



COVID-19: Economic Implications and Policy Response

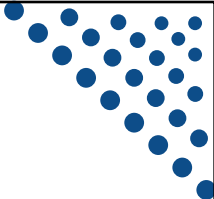
December 2nd, 2020
Rotary Club of Livermore, CA
Brian Dombeck
Assistant Professor of Economics
Lewis & Clark College | Portland, OR



NATIONAL ECONOMIC EDUCATION DELEGATION


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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 are intended to reflect the consensus of the economics profession.



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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



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Available NEED Topics Include:

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



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Credits and Disclaimer

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

- Brian Dombeck, Lewis & Clark College

- **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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Meeting the four-way test



THE FOUR-WAY TEST

of the things we think, say or do

1. Is it the TRUTH?
2. Is it FAIR to all concerned?
3. Will it build GOODWILL and BETTER FRIENDSHIPS?
4. Will it be BENEFICIAL to all concerned?



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Fishing Lessons

- **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)

- **Data Visualization and Coverage**

- Some examples at Tableau



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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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Where are we now?

Executive Summary

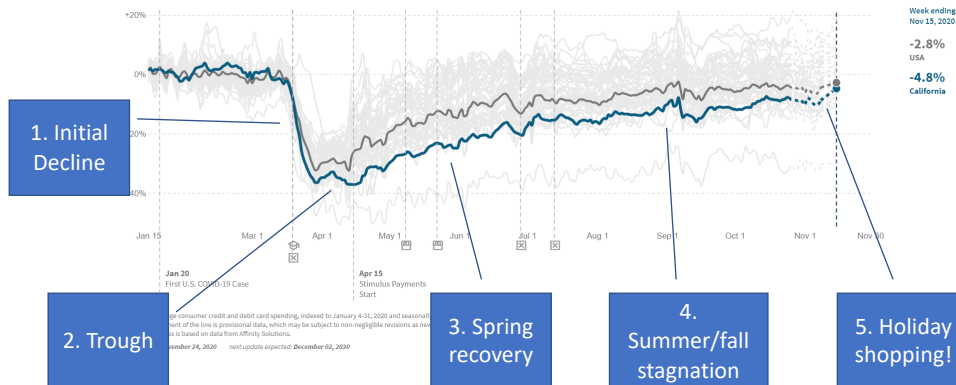
- Consumer spending on goods has largely recovered, but spending on many services is far below pre pandemic levels
- About 1/3 of small businesses have stopped operations
- Unemployment rolls have remained significantly
- Many Americans – especially women - have left the labor force

Spending Patterns Since First US Case

OPPORTUNITY INSTITUTES ECONOMIC TRACKER HARVARD BUSINESS SCHOOL

Percent Change in All Consumer Spending*

In California, as of November 15 2020, total spending by all consumers decreased by 4.8% compared to January 2020.



1. Initial Decline

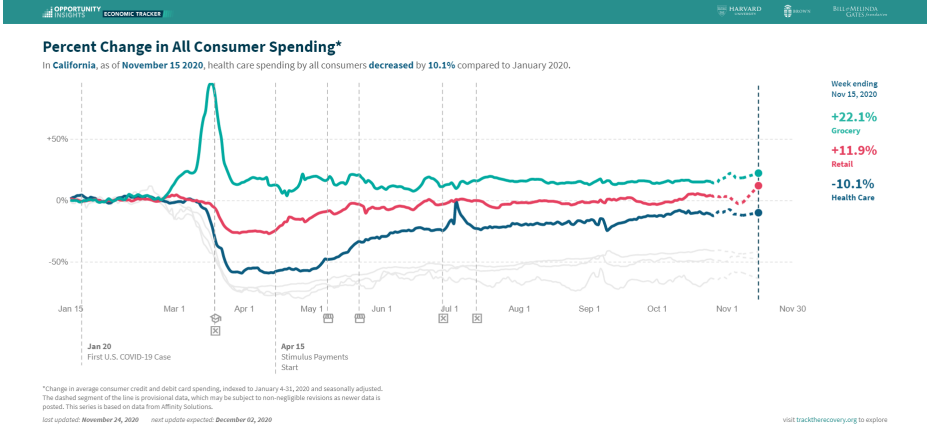
2. Trough

3. Spring recovery

4. Summer/fall stagnation

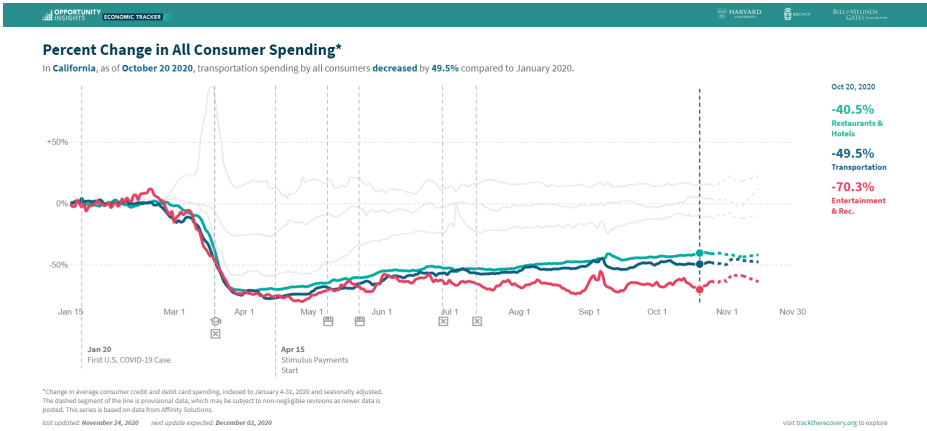
5. Holiday shopping!

Spending Patterns Since First US Case



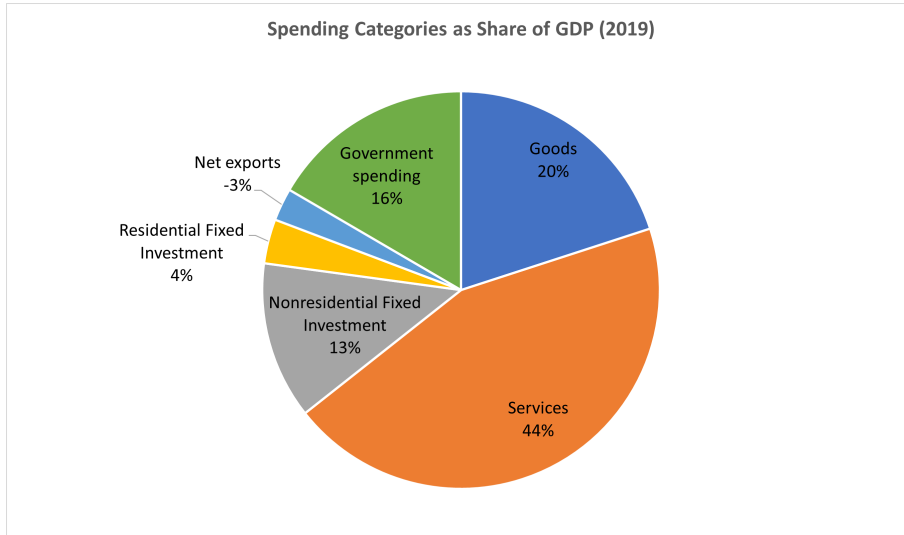
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Spending Patterns Since First US Case



