

COVID-19: Economic Implications and Policy Response

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Rotary Club 13, Kansas City, MO

Doris Geide-Stevenson, Ph.D.
Professor of Economics
Weber State University, Ogden, UT

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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:**

- Scott L. Baier, Clemson University
- Jon D. Haveman, NEED
- Geoffrey Woglom, Amherst College
- Doris Geide-Stevenson, Weber State University

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- 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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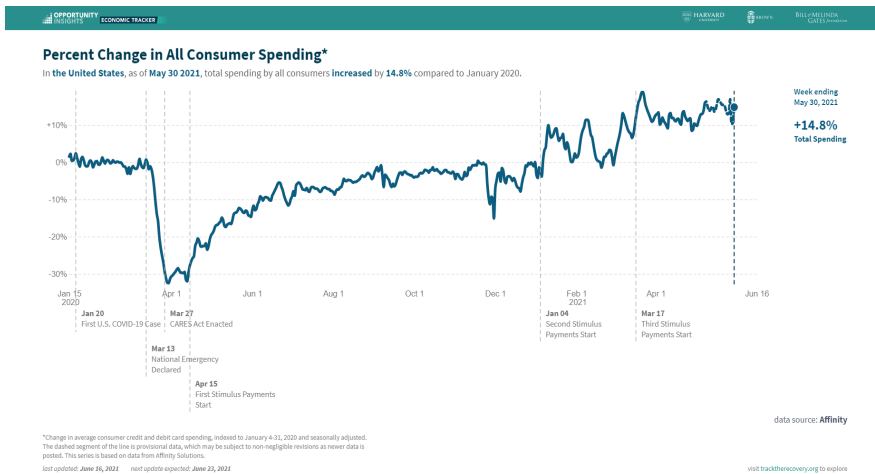
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Guiding Questions

- What is the current state of “the economy”?
- What have been the effects of policy?
- What kind of a recovery are we looking at?
- What about inflation?
- Is progress equitable?

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Spending Collapsed in March 2020

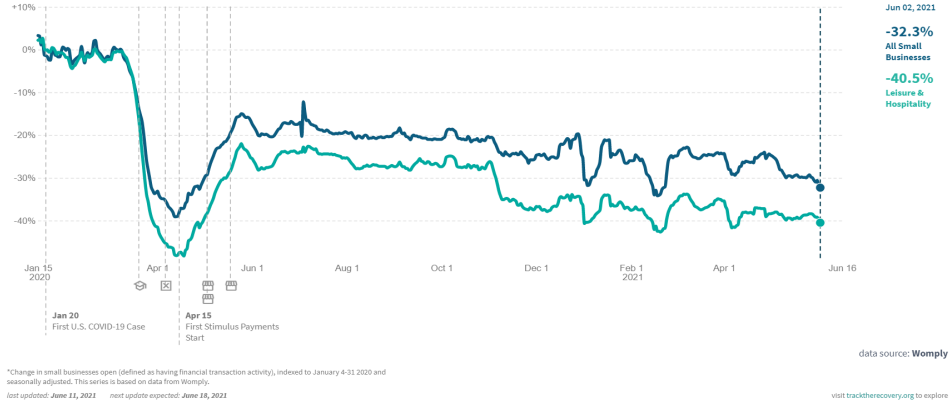


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Implications of Reduced Spending

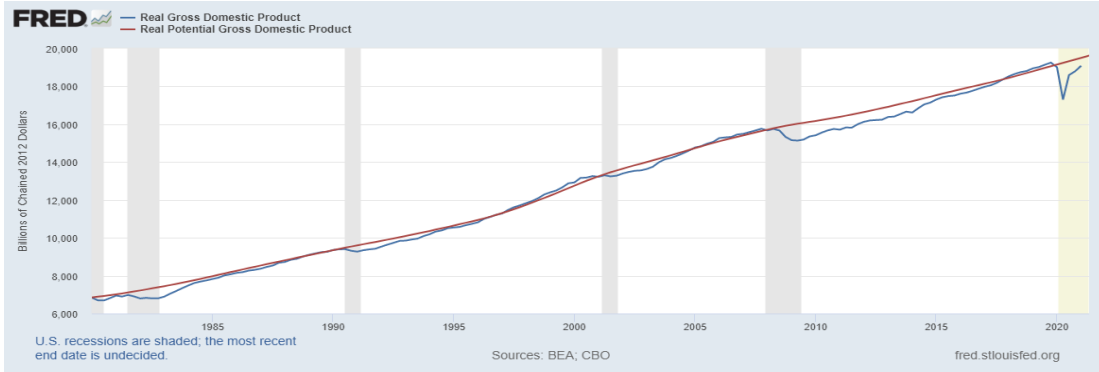
Percent Change in Number of Small Businesses Open*

In Missouri, as of June 02 2021, the number of small businesses open decreased by 32.3% compared to January 2020.



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Where are We ?

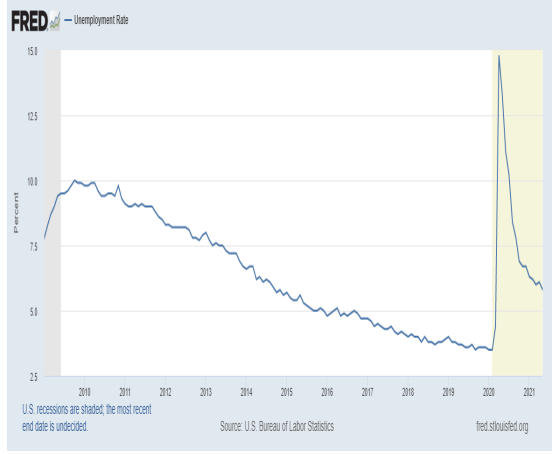
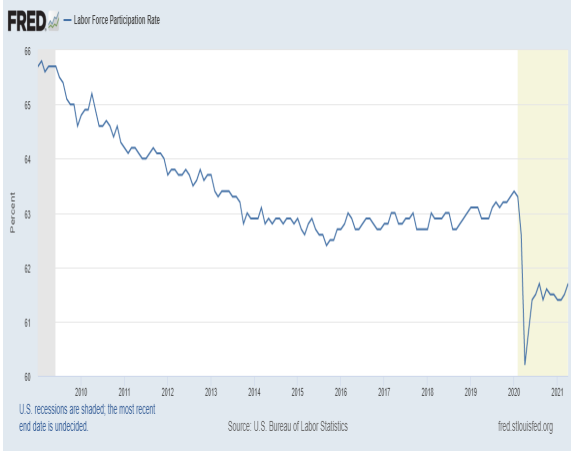


Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

Still a negative Output Gap compared to the start of the pandemic, but a quick recovery.

