

COVID-19: Economic Implications and Policy Response

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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)

- **Data Visualization and Coverage**

- Some examples at Tableau



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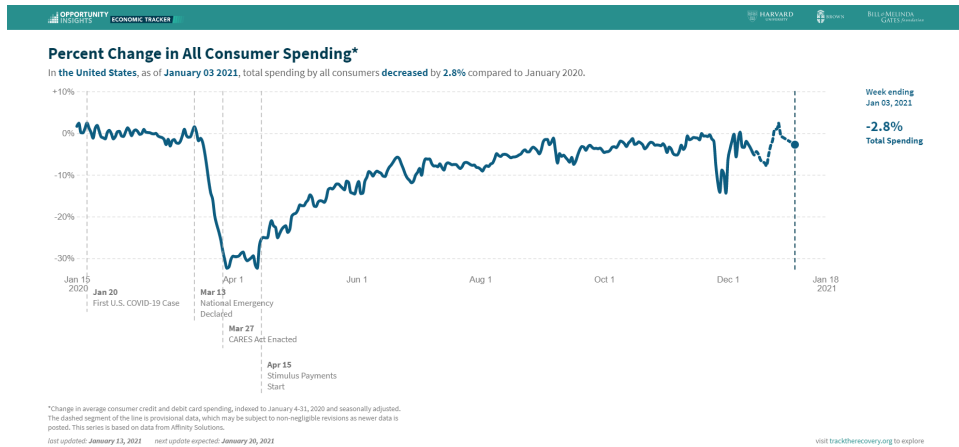
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Outline

- 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

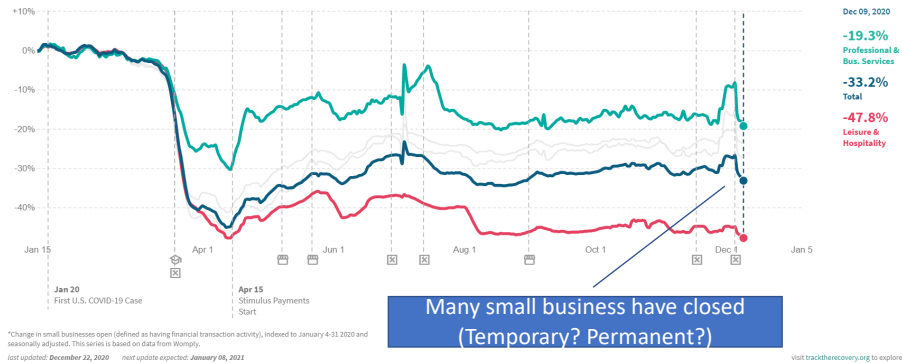


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Implications of Reduced Spending

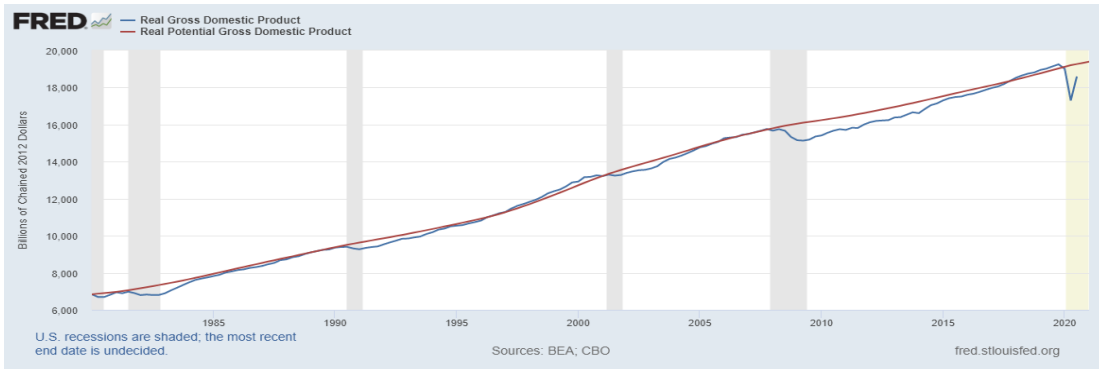
Percent Change in Number of Small Businesses Open*

In California, as of December 09 2020, the number of small businesses open decreased by 33.2% compared to January 2020.



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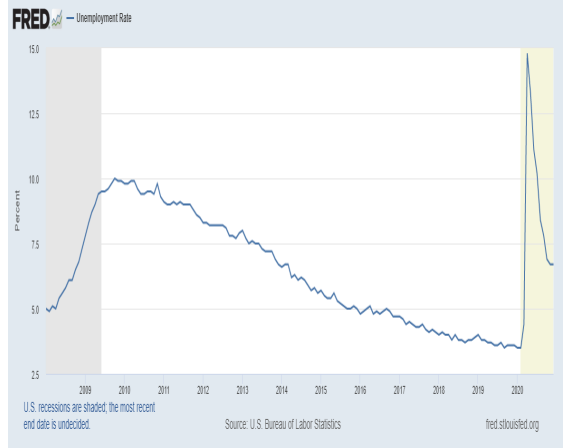
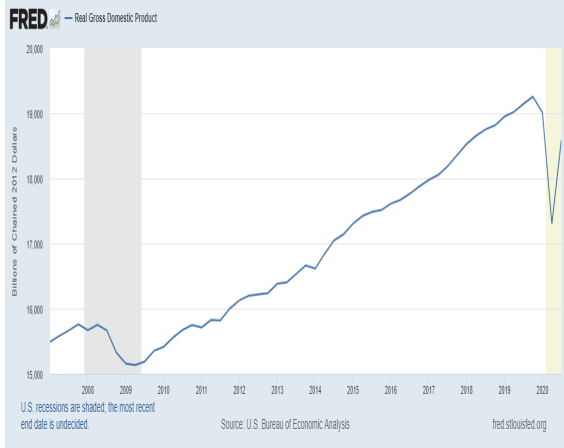
Where are We ?