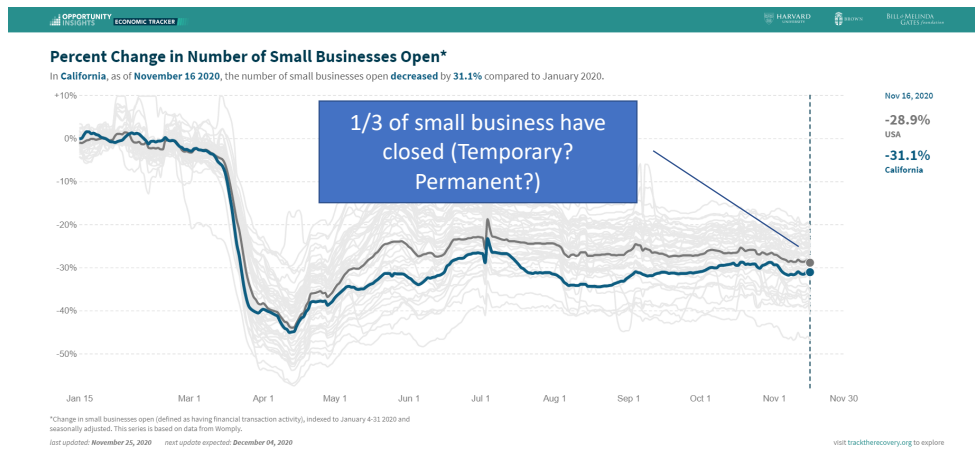
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Why does spending matter?



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Implications of Reduced Spending



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Implications of Reduced Spending: Continued Claims (Regular state program)

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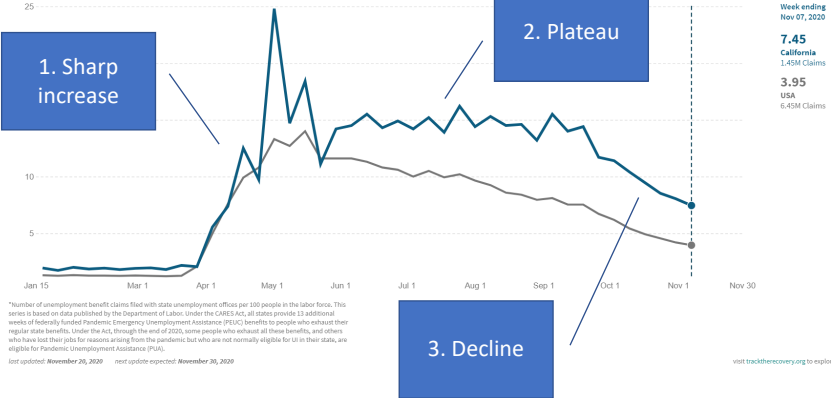
HARVARD

DATA

THE MITCHELL CENTER

Current Unemployment Claims per 100 People*

In California, as of November 07 2020, there were 7.45 continued claims for regular unemployment benefits per 100 people in the labor force.



Implications of Reduced Spending: Continued Claims (Federal PEUC)

OPPORTUNITY ECONOMICS TRACKER

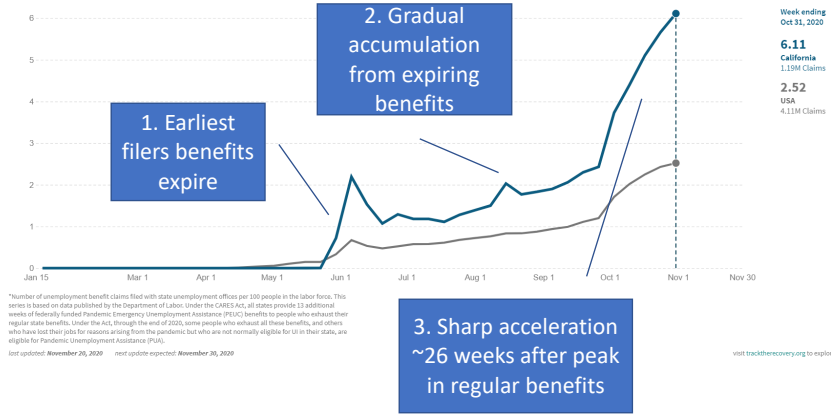
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DATA

THE MITCHELL CENTER

Current Unemployment Claims per 100 People*

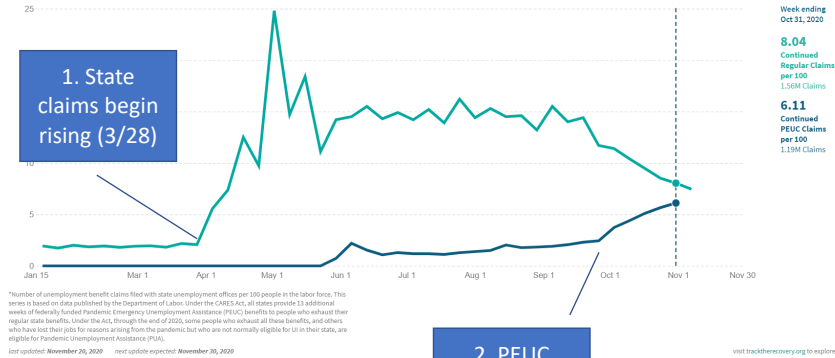
In California, as of October 31 2020, there were 6.11 continued claims for Pandemic Emergency Unemployment Compensation (PEUC) benefits per 100 people in the labor force.



Implications of Reduced Spending: Regular and PEUC claims

Current Unemployment Claims per 100 People*

In California, as of October 31 2020, there were 6.11 continued claims for Pandemic Emergency Unemployment Compensation (PEUC) benefits per 100 people in the labor force.



*Number of unemployment benefit claims filed with state unemployment offices per 100 people in the labor force. This series is based on data published by the Department of Labor. Under the CARES Act, all states provide 13 additional weeks of federally funded Pandemic Emergency Unemployment Assistance (PEUC) benefits to people who exhaust their regular state benefits. Under the Act, through the end of 2020, some people who exhaust all these benefits, and others who have lost their jobs for reasons arising from the pandemic but who are not normally eligible for UI in their state, are eligible for Pandemic Unemployment Assistance (PUA).
last updated: November 20, 2020 next update expected: November 20, 2020

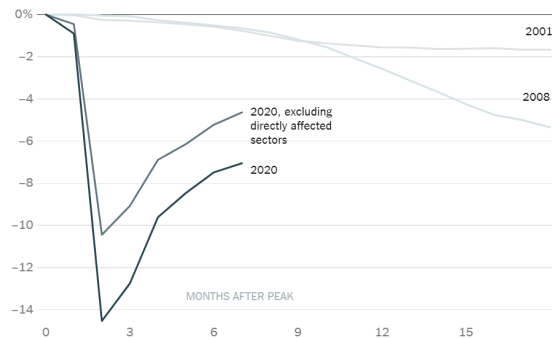
visit tracktherecovery.org to explore

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Comparison to other recessions

Pandemic Job Losses Are Worse Than in Past Recessions

Even excluding directly affected sectors like hotels and restaurants.