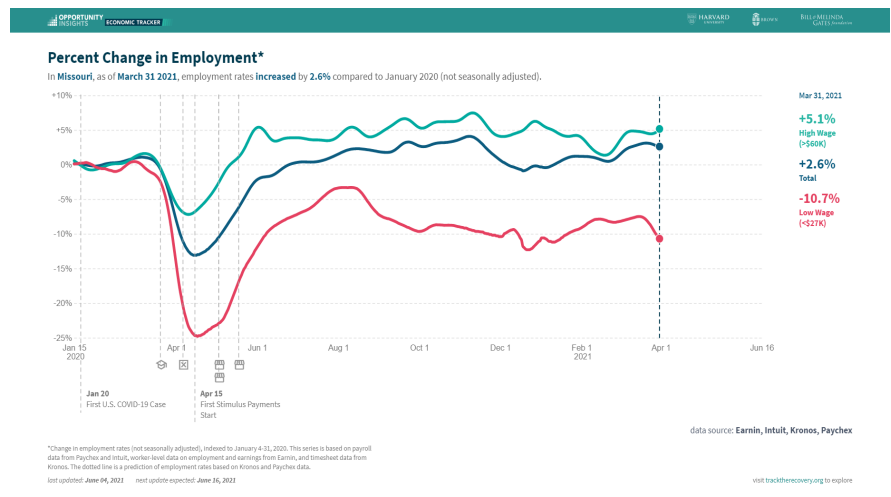
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What is going on with the labor market?



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Employment Rates by Income



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Where are we now? - Summary

- Household spending on goods and many services has recovered (+), but Entertainment and Recreation still slightly 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. (+/-)
- About 1/3 of small businesses have stopped operations (-)
- Unemployment rolls remain elevated and employment is below pre-pandemic levels (7 million fewer employed) (-)
- Many Americans – both men and women - have left the labor force (as of May 2021: All: 3.5 million, 1.7 million men and 1.95 million women) (-)



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A Tale of Three Policy Efforts

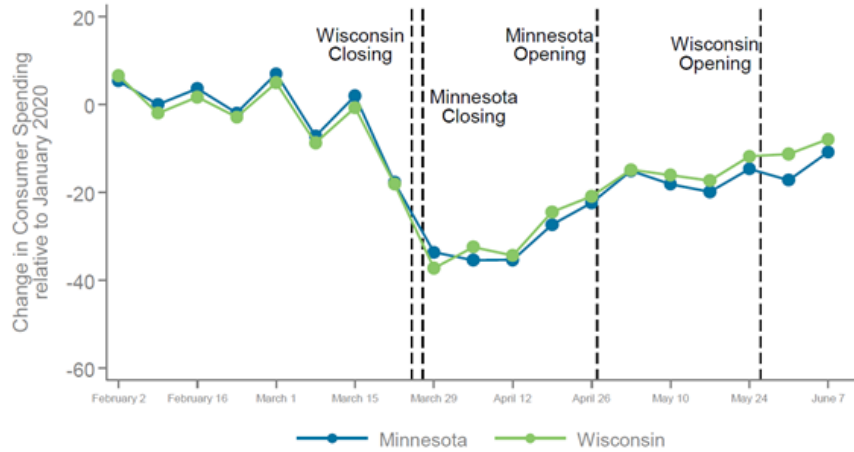
- **Social policy: Social Distancing**
- **Monetary Policy**
- **Fiscal Policy**



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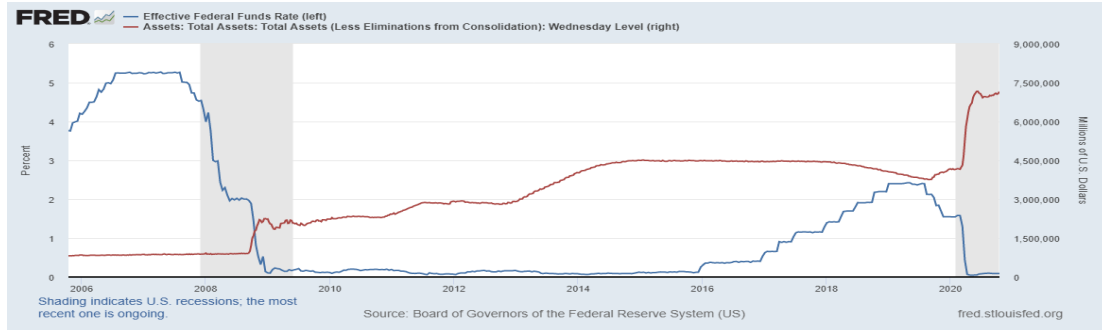
How impactful is government? – Social Policy

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



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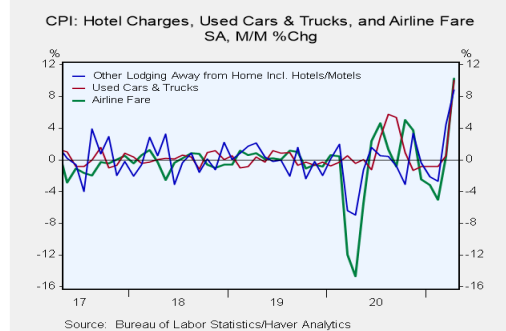
Federal Funds Rate and Balance Sheet



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.