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

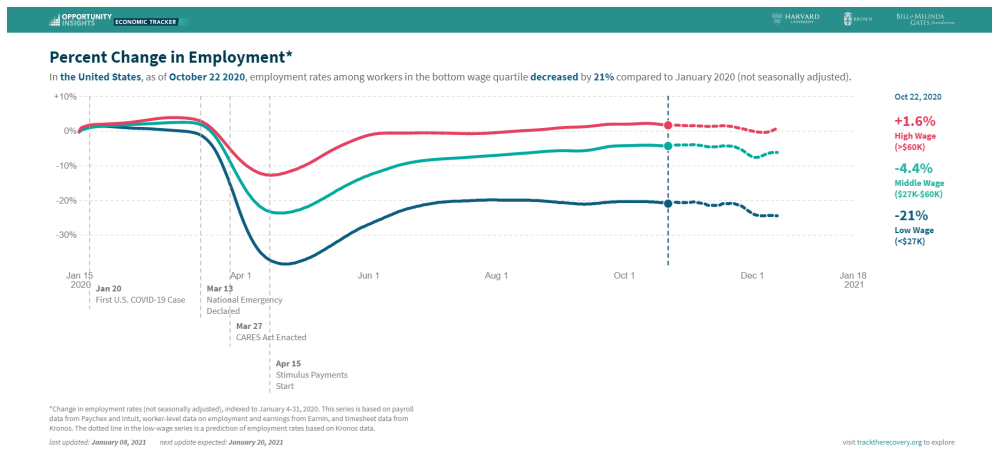
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Where are we?



As of January: Looks "V" shaped to me! Could it become a W or K shaped recovery?

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 (+)
- Interest rates are at historic lows (+/-)
- About 1/3 of small businesses have stopped operations (-)
- Unemployment rolls have remained significantly elevated (-)
- Many Americans – especially women - have left the labor force (-)



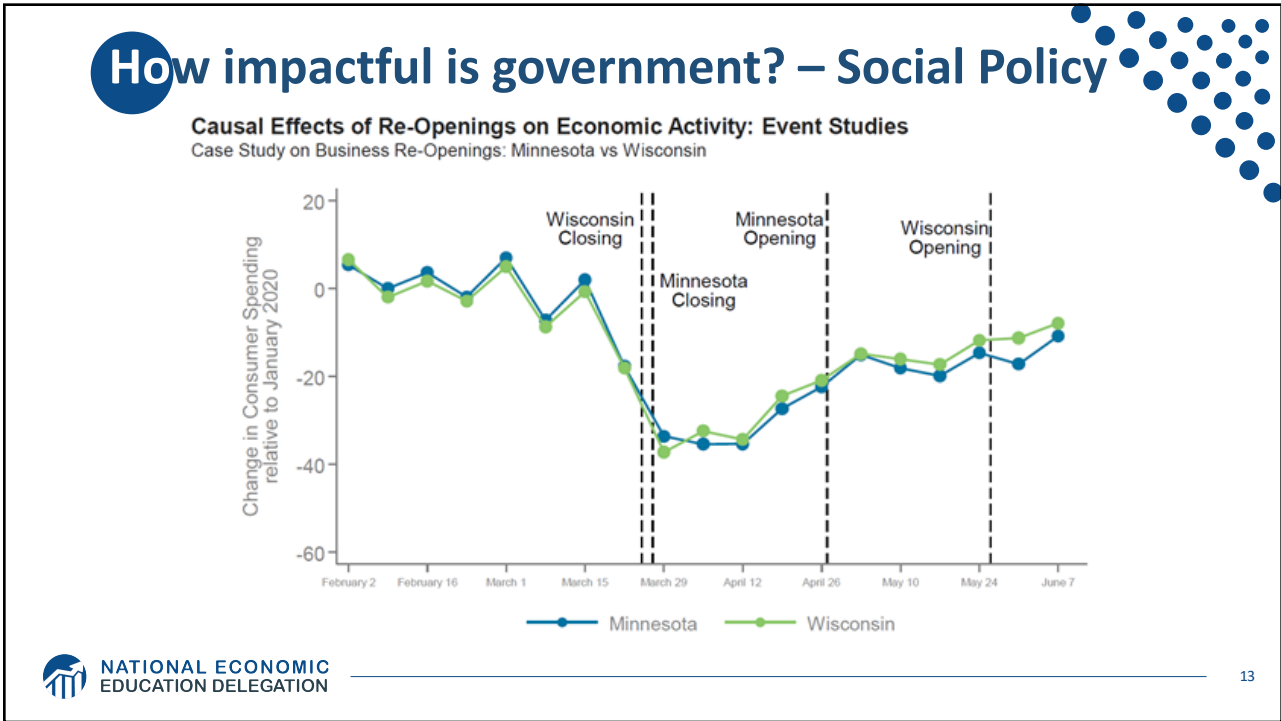
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A Tale of Three Policies Efforts

