



COVID-19: Economic Implications and Policy Response

SIRs 146, Walnut Creek
August 12, 2021

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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 intended to reflect the consensus of the economics profession.

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Who Are We?

- **Honorary Board: 54 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: 599 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: 44 Ph.D. Economists**

- Aid in slide deck development



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Available NEED Topics Include:

- **Coronavirus Economics**
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **Trade and Globalization**
- **Minimum Wages**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**
- **US Social Policy**



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Credits and Disclaimer

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

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- Brian Dombeck, Lewis & Clark College
- Doris Geide-Stevenson, Weber State

- **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).



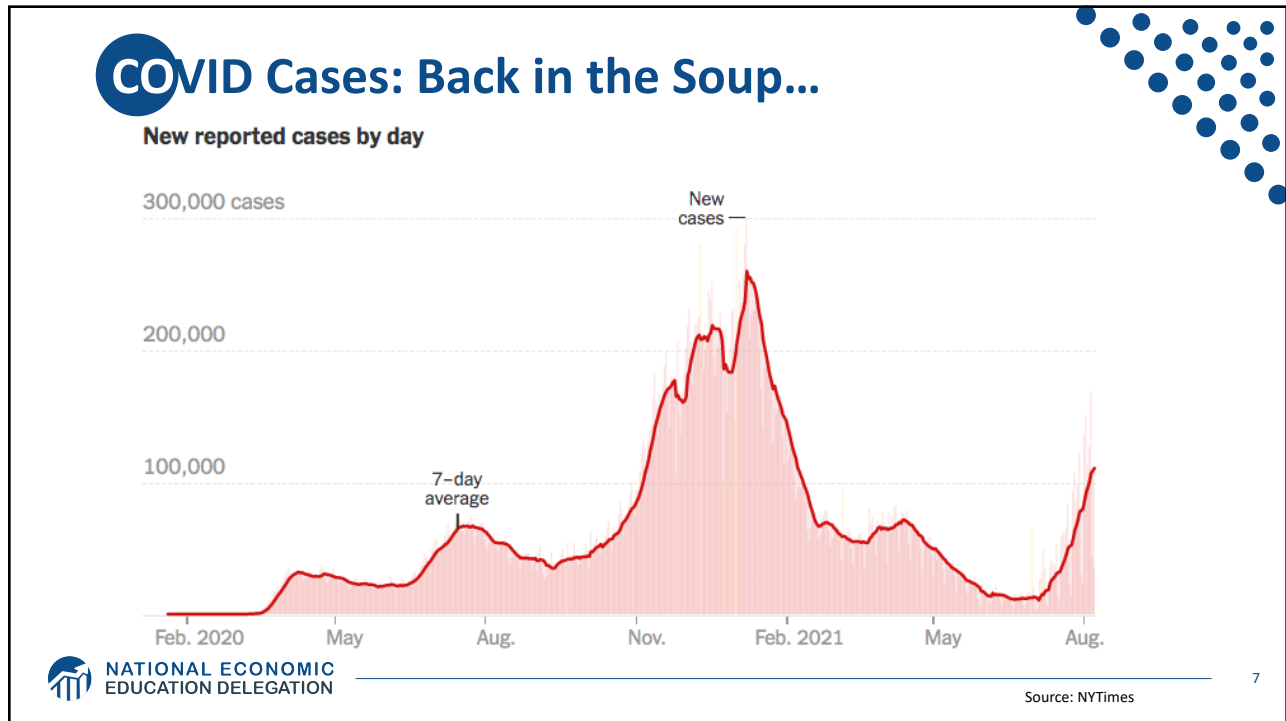
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Outline