Directly affected sectors include air transport; leisure and hospitality; and education - Source: Bureau of Labor Statistics - The New York Times

How the Job Losses Compare

Many types of employers not directly affected by the pandemic have cut jobs at rates similar to those seen in other deep recessions.

Industry	Covid Recession (2020)	Great Recession (2008-2009)
Temporary help services	-16	-31
Printing and related activities	-12	-15
Advertising and related services	-10	-11
Heavy and civil engineering construction	-8	-16
Automobile dealers	-7	-18
Membership associations and organizations	-5	0
Truck transportation	-5	-11
Publishing industries, except internet	-5	-11
Management of companies and enterprises	-4	-1
Real estate	-3	-5
Computer systems design and related services	-3	0
Offices of physicians	-3	2
Telecommunications	-3	-6
Accounting and bookkeeping	-2	-6

Source: Bureau of Labor Statistics - The New York Times

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What's been done? Did it work?

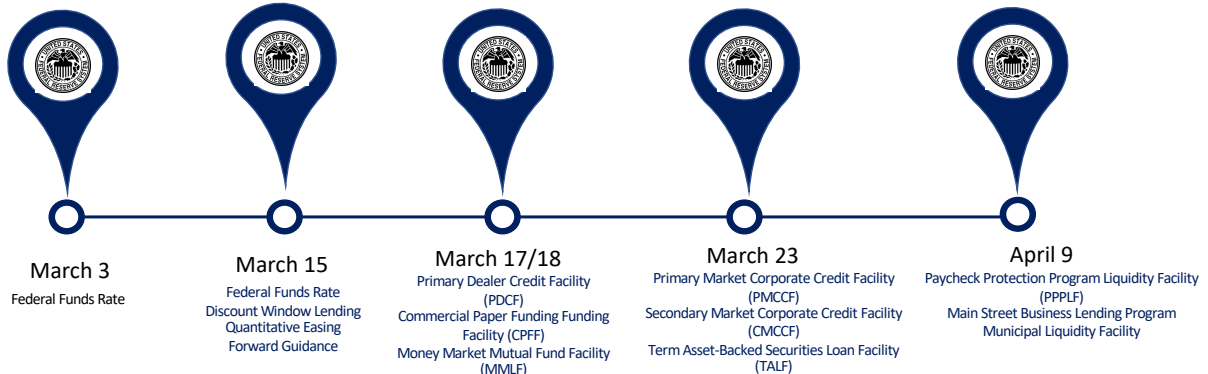
Executive Summary:

- The Federal Reserve made credit cheap and provided liquidity to ensure credit markets continued functioning
- Congress/White House sent checks to households, expanded unemployment benefits, and created paycheck protection program for businesses
 - Checks and UB were massively effective in boosting both saving and spending
 - Expanded UB did not have disincentive effect (on average)
 - PPP worked but had a very low ROI
- There has been *no action* since spring

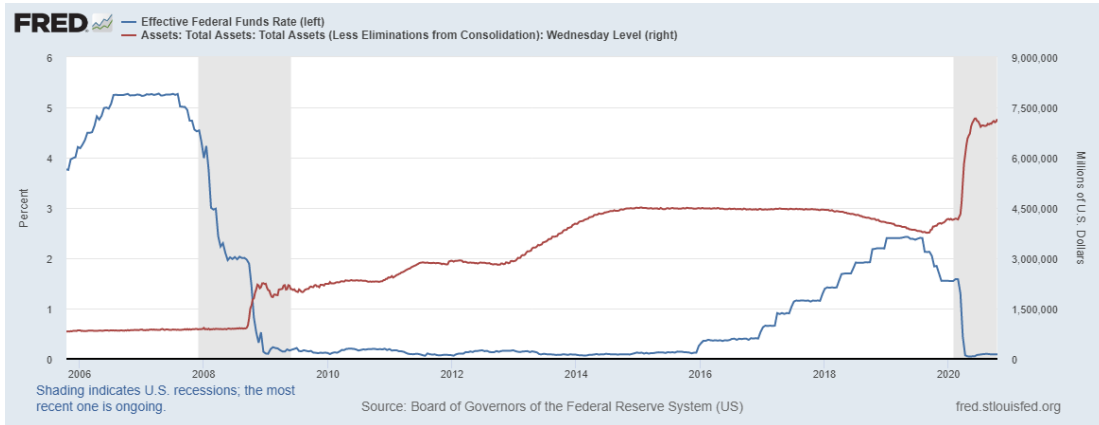
Monetary Policy – Federal Reserve

Primary objectives:

- Stabilize the economy
- Maintain liquidity of the system



Federal Funds Rate and Balance Sheet



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Monetary Policy – Current State and Impact

- **Fed Funds Rate at 0% → newly issued debt very cheap**
 - Good for borrowers: mortgages, corporate paper, Treasuries
 - Not so good for savers: must accept more risk to get similar rewards as before
- **Balance Sheet grew from \$4T to \$7T**
 - Large volume of liquidity + few quality savings vehicles → 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

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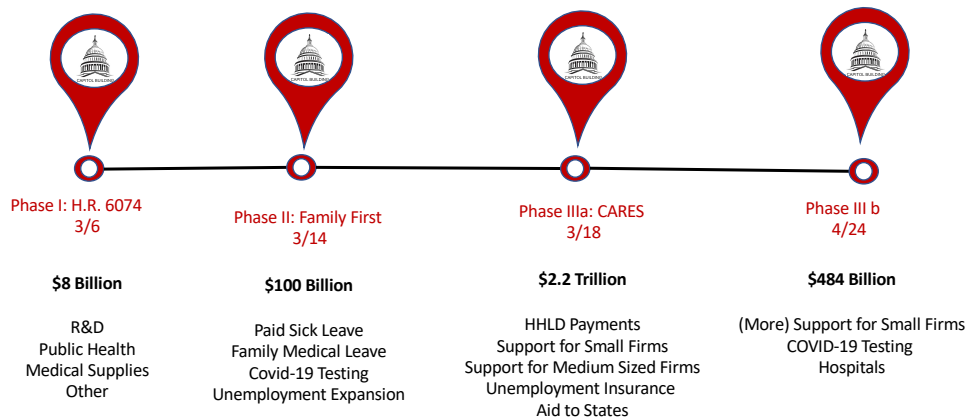
Fiscal and Monetary Policy Responses