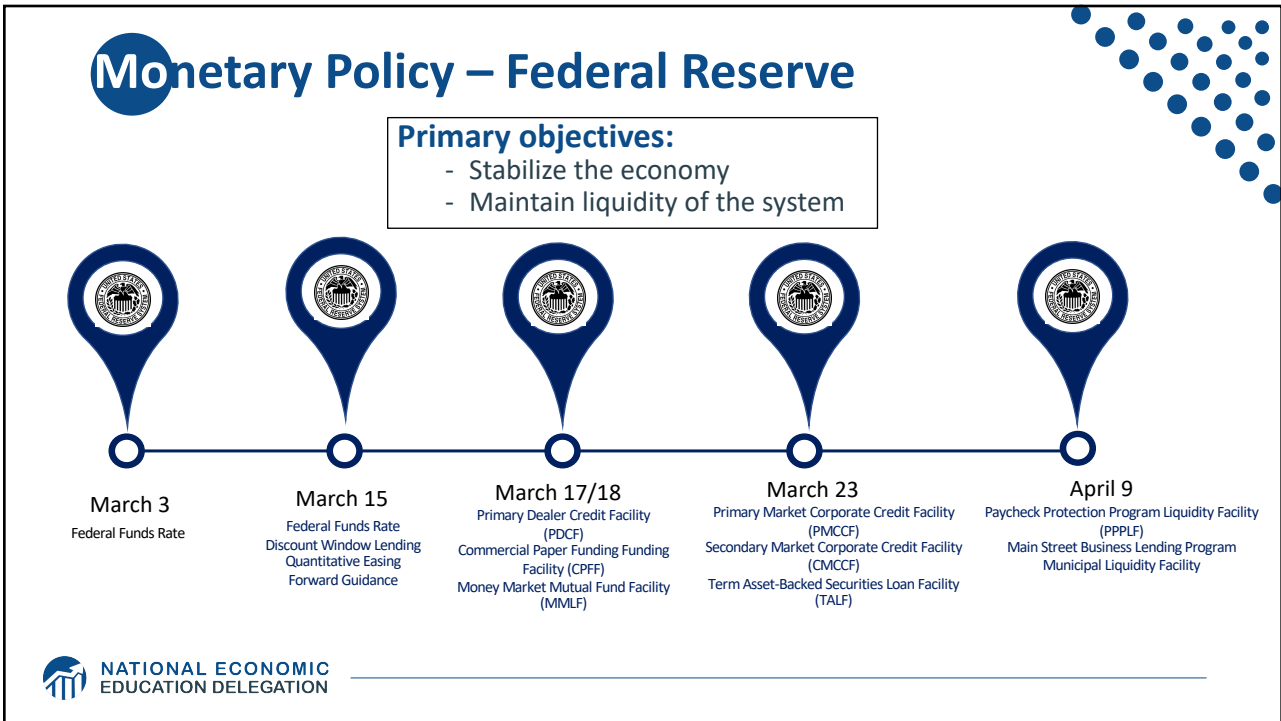
- **Social policy: Social Distancing**
- **Monetary Policy**
- **Fiscal Policy**



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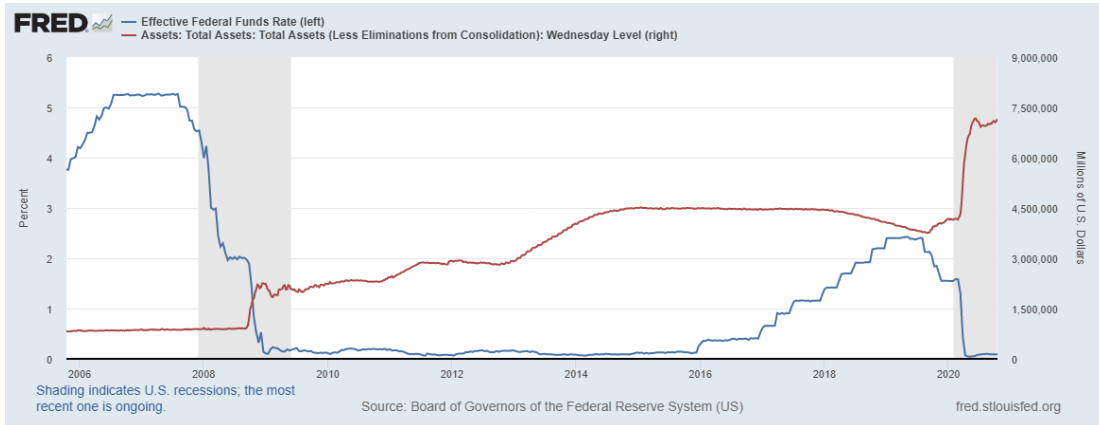


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Federal Funds Rate and Balance Sheet