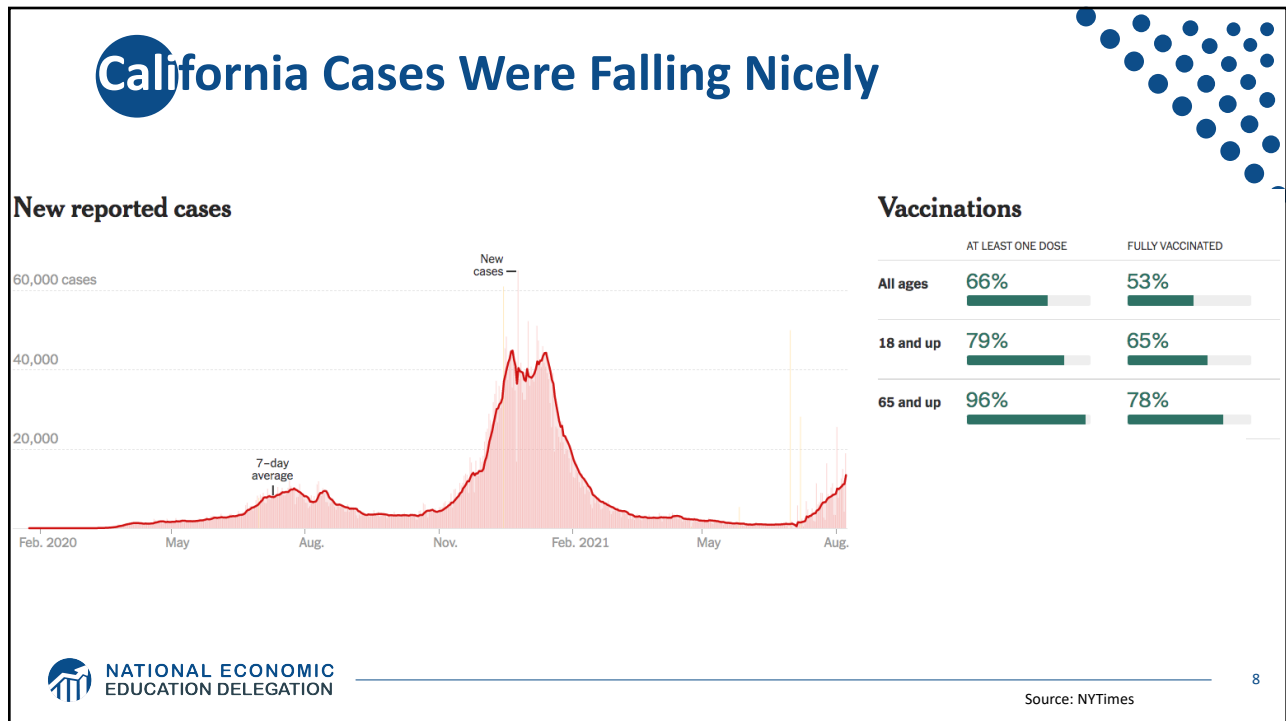
- **State of the Pandemic**
- **Evidence of Impact**
- **Employment Growth**
- **Inflation**
- **The Debt**



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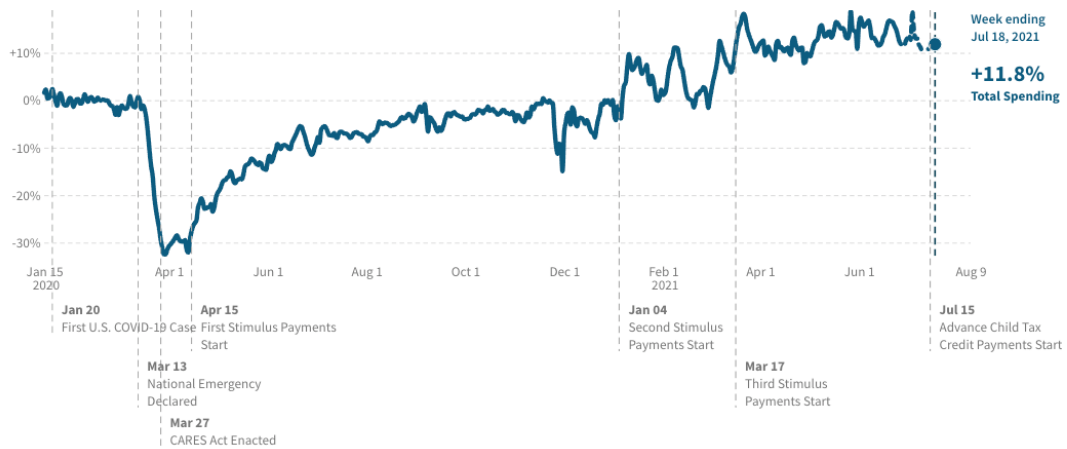
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Evidence of Impact