- The Federal Reserve acted quickly to prevent a financial market meltdown and keep credit flowing.
 - But the Fed lends and does not spend...
 - ... and Treasury has requested Fed return emergency funds by end of year

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Fiscal Policy – Congress and the White House

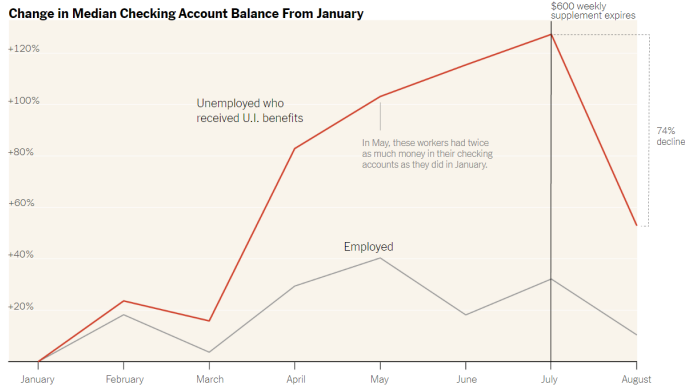
Primary objectives:
- To do what is “best”



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Did \$1200 checks and \$600 PUC create buffer?

Change in Median Checking Account Balance From January



Note: End of month balances. The analysis only includes the unemployed who received unemployment insurance benefits through direct deposit. Households with multiple checking accounts are added together.
Source: JPMorgan Chase Institute

Key Takeaways:

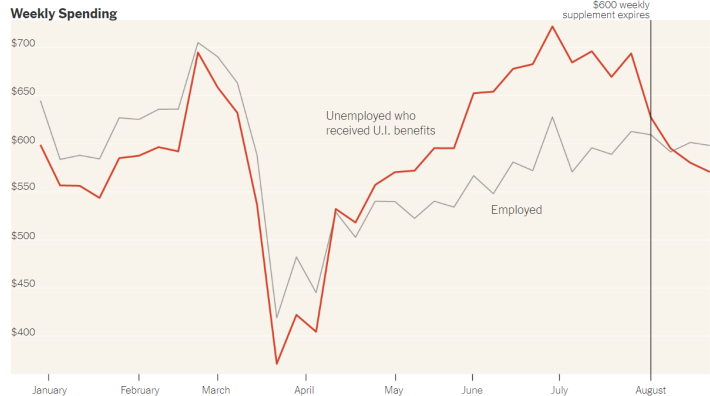
1. \$1200 checks + \$600 PUC allowed households to build cash buffer
2. Expiration of \$600 PUC caused sharp decline in balances of unemployed relative to employed

Did \$1200 checks and \$600 PUC induce spending?

Key Takeaways:

1. \$1200 checks + \$600 PUC allowed all households to spend similar to pre-COVID level
2. Expiration of \$600 PUC caused sharp decline in spending for unemployed relative to employed

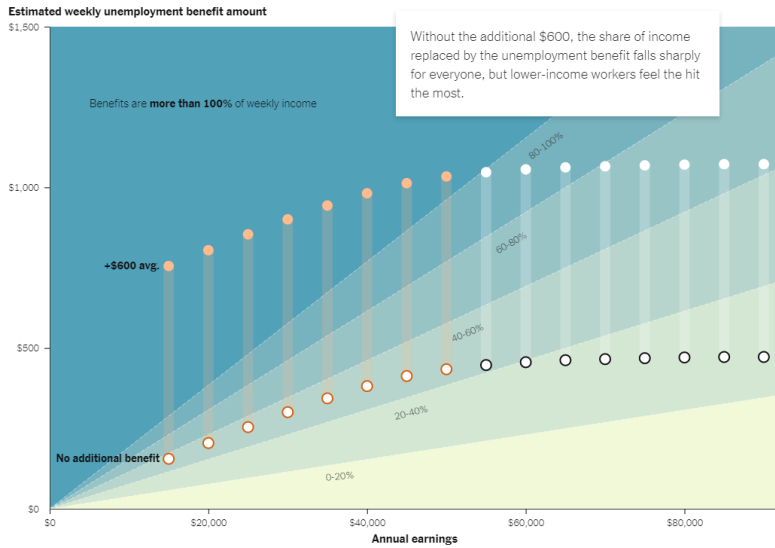
Weekly Spending



Source: Diana Farrell, Peter Ganong, Fiona Greig, Max Liebeskind, Pascal Noel, Daniel Sullivan, Joseph Vavra, JPMorgan Chase Institute

How did \$600 PUC affect household income?

Key Takeaway:
Income replacement rates $\geq 100\%$ for workers with income $\leq \$55k/yr$

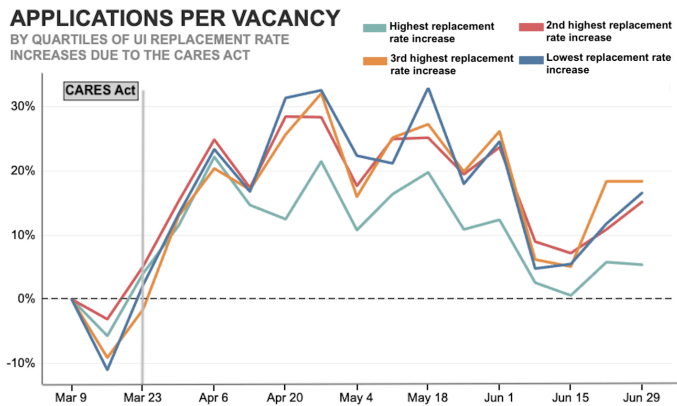


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Was there a disincentive effect from \$600?

Key Takeaways:

- Applications per job posting increased for all replacement rates
 - no effect *on average*
- Smaller increase for highest replacement rates
 - some effect *on margin*

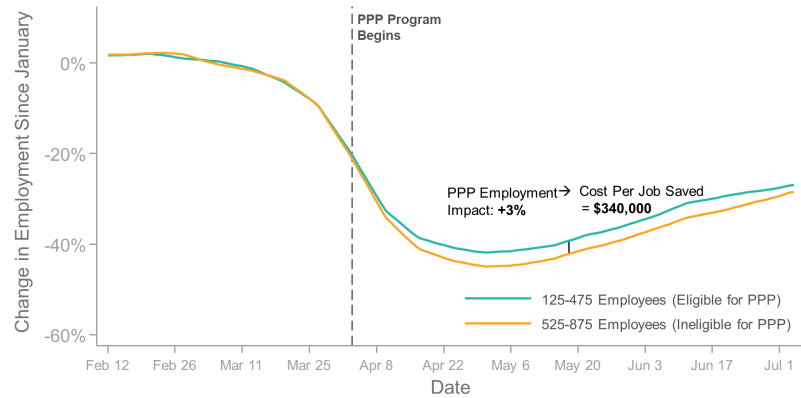


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Did PPP Mitigate Job Losses?