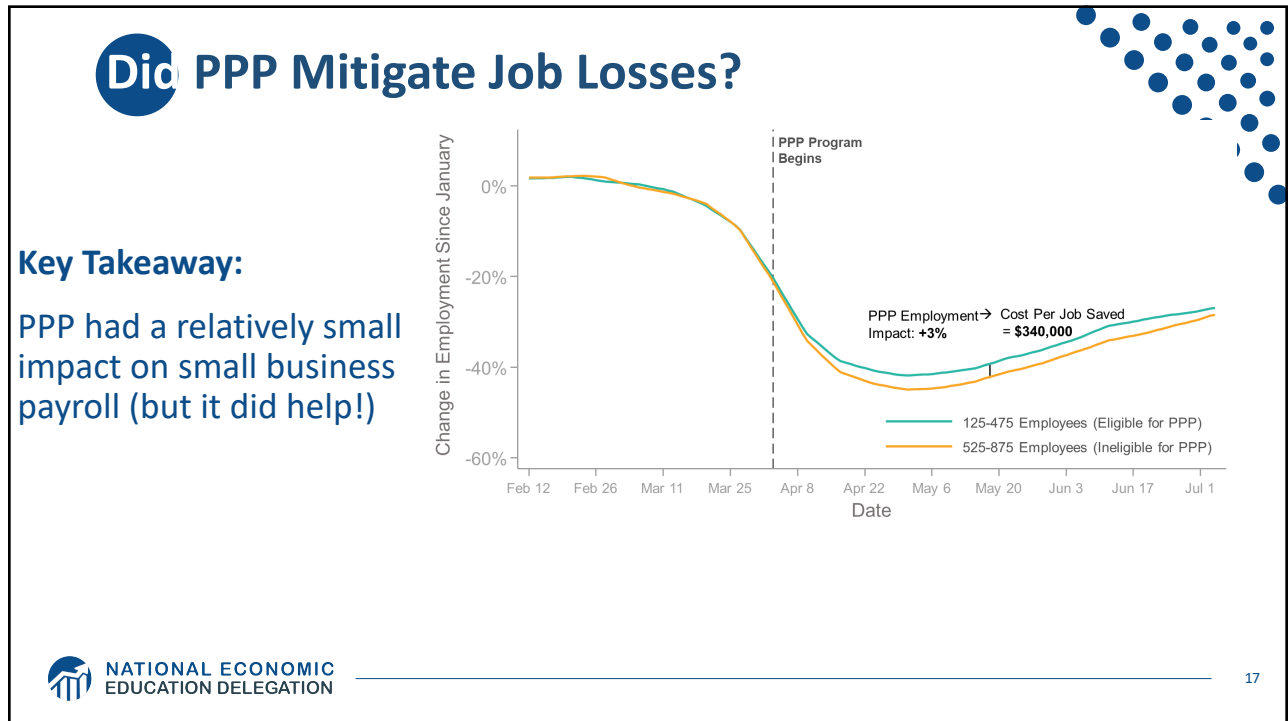
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Monetary Policy – Current State and Impact

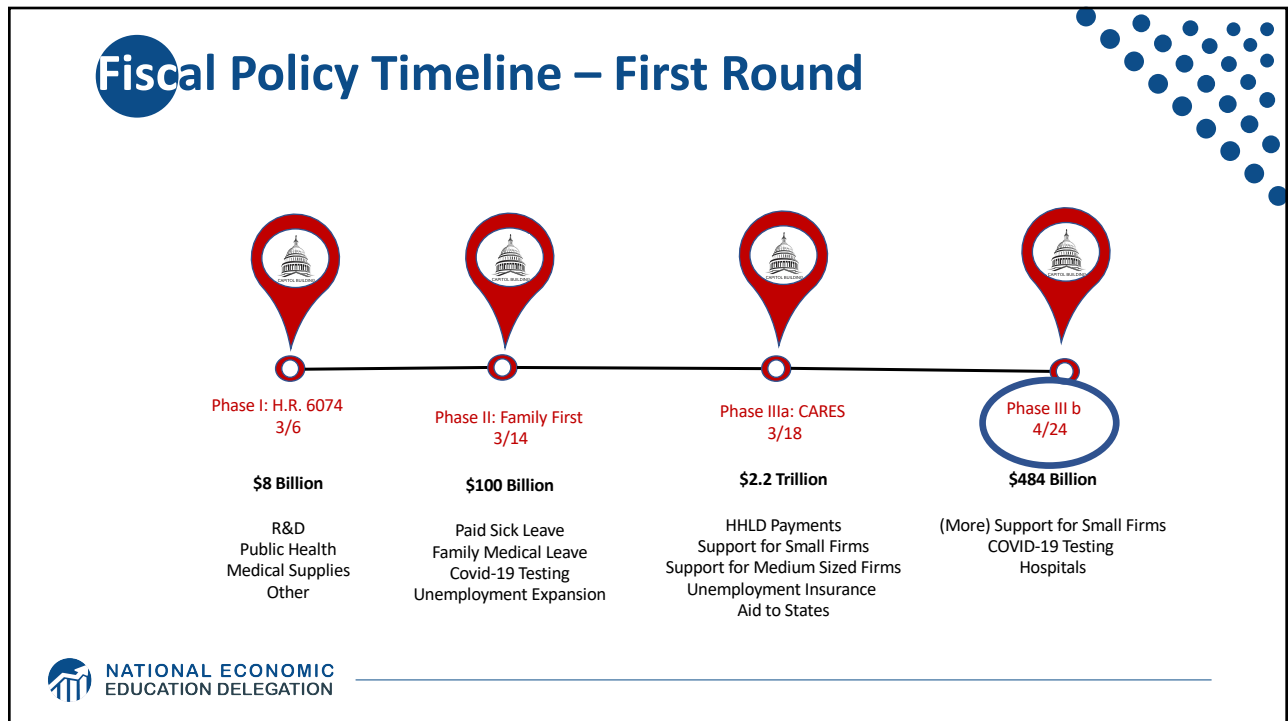
- **Fed Funds Rate at 0%** → newly issued debt very cheap
 - Good for borrowers
- **Balance Sheet grew from \$4T to \$7T**
 - Large volume of liquidity + few high yield, high quality savings vehicles → risky asset price bubbles
- **Forward Guidance: Keep FFR at ZLB until PCE inflation “at least 2%”**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