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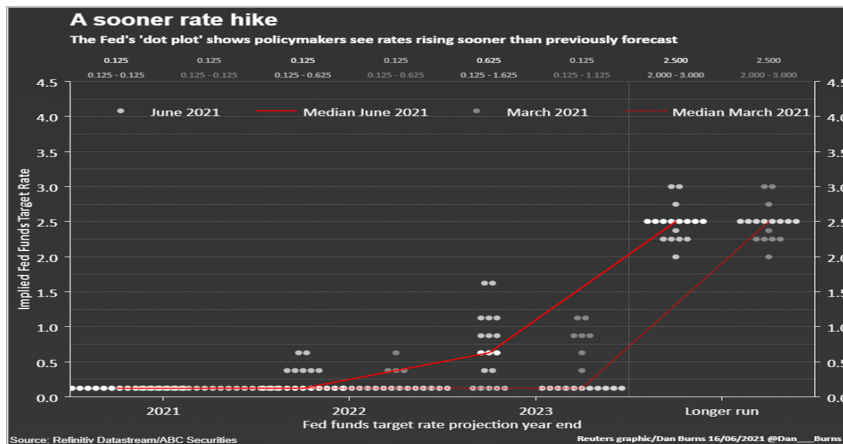
Inflation



Higher **temporary** inflation because of: 1. Base effect, 2. Pent-up demand for services, 3. Supply-chain disruptions. Current market measures of inflation expectations are 2.3 – 2.4% annually (close to Fed goal). Fed measure of inflation is below CPI measures – closer to 3% currently.

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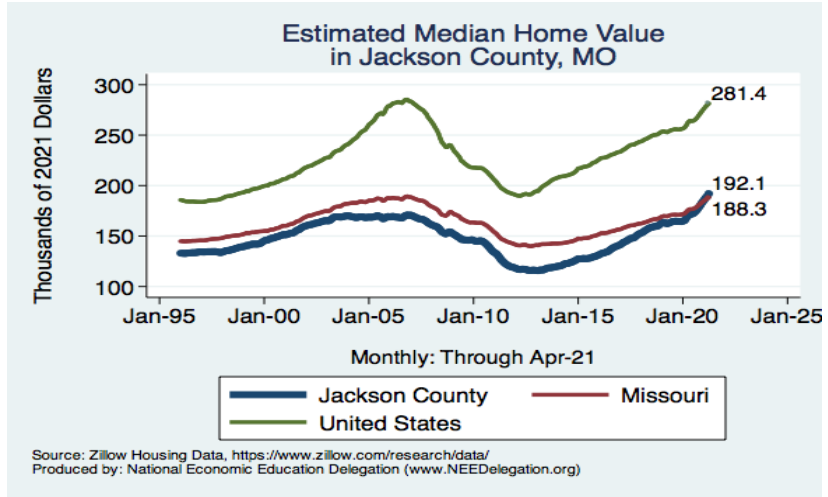
Interest Rate Outlook



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

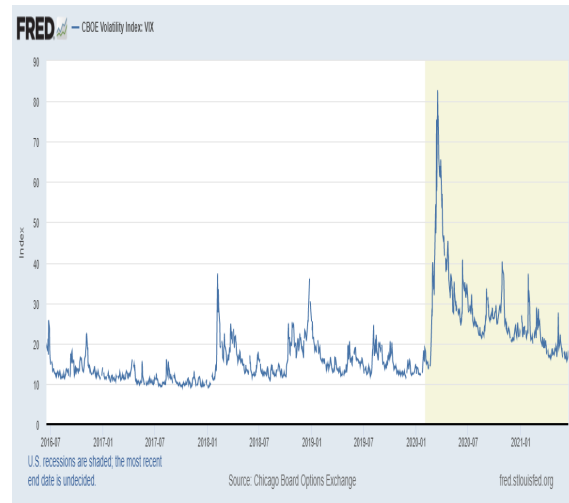
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Local Housing Market – Asset Market 1