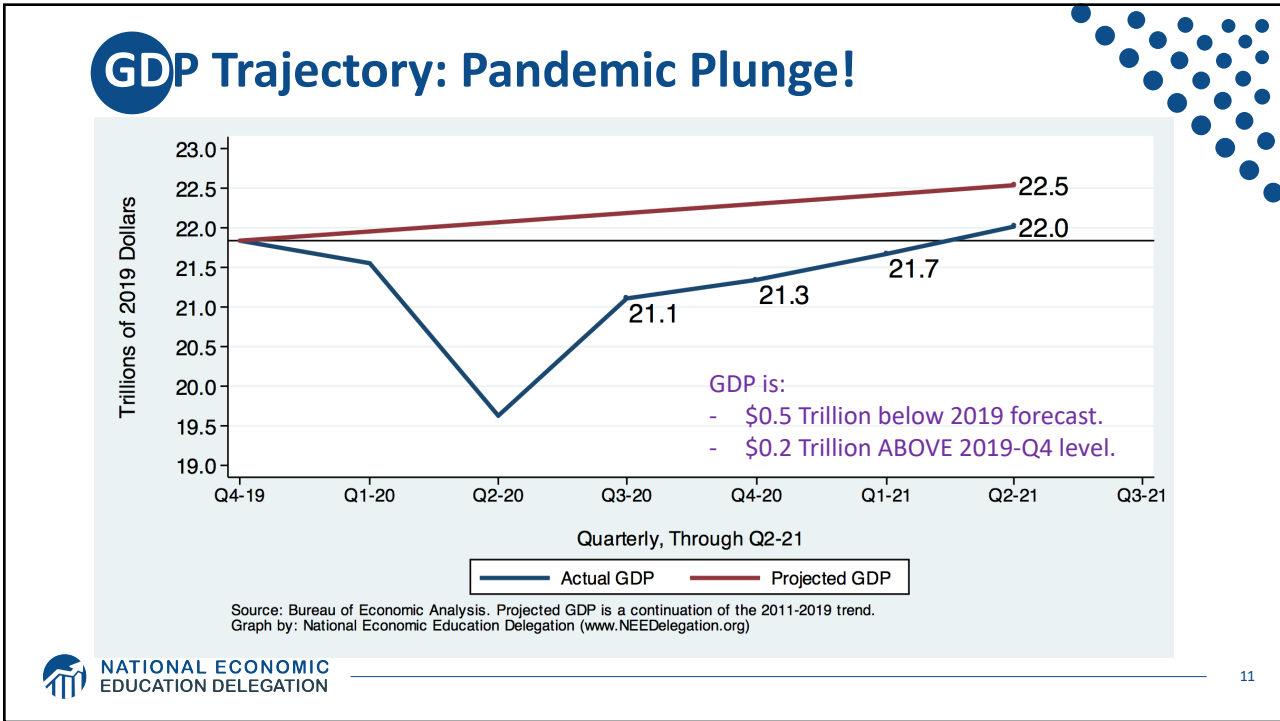
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Spending Patterns Since First US Case

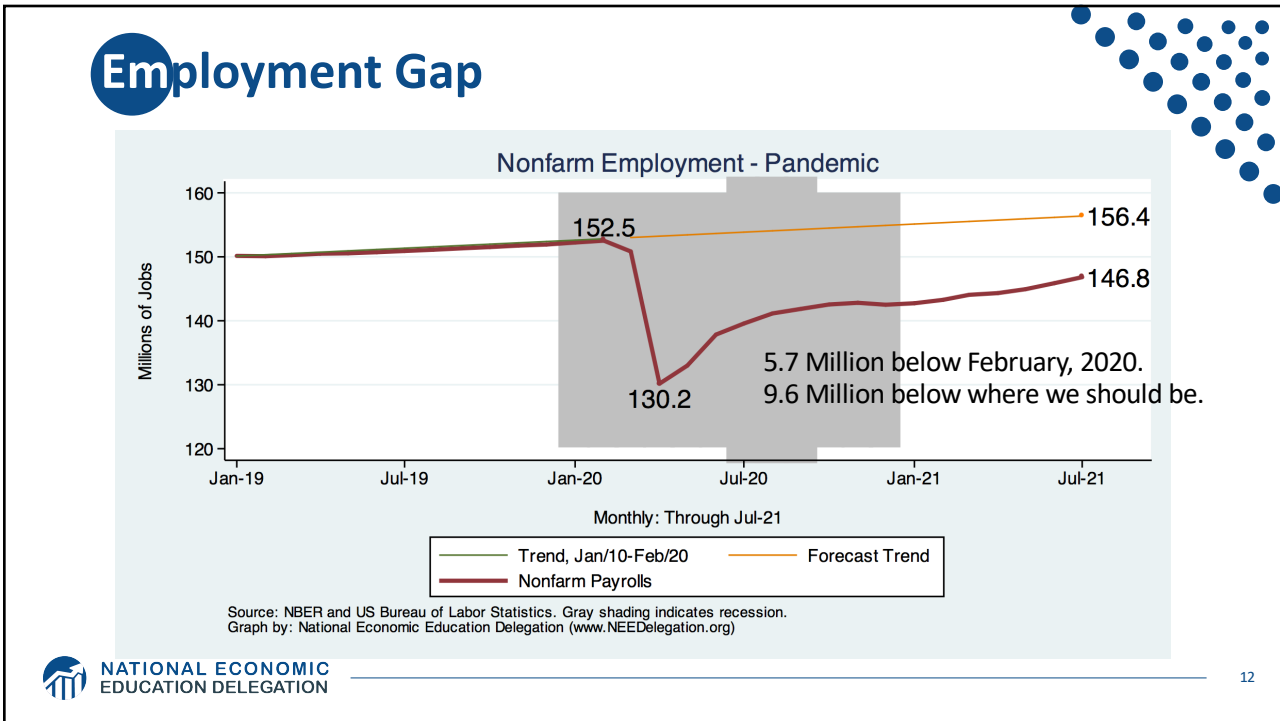
In the United States, as of July 18 2021, total spending by all consumers increased by **11.8%** compared to January 2020.