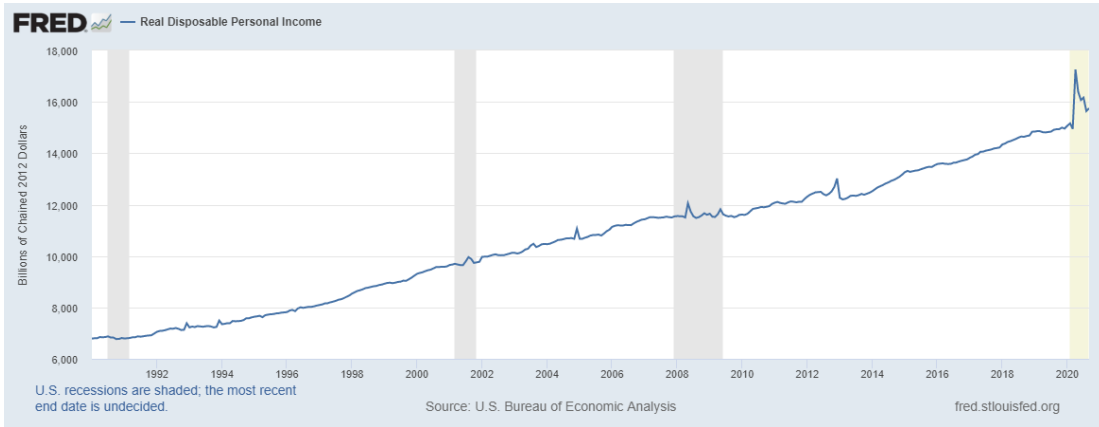
- **Classical response: Stimulate the economy!**
- **This economic shock is different: “health shock”**
 - with large macroeconomic consequences.
- **Response should be:**
 - target the cause of the problem
 - provide financial support for individuals and for firms.
- **When the health crisis is under control -> classical stimulus.**

What Have Been the Fiscal Policy Effects

- **Fiscal policy acted quickly, but inevitably made some mistakes.**
 - Stimulus Checks, (\$268b)
 - Expanded Unemployment, (\$268b)
 - Paycheck Protection Program, (\$525b)

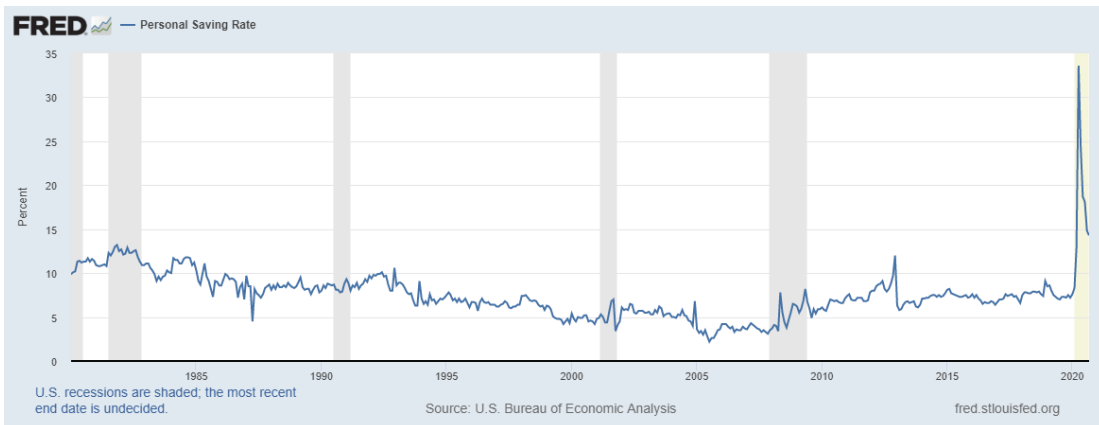
Big Caveat: Much of the Fiscal Stimulus ended in July and there was no new stimulus program until late December 2020 with another 3rd stimulus (\$1.9Trillion) proposed by the Biden administration.

Real Disposable Income – Income after taxes and transfers



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Personal Savings Rate



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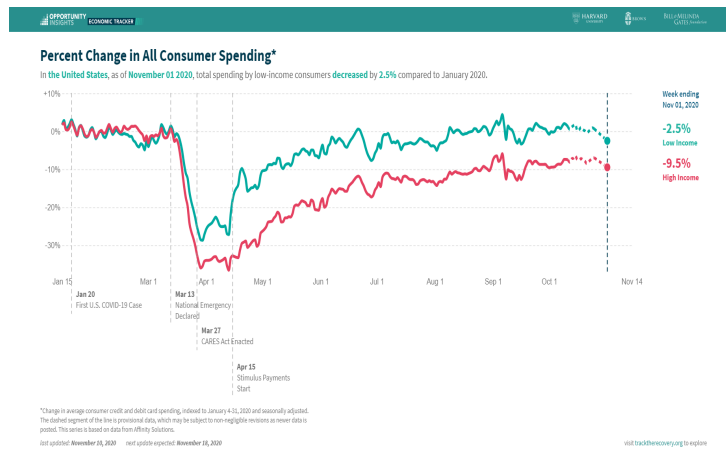
Rebound in Consumption Faster than Expected

- As Consumption goes so goes the economy (C is 2/3 of GDP), Growth Rates:
- GDP: 2019Q4, **2.4%**; 2020Q1, **-5.1%**; 2020Q2, **-31.7%**; 2020Q3, **+33.1%**
- CON: 2019Q4, **1.6%**; 2020Q1, **-6.9%**; 2020Q2, **-34.1%**; 2020Q3, **40.7%**

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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.