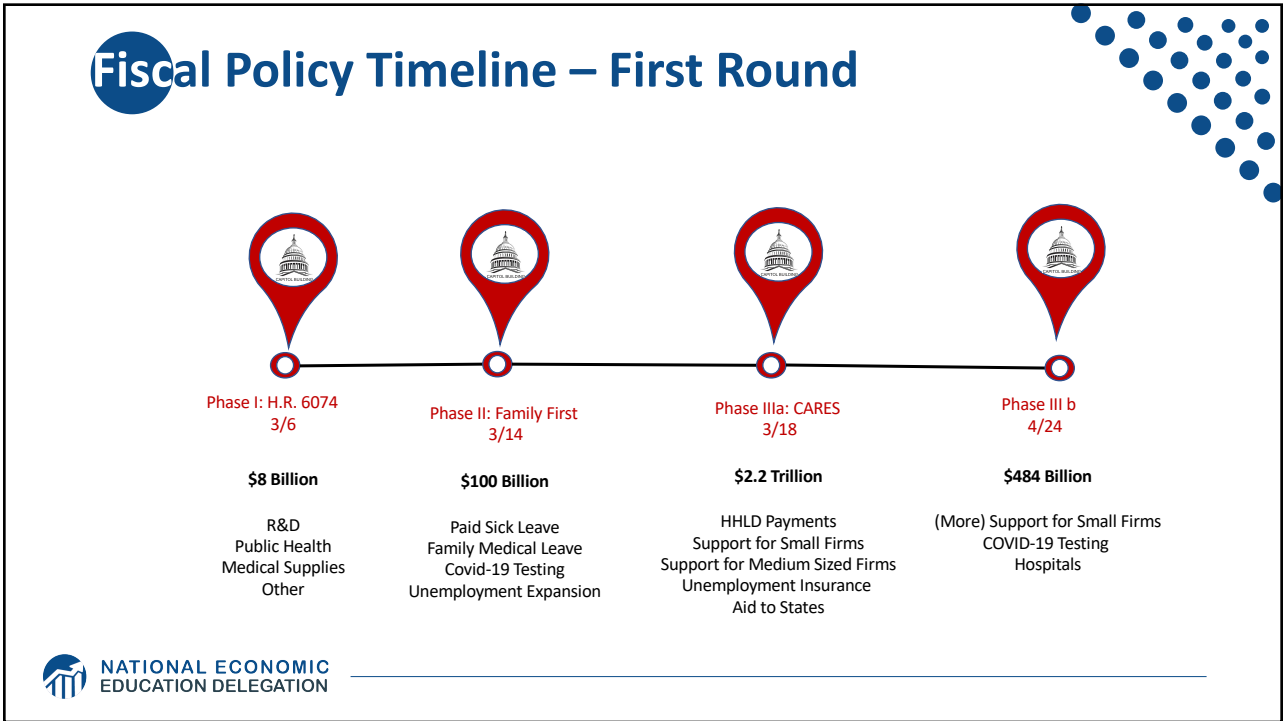


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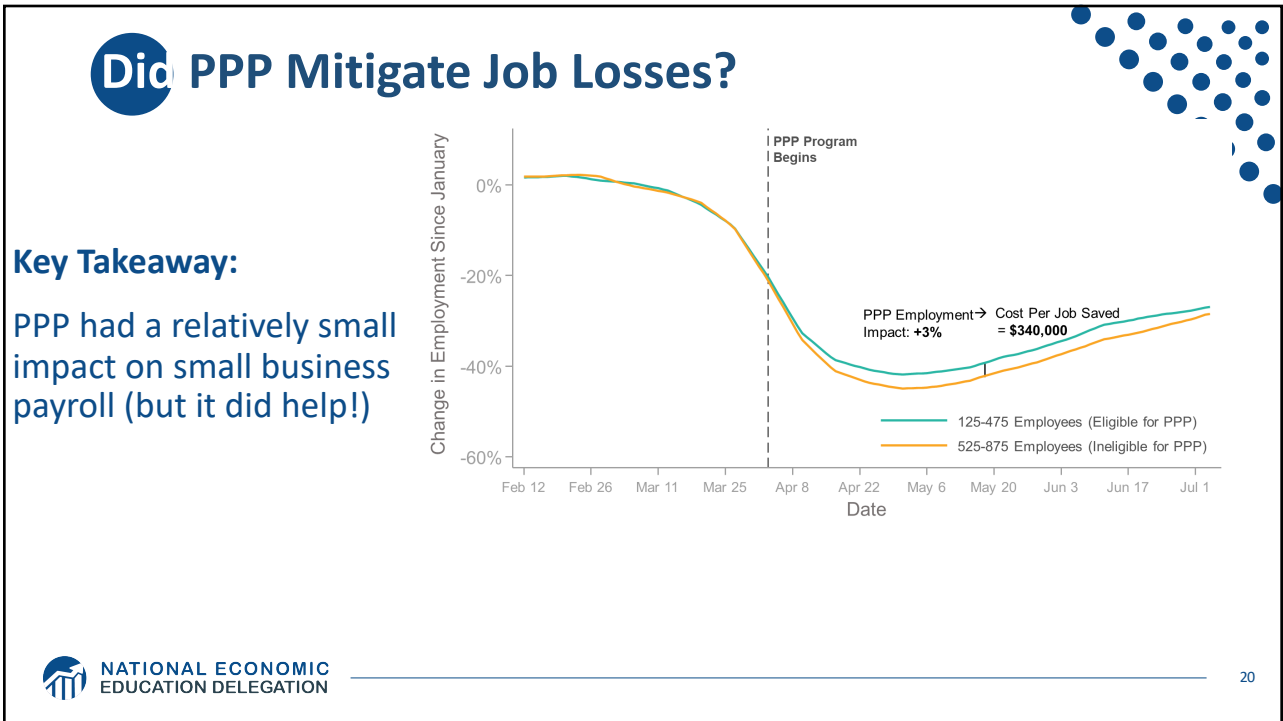
Stock Market Impact – Asset Market 2



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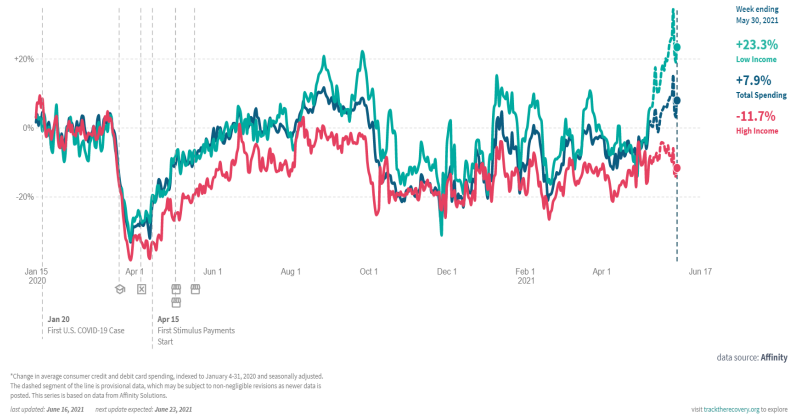
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Who is spending in Missouri?

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.

Percent Change in All Consumer Spending*

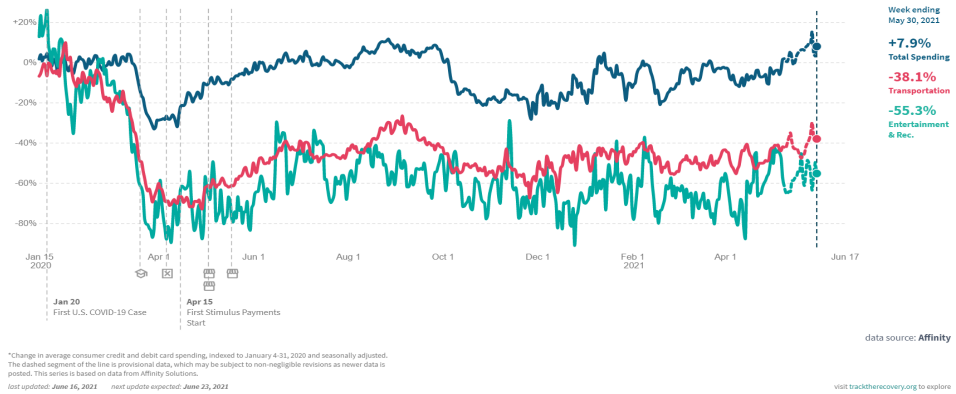
In Missouri, as of May 30 2021, total spending by all consumers increased by 7.9% compared to January 2020.