Key Takeaway:

PPP had a relatively small impact on small business payroll (but it did help!)



Fiscal and Monetary Policy Responses

- **Fiscal policy acted quickly to provide support for individuals and businesses**
 - But has not acted since April...
 - ... and is unwinding effective programs at year's end



What are the risks to recovery?

1. Continuation of the virus (remember 1918?)
2. Lack of additional fiscal support to prevent debt default, evictions, and business failures (remember 1929?)
3. Damage to State and Local Budgets leading to cuts in job and discretionary spending (remember 2009?)

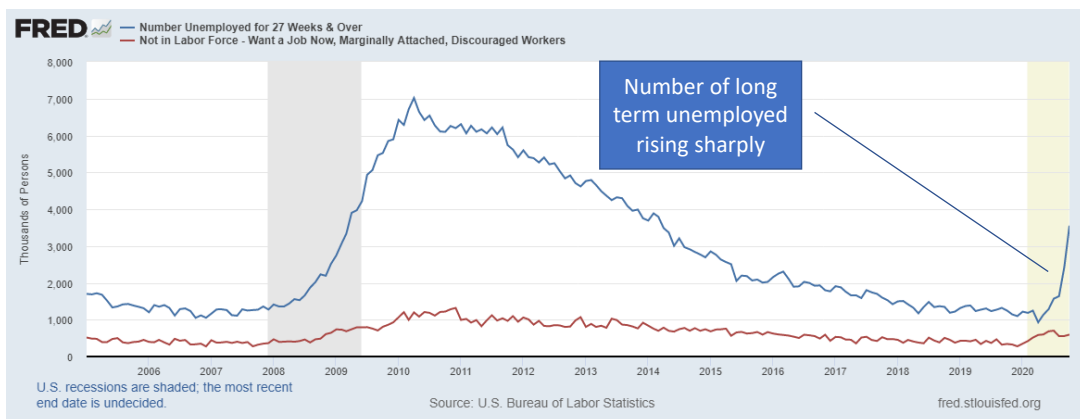
Key Risk #1: Temporary economic downturn becoming permanent

Key Risk #2: An inequitable recovery



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Long term unemployment



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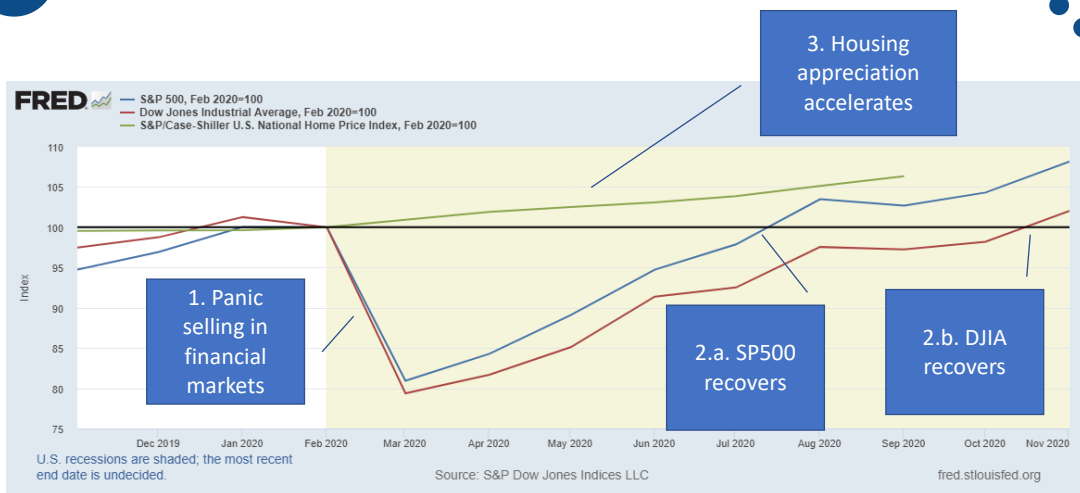
A "K-shaped" recovery?

Executive Summary

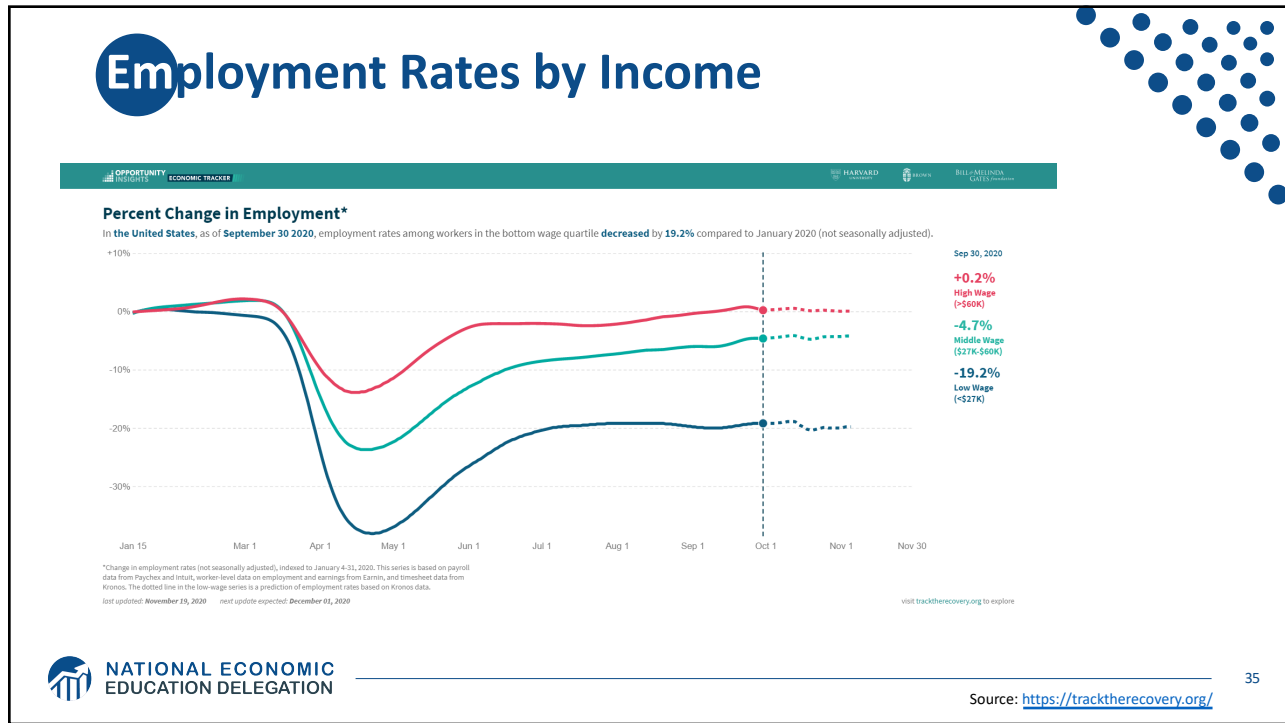
- Those with financial wealth/residential real estate have seen its value grow in excess of inflation
- High income earners (>60k/yr) have largely kept their jobs; middle and low income earners have depressed employment rates
- Women are disproportionately exiting labor force
- Food insecurity at an all time high