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What is the shape of the recovery?

1. **Aggregate Data look good because of the CARES Act (at least until the end of September = Q32020)**
2. **But, it doesn't look good everywhere.**
 1. Small firms.
 2. Restaurants and entertainment
 3. Low Income workers
 4. Women

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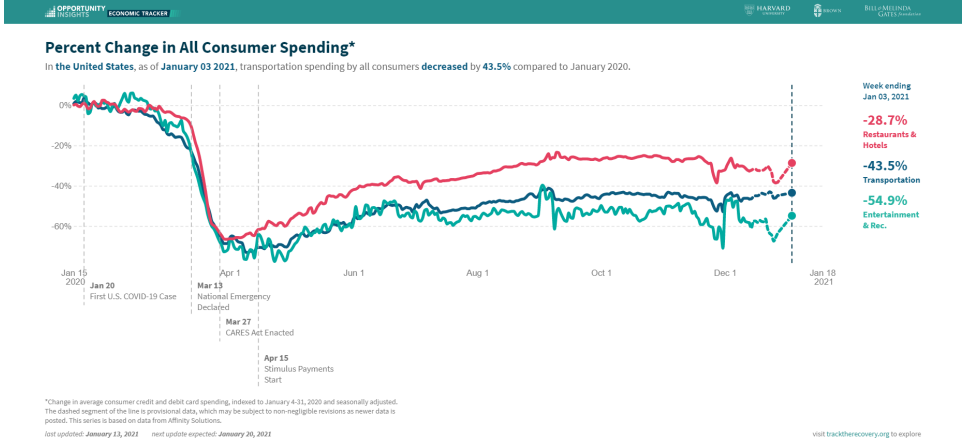
A "K-shaped" recovery?

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

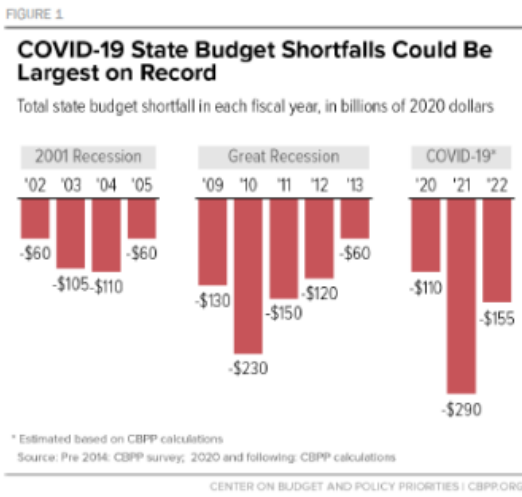
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Hard Hit Sectors



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4. State and Local Budgets



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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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What are the risks to recovery?

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

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

Key Risk #2: *An inequitable recovery*



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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 face deep budget shortfalls**
 - Often the largest employers within a state
- **Eviction/foreclosure moratoria are shifting burdens to future**

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Thoughts on Policies to Date

- **Costs are enormous, but we were doing the right things!**
- **Health/Social Policies to address the Pandemic: F grade**
- **Monetary policy: A grade**
- **Fiscal policy grade: C+ grade**
 - Direct cash payments
 - Are they really getting into the hands of those most in need?
 - Corporate or otherwise?
 - Right strategy to maintain employee-employer ties? (Europe – ‘Kurzarbeit’)
 - What about states and local governments?

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Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
 - With enormous built-in inequities.
- **GDP will likely contract between 3.5 and 4.5 percent in 2020.**
 - Positive growth will likely return in 2021
- **Significant structural changes.**
 - Telecommuting, telehealth, retail decline, other business failures.
- **Policy gap and economic reallocations will create hardship.**
 - Hunger, evictions, foreclosures, additional deaths.
- **Long-term effects: Educational opportunities, labor force participation changes, reallocations that require retraining, increasing inequality.**

Gains by American Billionaires

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

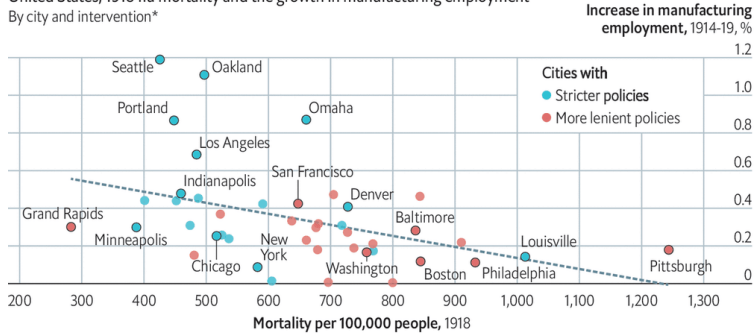
First Name	Net Worth Mar. 18, 2020 (\$ Billions)	Dec. 7 Real Time Worth (\$ Billions)	Wealth Growth, Mar. 18 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Mar. 18 to Dec. 7, 2020	Net Worth Feb. 8, 2019 (\$ Billions)	Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Feb. 8, 2019 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	\$88.0	\$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%	\$60.8	\$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	\$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	\$848.1	\$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%	\$3,110.9	\$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 Wealth and Legacies" accessed Dec. 8, 2020; Feb. 8, 2019 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*