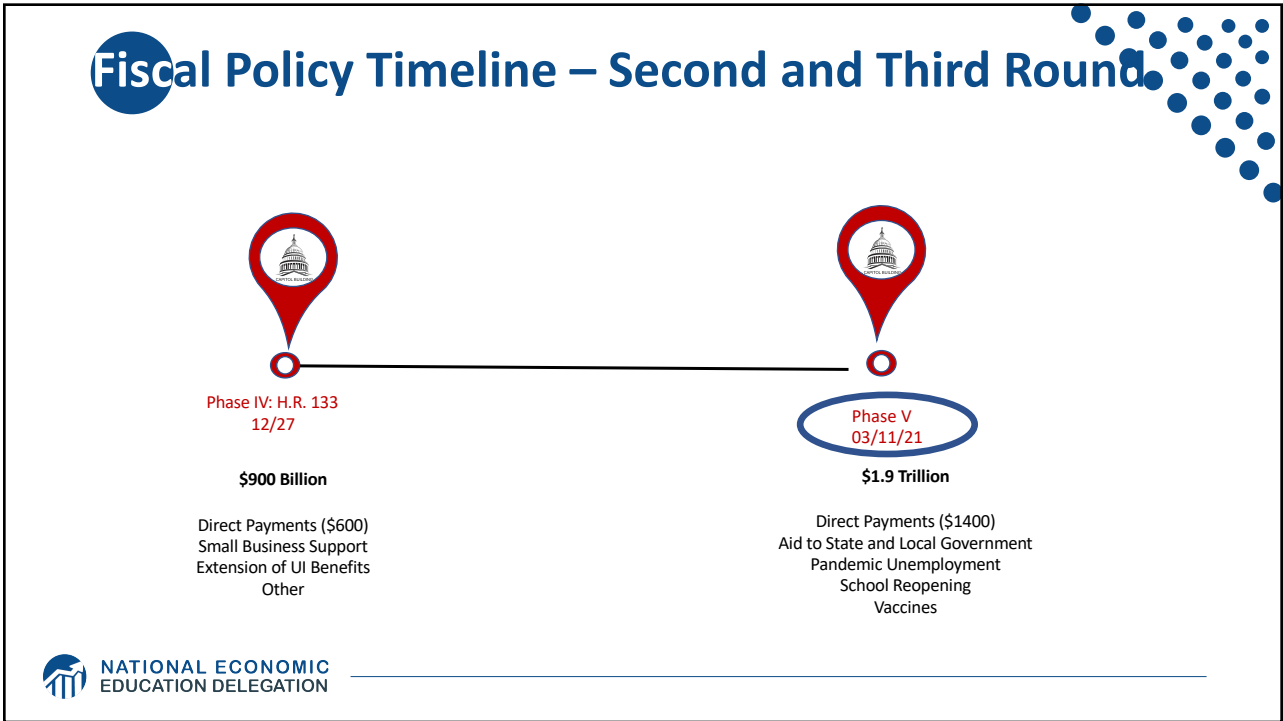


Hard Hit Sectors – uneven recovery among industries

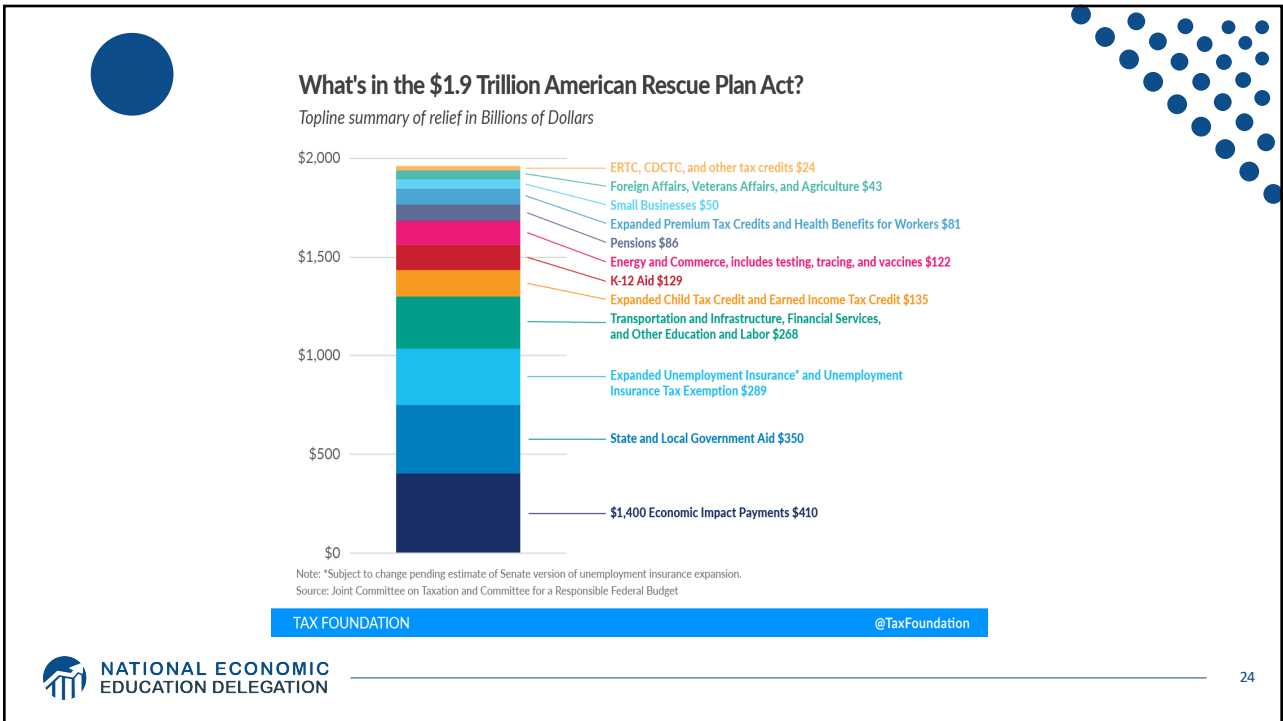
Percent Change in All Consumer Spending*

