congressional Districts  
*Bloomberg, 7/30*

Improvements to the program in the second stimulus bill



## Monetary Policy – Current State and Impact

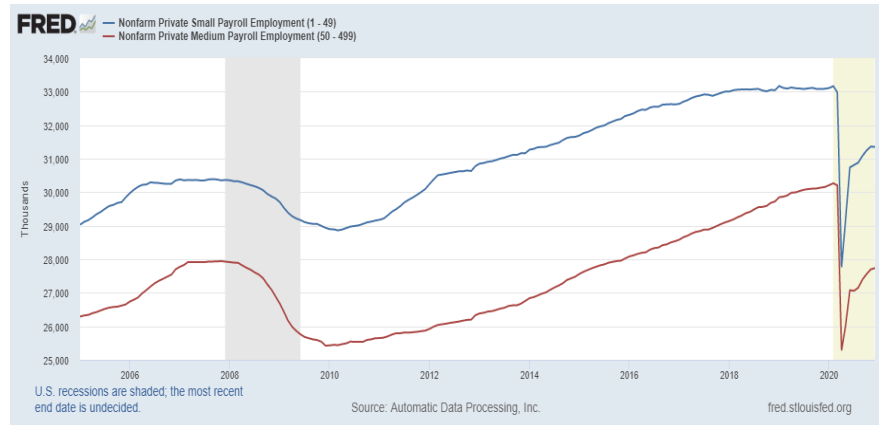
- **Fed Funds Rate at 0%** → newly issued debt very cheap
  - Good for borrowers
- **Balance Sheet grew from \$4T to \$7T**
  - Large volume of liquidity + few high yield, high quality savings vehicles → risky asset price bubbles
- **Forward Guidance: Keep FFR at ZLB until PCE inflation “at least 2%”**
  - High inflation + low nominal rates → negative real returns
  - Difficult period for fixed-income households

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.

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## Employment at Small Firms (40% of total jobs)

Between February and April 2020, net loss of 10.4m losses, by Dec. 2020 'only' 4.4m jobs lost.



## Three Measures of Unemployment?

- **None is a perfect measure:**

- Insured Unemployment
  - o Most accurate number because it is a numerical count.
  - o Administrative delays in processing claims and not all unemployed are eligible to collect
- Household Survey: 60,000 households
  - o Disruptions to survey
  - o Ambiguity of some of the classifications
  - o Survey are done mid-month
- Establishment Survey: 145,000 businesses about 700,000 employees
  - o Response rate fluctuated recently
  - o Survey done mid-month

# Making Sense of Unemployment Numbers

## Two Data Reports:

### 1. **Depart of Labor *Unemployment Insurance Weekly Claims***

- 1. Weekly, Thursdays at 8:30
- 2. Initial Claims
- 3. Continuing Claims or Insured Unemployment

### 2. **Bureau of Labor Statistics (BLS), *Employment Situation***

- 1. Monthly, First Fridays at 8:30. Surveys done midmonth
- 2. Household Survey: Unemployment Rate
- 3. Establishment Survey: New Jobs Created

## For Perspective on Numbers, as of 2/2020:

**Labor Force, 165m; Employed; 159m; Unemployed, 6m, or 3.5%**

**Total New Jobs added per month: round 225 thousand**

# Record Levels of Debt are Forecast

Percentage of Gross Domestic Product