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

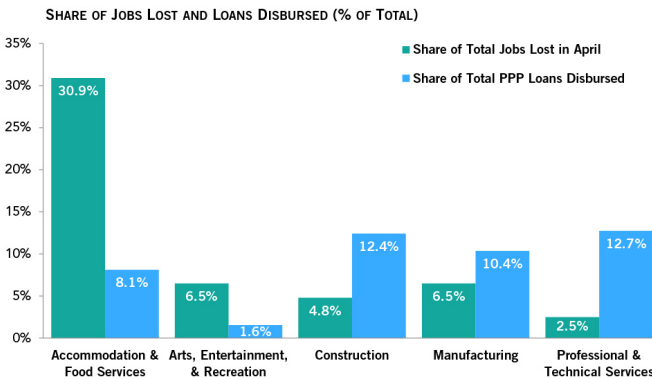
The Economist

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PPP Loans Didn't Go to the Right Firms



The distribution of PPP loans has not matched levels of unemployment



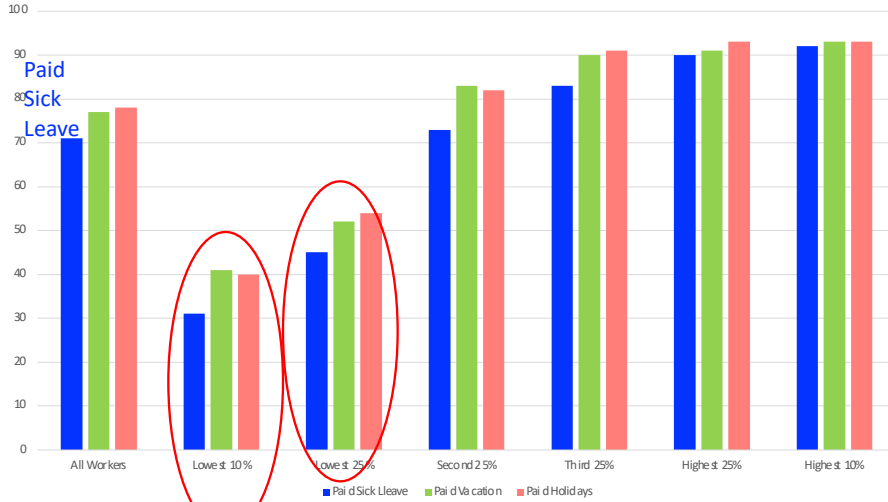
SOURCES: U.S. Small Business Services Administration, Paycheck Protection Program (PPP) Report, Approvals through 07/24/20, July 2020; and S&P Global Ratings, Economic Research: The Paycheck Protection Program Impact on Jobs: (More) Help Wanted, May 2020.
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In 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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Thank you!

Any Questions?

www.NEEDelegation.org

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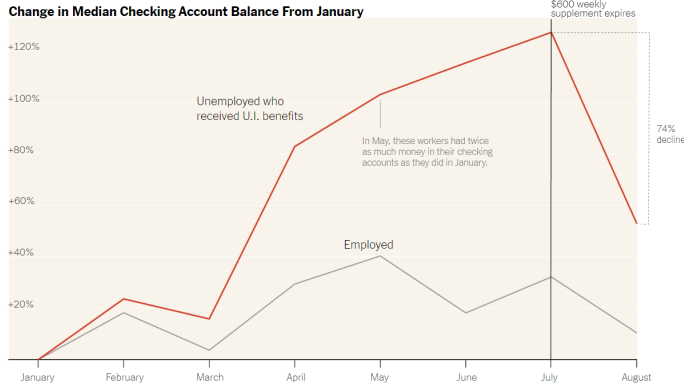
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Did \$1200 checks and \$600 PUC create buffer?

Change in Median Checking Account Balance From January



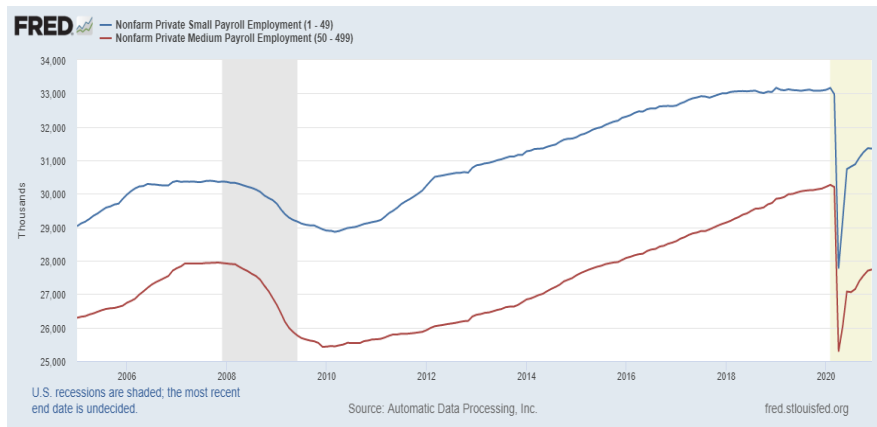
Note: End of month balances. The analysis only includes the unemployed who received unemployment insurance benefits through direct deposit. Households with multiple checking accounts are added together. Source: JPMorgan Chase Institute

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

Employment at Small Firms (40% of total jobs)

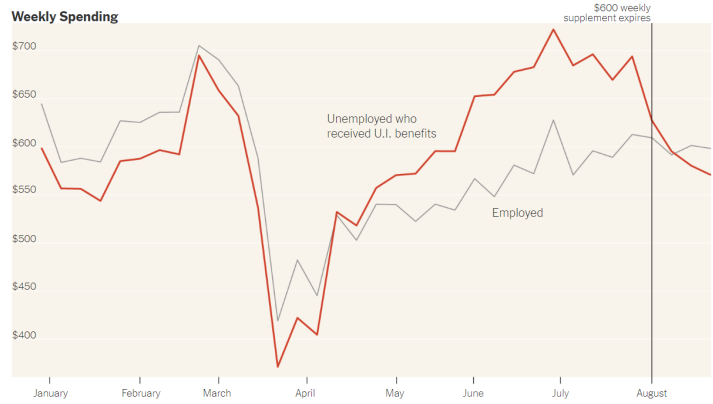
Between February and April 2020, net loss of 10.4m losses, by Dec. 2020 'only' 4.4m jobs lost.