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Expected impact of the stimulus bill

- Updated expectations for U.S. economic growth: 5.95% - 7% Q42020 through Q42021 (WSJ survey/Oxford Economics/Fed)
- 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 (temporary) 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. Uptick in the CPI (5% in May 2021 likely transitory).
- **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 and middle income earners (>60k/yr) have largely kept their jobs; low income earners have depressed employment rates
- Women (with young kids) are disproportionately exiting labor force
- Specific industries (vaccine reliant) are hit particularly hard
- Little evidence that UI benefits are a major disincentive for



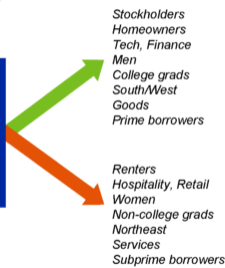
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K- Shaped Recovery

The K-Shaped Recovery

Inequality accelerating due to the pandemic

- Jobs
- Wealth
- Income
- Health
- Education



MOODY'S ANALYTICS



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Conclusion

- **COVID-19 is public 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: 6 – 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, long-term health challenges.
- **Wide agreement that the ‘American Rescue Plan’ was 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

Doris Geide-Stevenson
dgsteven@weber.edu

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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

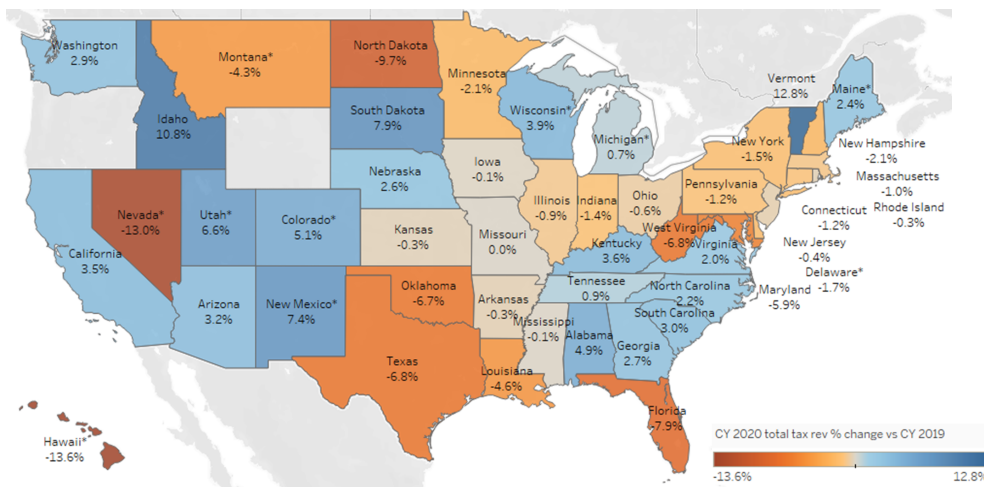
Key Risk #2: An inequitable recovery

Both risks are directly addressed with the American Rescue Plan.



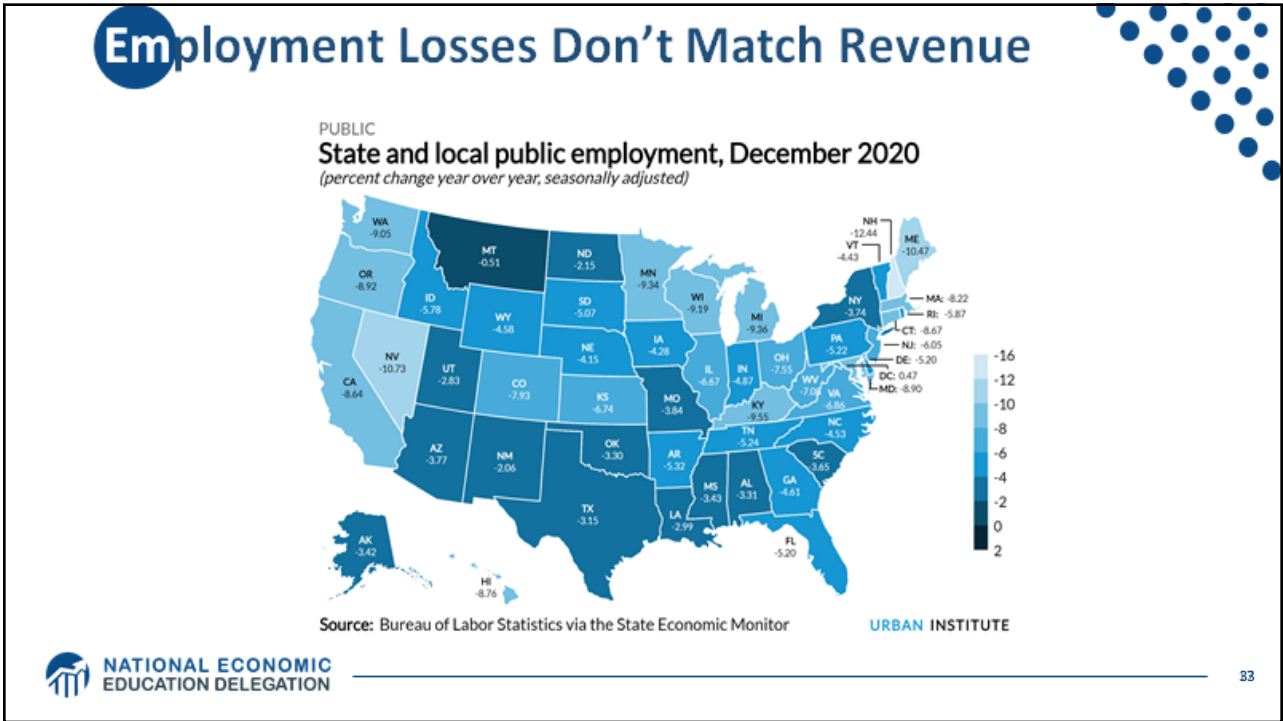
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2020 State Tax Receipts Relative to 2019