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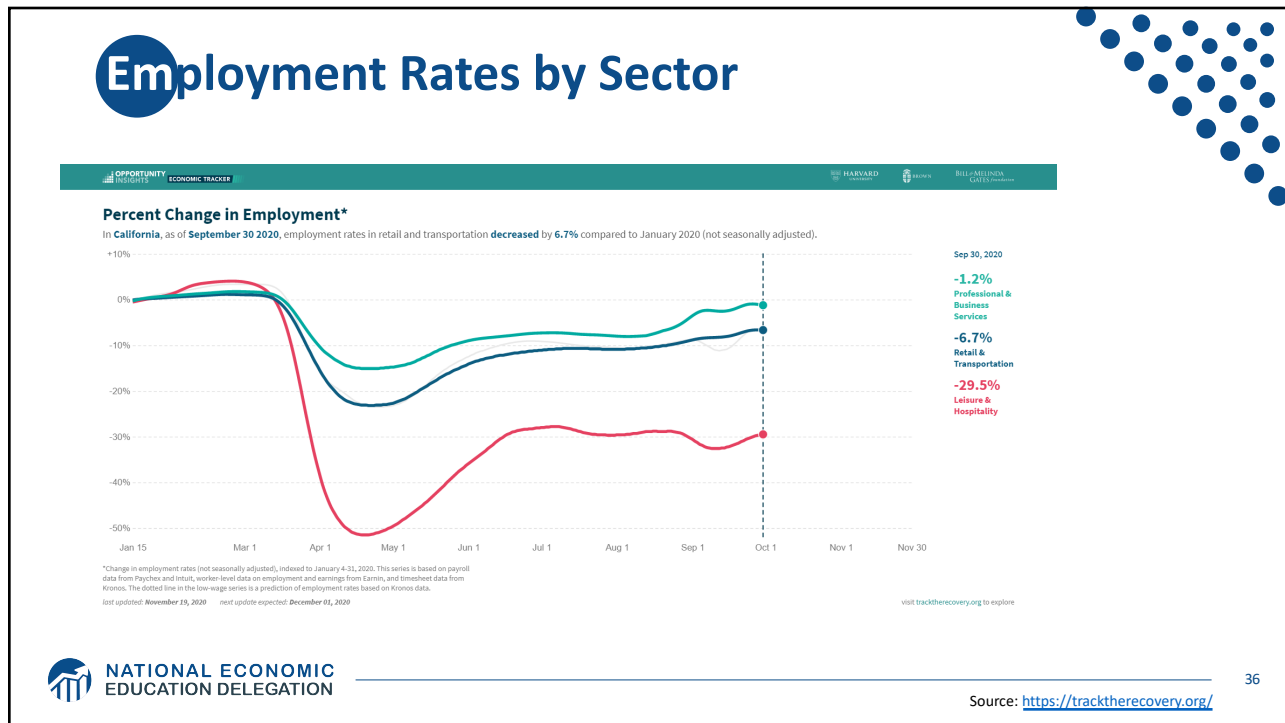
Recovery in Stock/Housing Market



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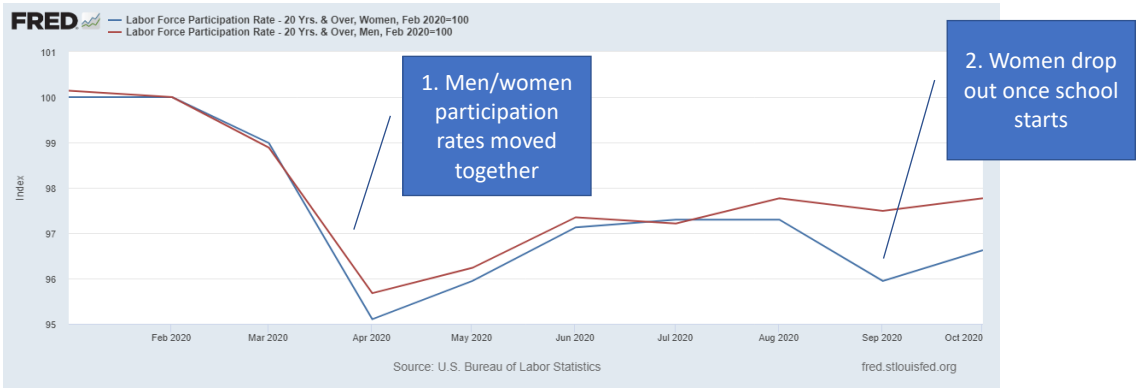


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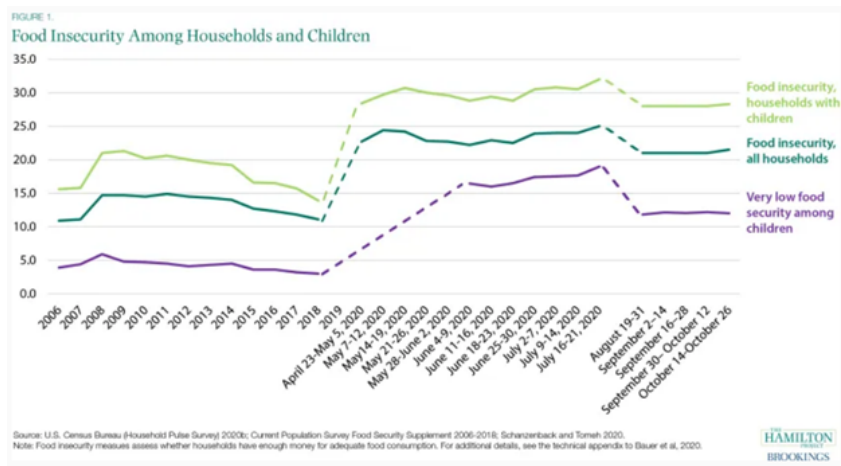
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Labor Force Participation Rates by Sex



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Food Insecurity is Elevated



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Is there *any* good news?