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

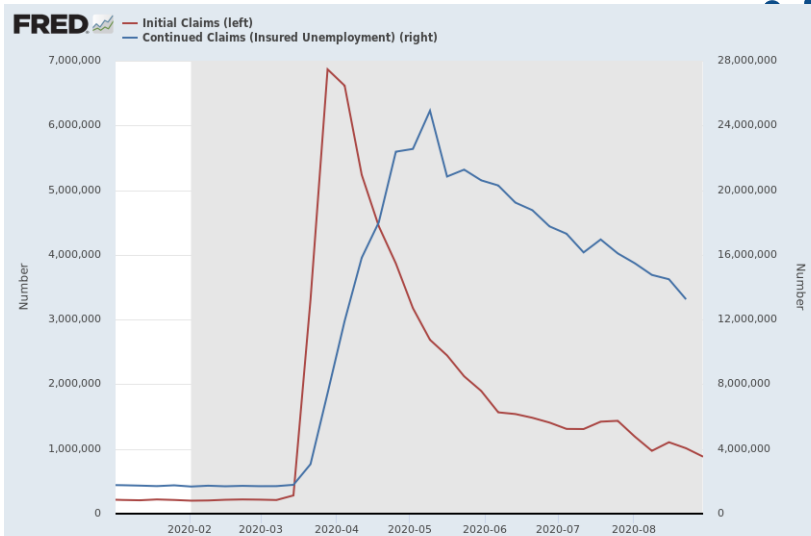


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Unemployment Claims (weekly)

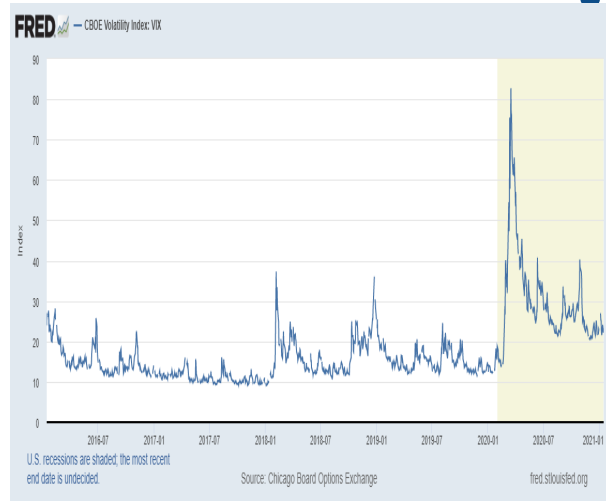
Yikes!
Since March 21st 57 million people filed for unemployment

At its peak, 25 million, or an “insured unemployment” rate of 17.1%



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Stock Market Impact



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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. 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:

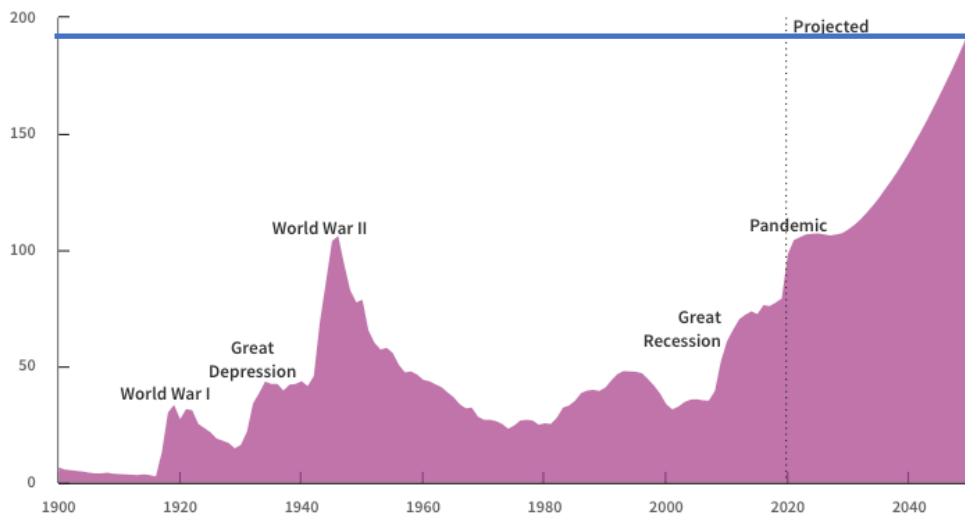
Labor Force, 165m; Employed; 159m; Unemployed, 6m, or 3.5%

Total New Jobs added per month: round 225 thousand



Record Levels of Debt are Forecast

Percentage of Gross Domestic Product



From a Republican Deficit Hawk

- “I’m a fiscal hawk from way back, and all of my heebie-jeebies are going off when I see these numbers,” said Douglas Holtz-Eakin, a Republican who used to head the Congressional Budget Office and is president of American Action Forum. “But then I look at the scale of the problem, and I think, yeah, that’s that. Gotta do it.” *Politico*, 4/29