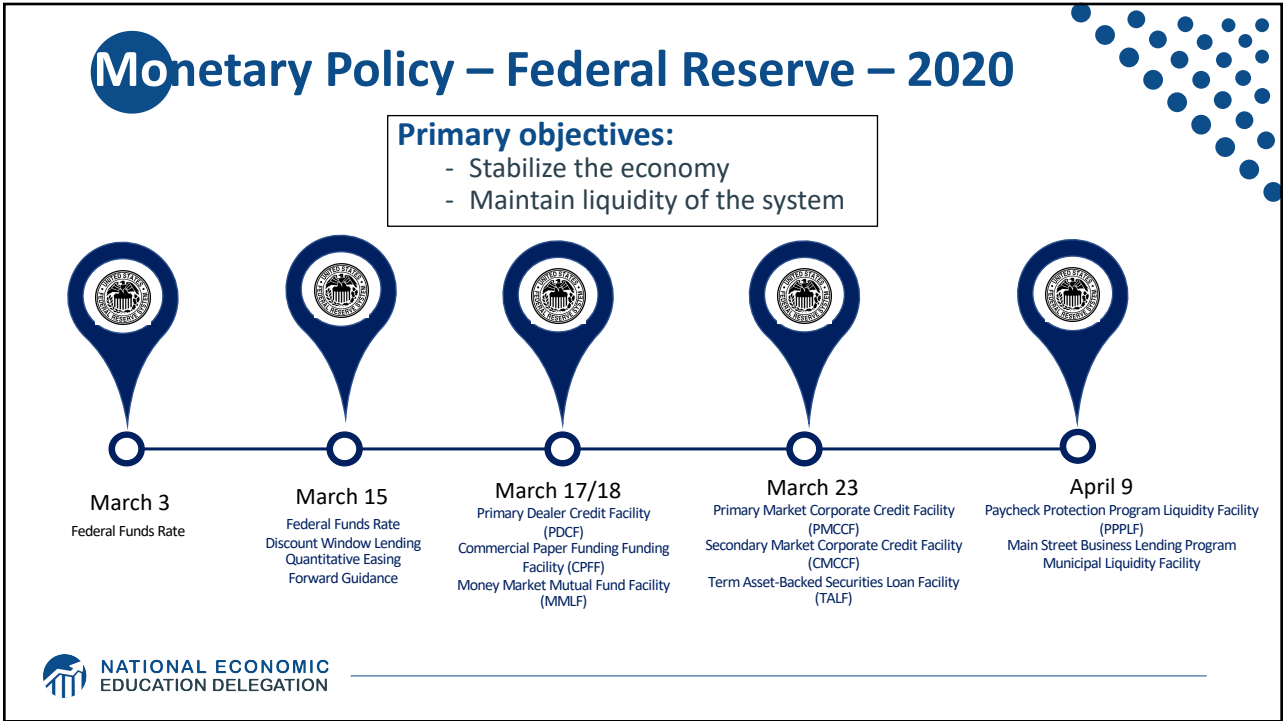


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<https://markets.jpmorgan.com/research/email/9oirrqa/jA9jthJ33avL4Z96Lz3vA/GPS-3630418-0>

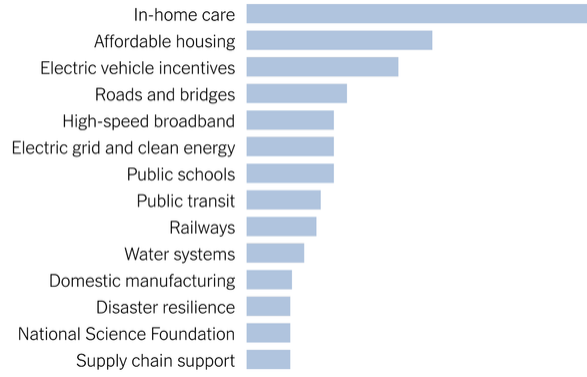


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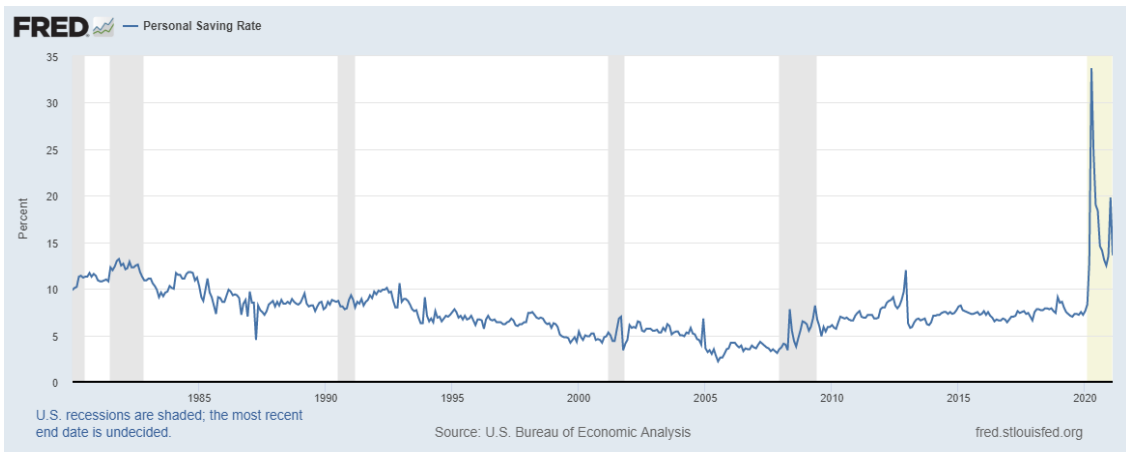
President Biden's Infrastructure Plan



Source: New York Times, Mar. 31, 2021

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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**