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Why Slow Employment Growth?

- Is employment growth slow?
- It is not because of the generous unemployment checks.
 - Low wage sectors are seeing solid employment growth.
 - o Leisure and hospitality: +328k (July)
 - o Professional services: +60k (July)
 - Lack of wage growth.
 - Low wage employment is growing faster in states WITH supplement than in states w/o.



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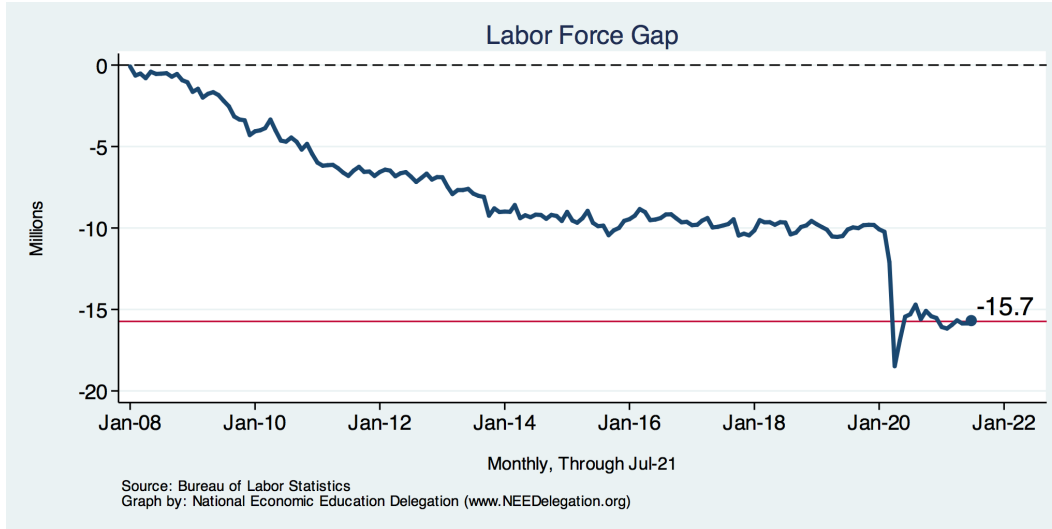
Why Slow Employment Growth?

- It might be:
 - Continued fear of the virus.
 - Microchip shortages.
 - Geographic mismatch and an unwillingness to relocate...yet.
 - Childcare – lack of availability.
 - People wanting to do better.
 - o Facilitated by additional UI payments.
 - People dropping out of the labor force.



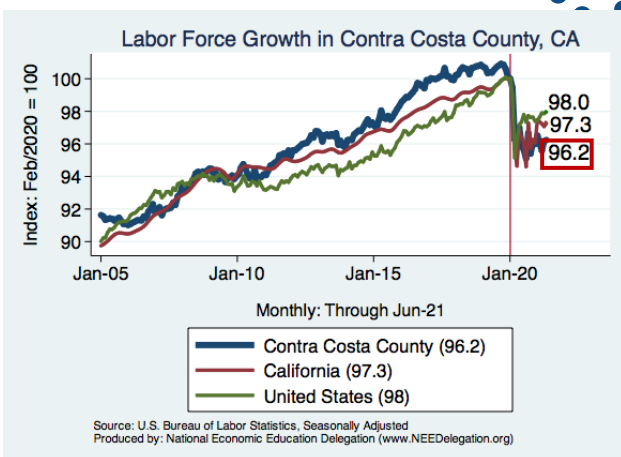
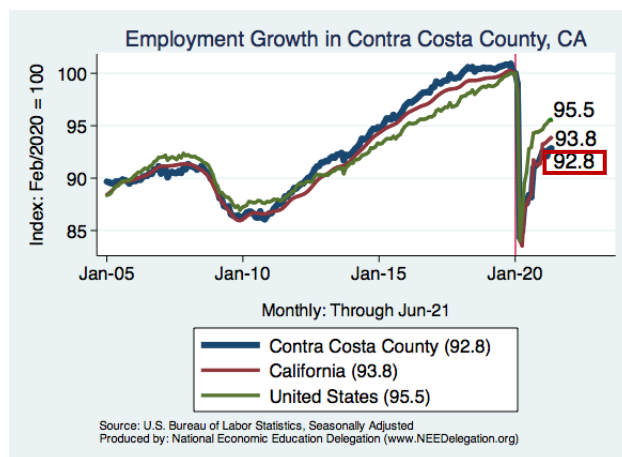
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Labor Force is Shrinking



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Employment in Contra Costa County



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Government Policy



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What Have Been Policy Effects

- **Monetary Policy (Fed) acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.**
- **Fiscal policy (Congress) acted quickly, but inevitably made some mistakes.**
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B (\$268b)
 - Paycheck Protection Program, C- (\$525b)

Last two packages: \$2.8 Trillion

Why?