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The Good News (Sort of)

- **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
- **Other countries have shown economic recovery is possible**
 - But the virus has to be brought under control first



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Let's chat!

www.NEEDelegation.org

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Contact NEED: info@needelegation.org

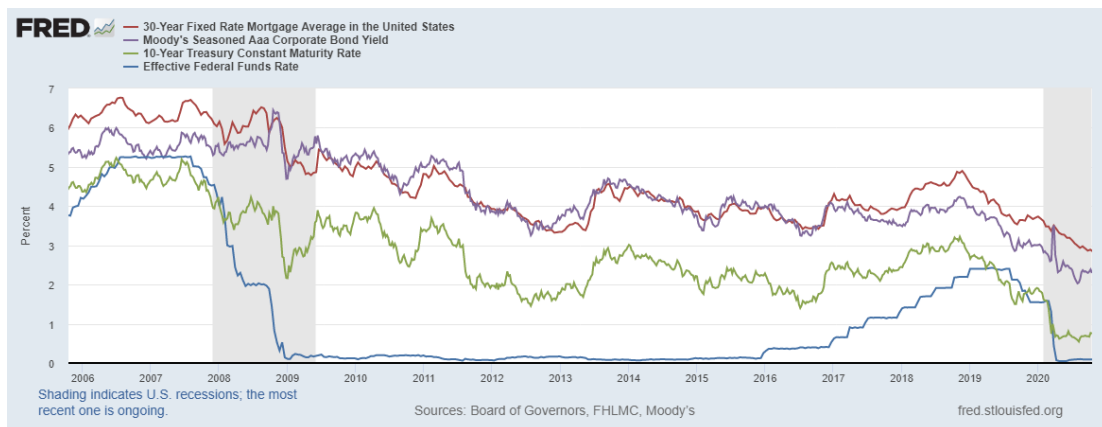
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Impact on Borrowing Rates

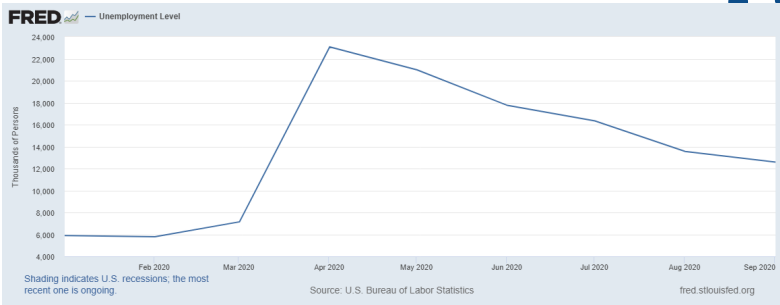


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Characterizing Unemployment

Important Definitions:

- A person is **employed** if they worked for pay or were temporarily absent in the last week
- A person is **unemployed** if they were (1) not employed, (2) were available for work, and (3) actively sought work in the previous 4-weeks
- A person is **not in the labor force** if they are neither employed nor unemployed



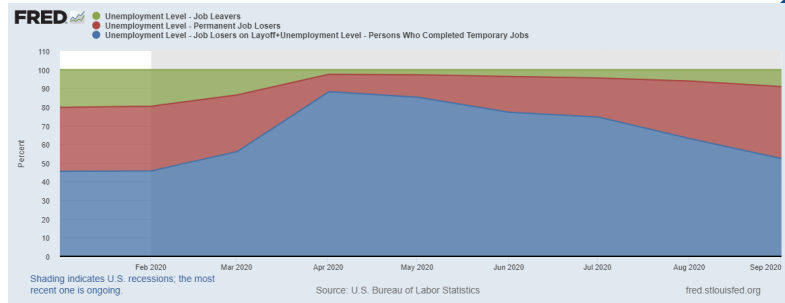
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Characterizing Unemployment

Survey respondents are asked to indicate the “reason for unemployment”:

1. On temporary layoff or completed temp jobs (blue)
2. Involuntary and permanent job loss (red)
3. Quits, reentrants, and new entrants (green)



Key takeaway: Permanent job losers are increasing share of unemployment pool



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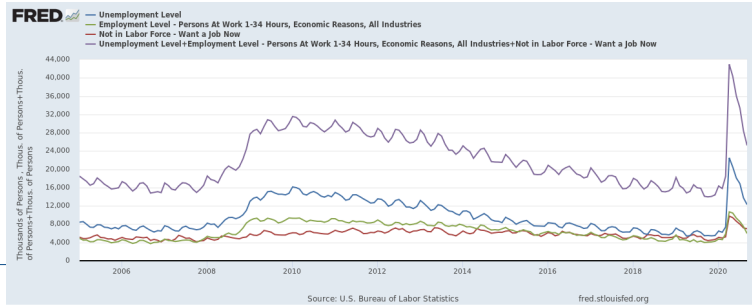
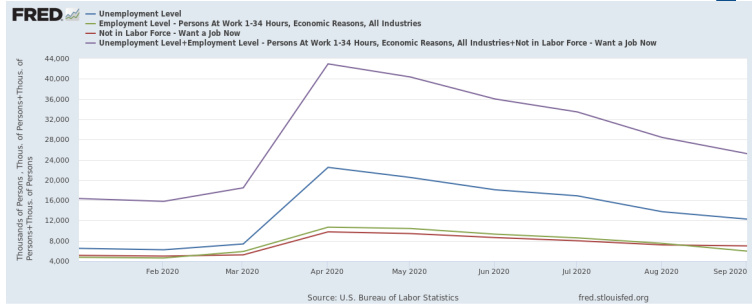
Characterizing Unemployment

Groups not classified as unemployed:

1. Not employed, not actively seeking *but want a job now* (red)
2. Employed part time *but want full-time work* (green)

Key Takeaways:

1. These groups *always exist*
2. Levels are *countercyclical*
3. Currently +8m compared to pre-pandemic



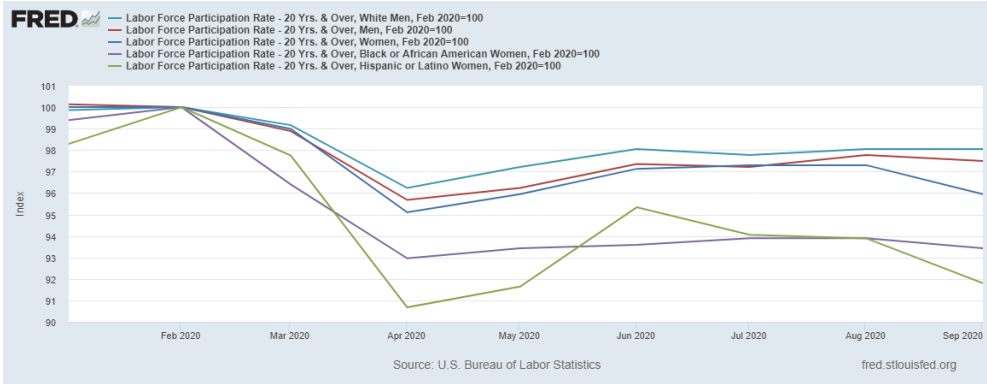
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Business Inventory



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Recovery/recession for whom?