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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	\$87.5	\$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	28.8%	\$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	\$59.8	\$23.8	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
SUBTOTAL	\$846.1	\$1,322.8	\$476.7	56.3%	\$821.1	\$501.7	61.1%	
ALL OTHERS	\$2,101.4	\$2,689.0	\$587.6	28.0%	\$2,289.9	\$399.1	17.43%	
TOTAL	\$2,947.5	\$4,011.8	\$1,064.3	36.1%	\$3,111.0	\$900.8	29.0%	

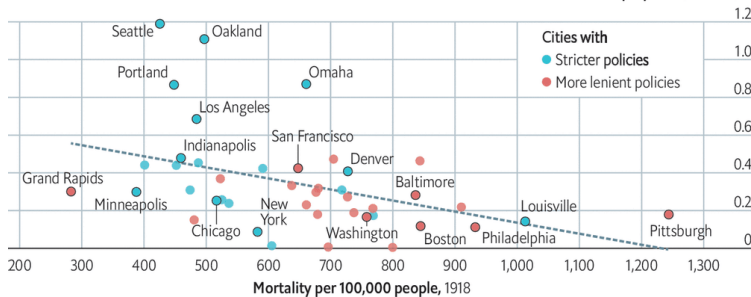
Sources: All data in table is from Forbes and available here. March 18, 2020 data: Forbes, "Forbes Publishes 34th Annual List Of Global Billionaires," March 18, 2020; Dec. 7, 2020 data: Forbes, "The World's Real-Time Billionaires: Today's Winners and Losers" accessed Dec. 9, 2020; Feb. 8, 2020 data: Forbes 2019 World

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*

Increase in manufacturing employment, 1914-19, %



Source: "Pandemics depress the economy, public health interventions do not: evidence from the 1918 flu" by S. Correia, S. Luck and E. Verner, 2020

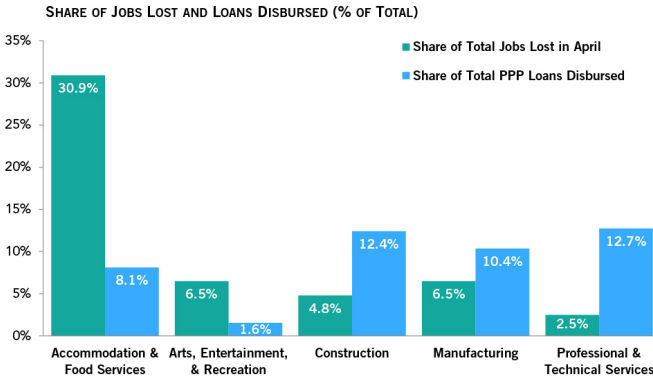
*Non-pharmaceutical measures, e.g. social distancing, closing schools and churches, mandatory face masks

The Economist

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.
© 2020 Peter G. Peterson Foundation PGPF.ORG

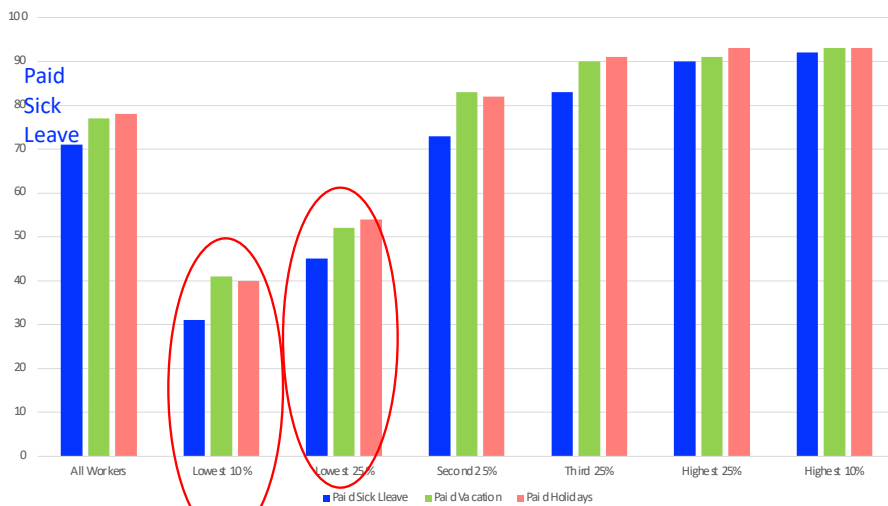
In addition, first round loans went disproportionately to predominantly white Congressional Districts
Bloomberg, 7/30

Improvements to the program in the second stimulus bill



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Paid Leave by Income Category



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Monetary Policy – Current State and Impact

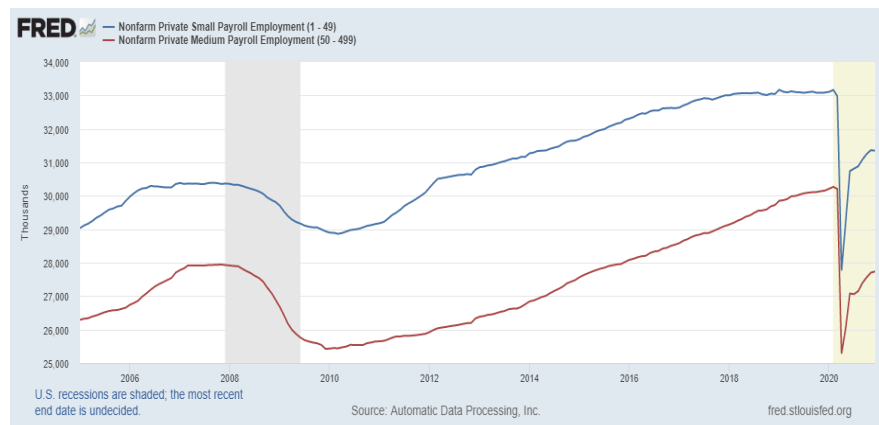
- **Fed Funds Rate at 0%** → newly issued debt very cheap
 - Good for borrowers
- **Balance Sheet grew from \$4T to \$7T**
 - Large volume of liquidity + few high yield, high quality savings vehicles → risky asset price bubbles
- **Forward Guidance: Keep FFR at ZLB until PCE inflation “at least 2%”**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



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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



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Making Sense of Unemployment Numbers

Two Data Reports:

1. **Department 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



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