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Is it a V or a K shaped recovery?

1. Aggregate data look good because the government support for low income workers.
2. But, it doesn't look good everywhere. Bottom part of K
 1. Employment of Low-Income workers.
 2. Small firms.
 3. Hard-hit Sectors: Restaurants, entertainment and transportations.
 4. State and Local Governments
3. Nike swoosh

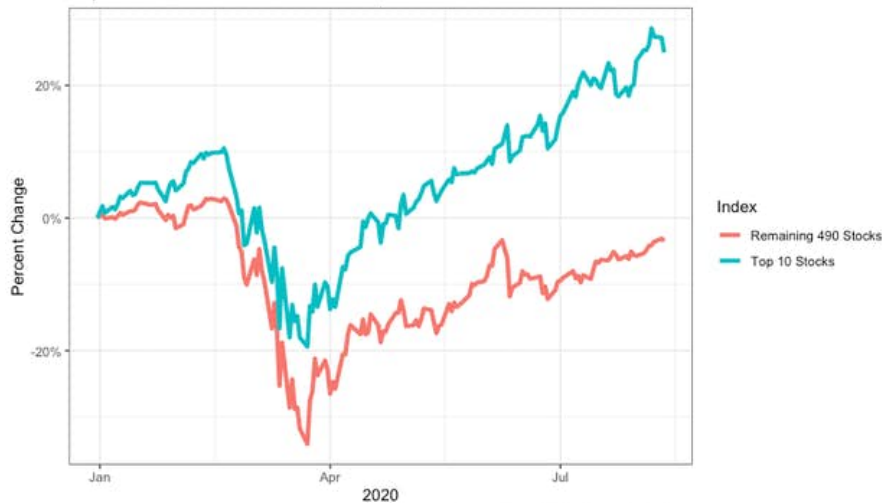
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Recovery/Recession for Whom?

Top 10 S&P Stocks:

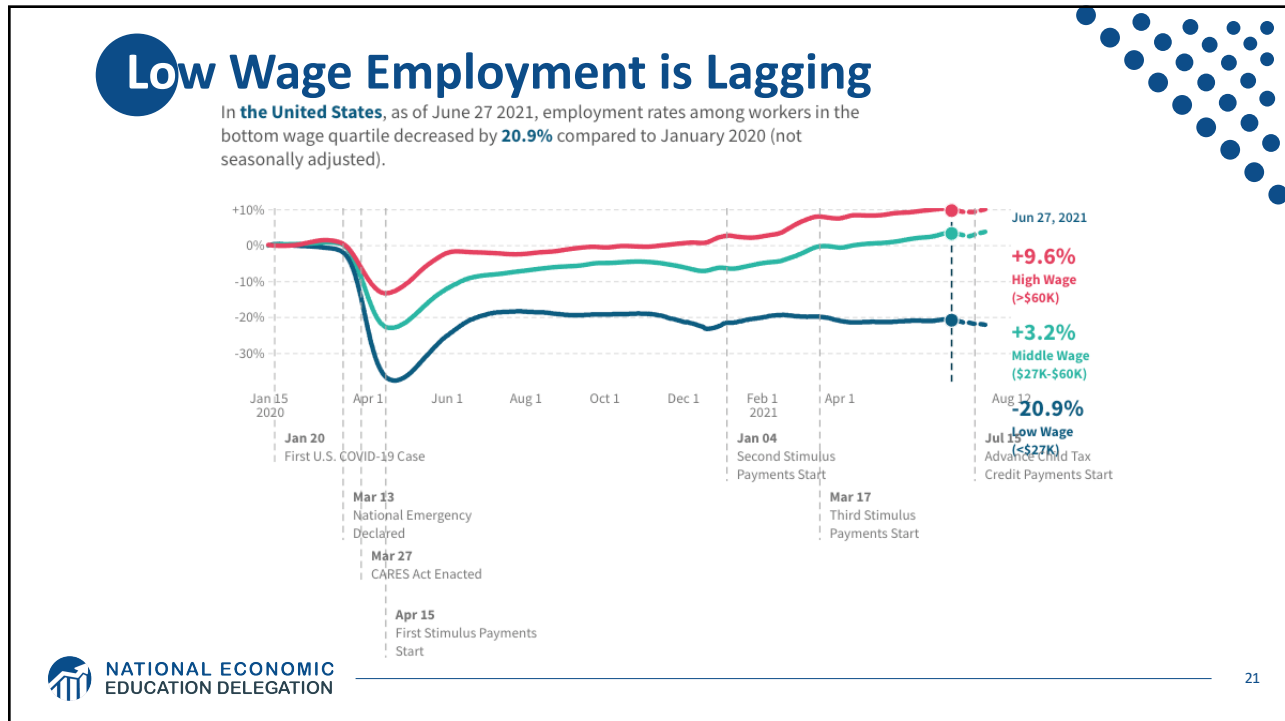
1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance