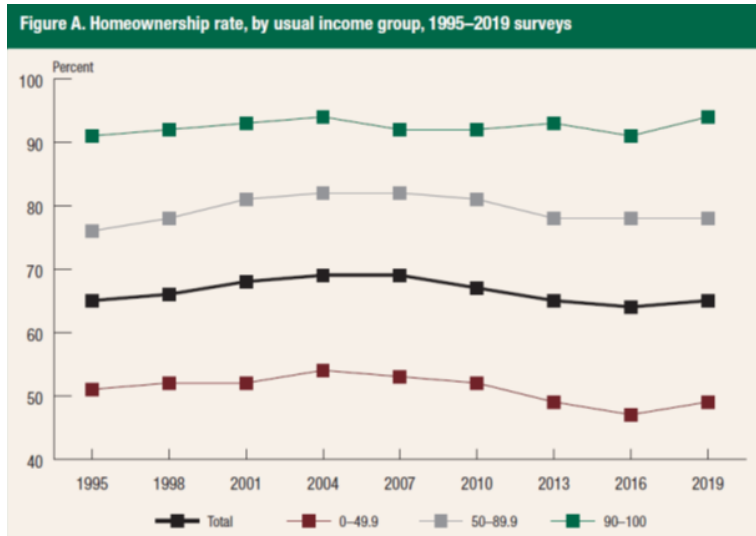


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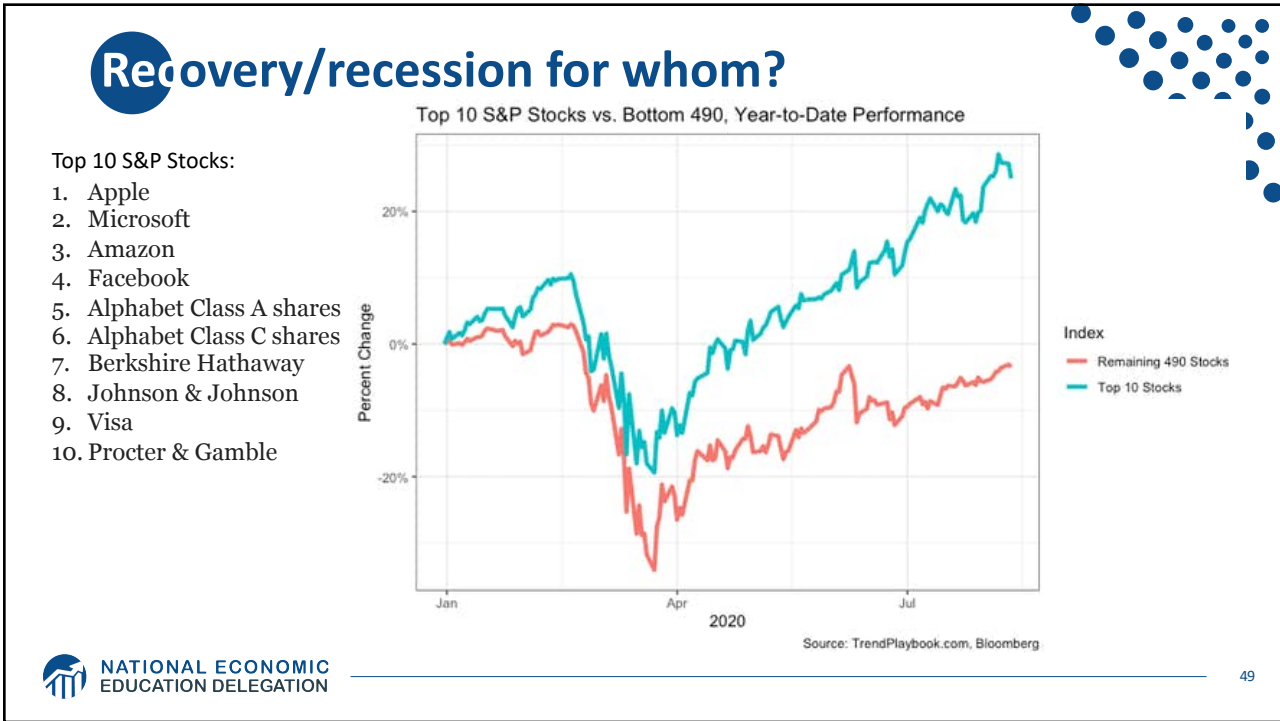
Recovery/recession for whom?

The bottom 60% of income earners hold just 5.8% of the value of equities/mutual funds...

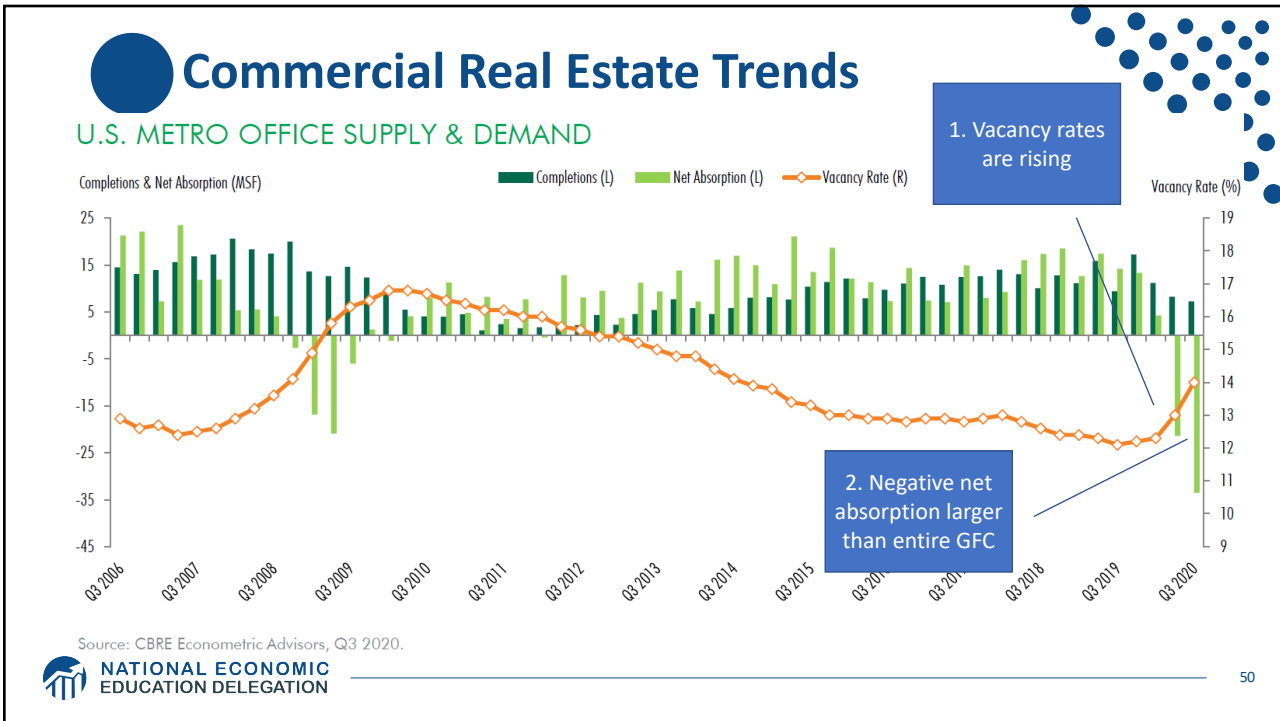
... and around 65% of people own their home



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