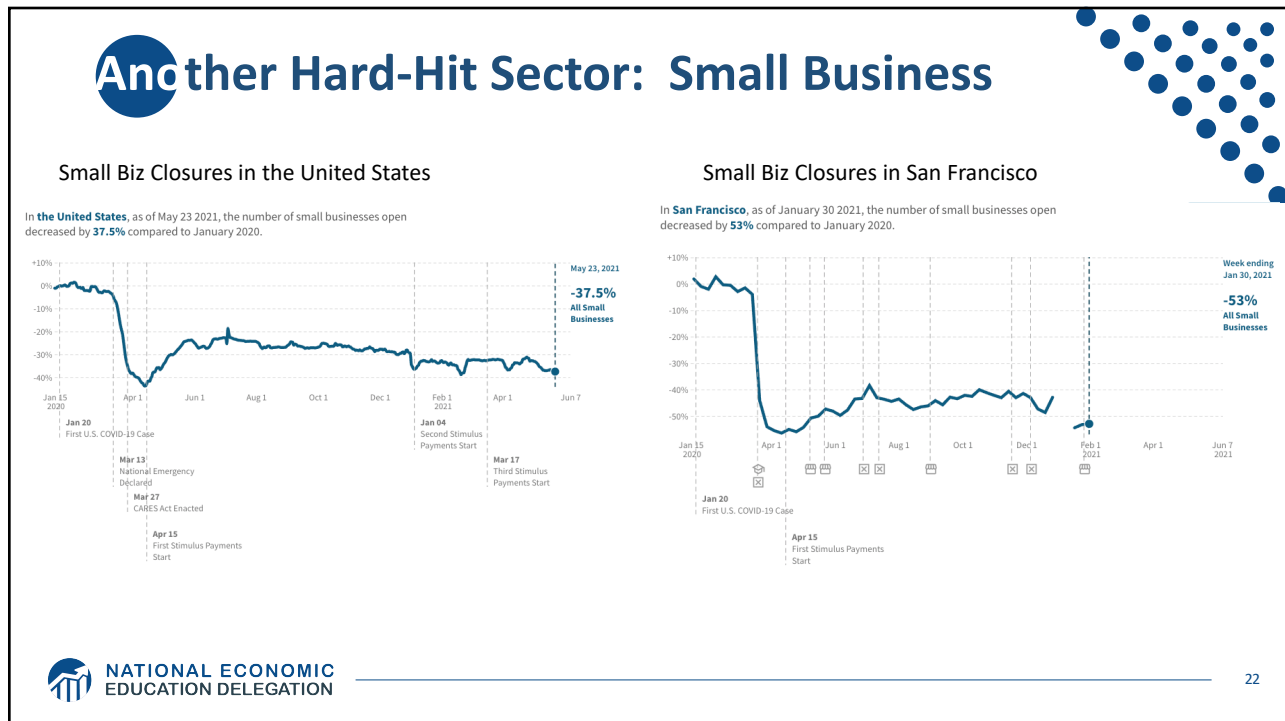


Source: TrendPlaybook.com, Bloomberg

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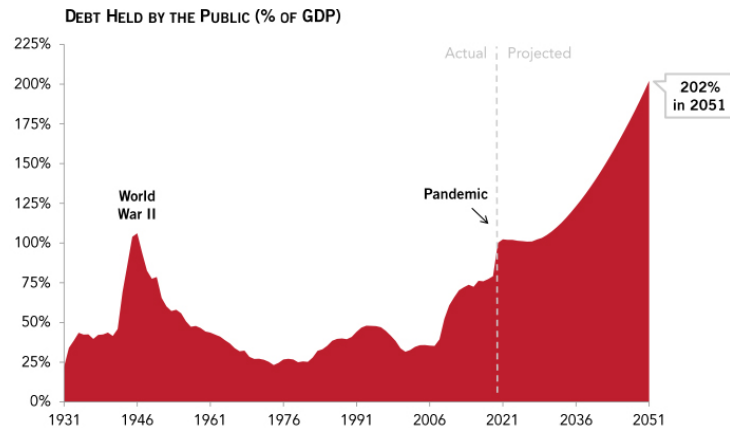


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Debt: A Problem Exacerbated...Not Created



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021.
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Balancing Act

• Too Big (Larry Summers)

1. There already is about \$1.5 trillion in personal saving waiting to be spent.
2. Needlessly adding to our debt and deficit problems.
3. Reignite **inflation**.
4. Less "fiscal space" - room for needed public infrastructure investment.

• Too Small (Paul Krugman)

1. Double Dip.
2. You only get one bite at the apple.
3. Prolonged economic scarring.
4. People in true need are left out.

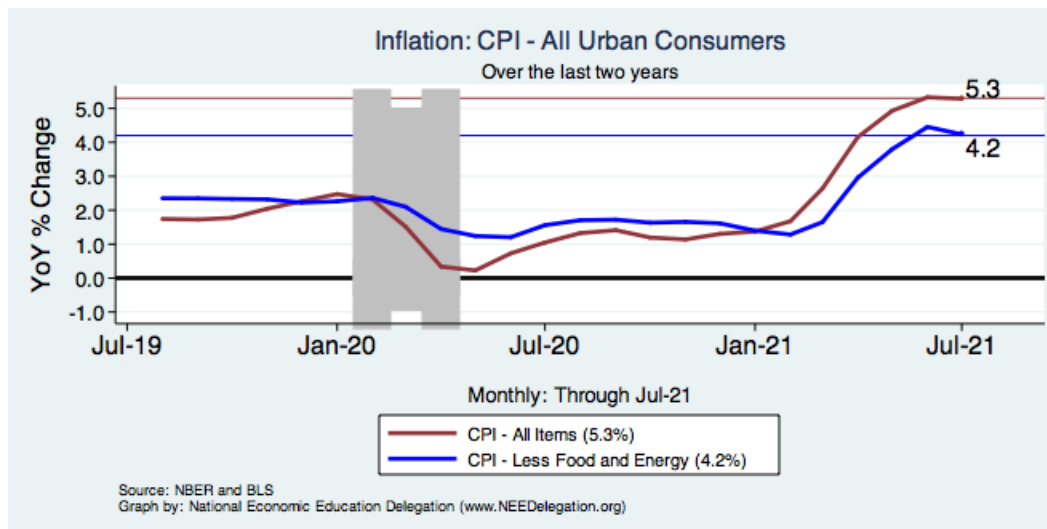


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Inflation – Climbing! Should we worry?



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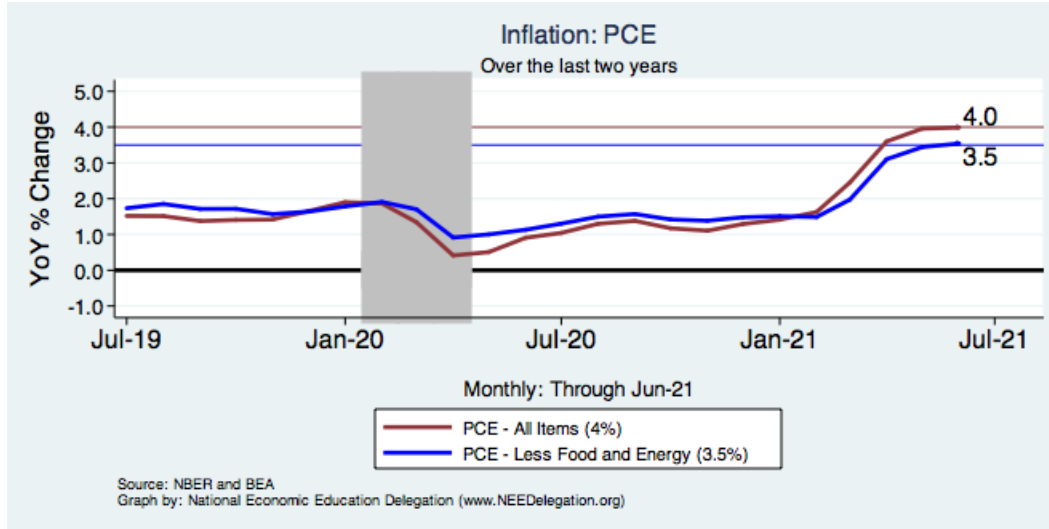
What Index to Follow: CPI or PCE?

- **CPI is the headline statistic, followed by most newspapers.**
 - Allows more granularity – ability to look at specific products.
- **PCE is the one followed by the Fed.**
 - Why?
 - Accounts for short term fluctuations in consumer purchases.
 - Based on more reliable data.
- **Fed generally pays attention to the core inflation #s.**
 - Excluding food and energy.



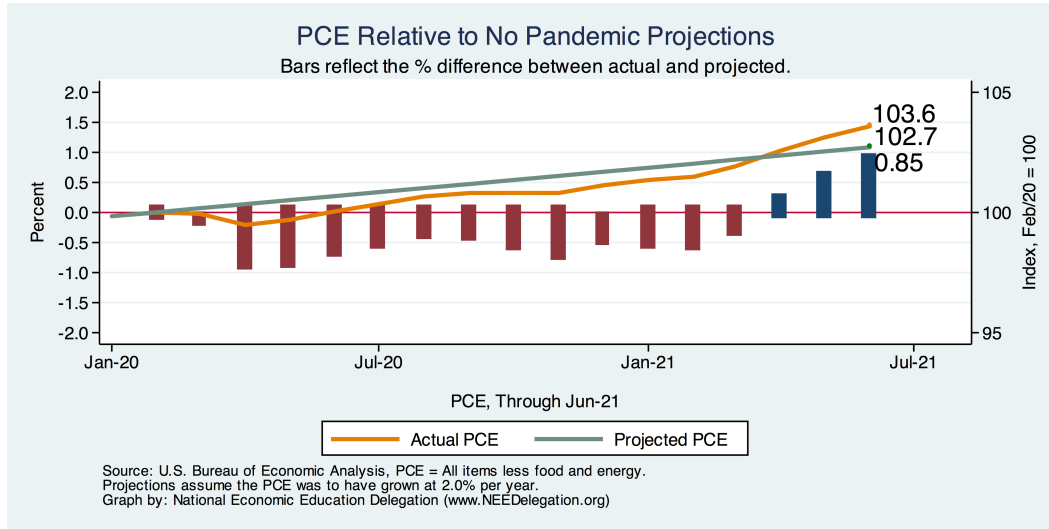
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Inflation – Climbing! Should we worry?



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Inflation – PCE and Fed Suggest: No!



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Inflation – Summary

- **Headline inflation story is troublesome.**
- **The Fed suggests that is not.**
- **Inflation has been high, but has just recently caused the price level to be higher than it would have been.**
- **Powell: current high inflation is “transitory”.**
 - That does not mean that price levels will come down.
 - It means that inflation is likely to return to its prior trajectory once the economy has worked out the pandemic kinks.

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Aggregate Data Looks Encouraging

- **Recovery has been *unexpectedly* rapid, albeit incomplete, but has started to pick up again.**
- **Why so rapid: There were no **short-run** macro problems at the start of the crisis.**
- **Obstacles to continued recovery:**
 1. Resurgence of the virus.
 2. Economic damage due to prolonged job losses and business failures in specific sectors.
 3. Adapting to structural changes.

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Structural Changes?

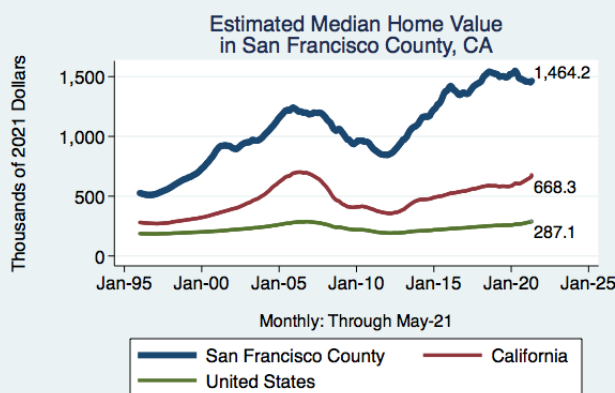
- **Pandemic has been an accelerant.**
 - Not a change agent.

- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**

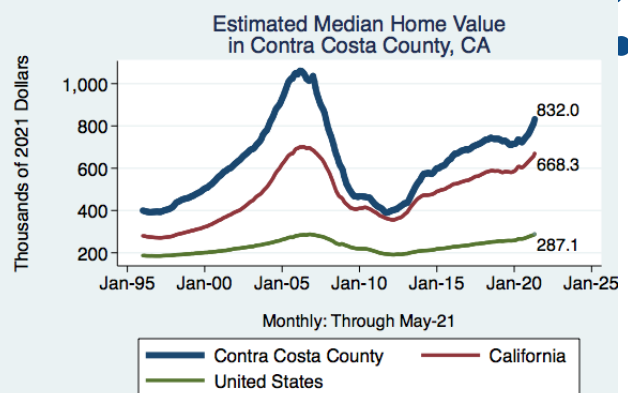
- **Wealth concentration**
- **Industry concentration**
- **Automation**

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RE Experiences Differ!



Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
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Primary Topics Covered

- **GDP**
 - Recovered the decline, but not where it should be.
 - Won't recover previous forecast until late 2022.
- **Employment**
 - Still down 9.6 million jobs relative to forecast. (5.7 million relative to Feb/20).
- **Inflation**
 - Going to be high for a little while, but transitory.
- **Federal Debt**
 - Has grown significantly, but economists are not worried...yet.



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Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
 - With enormous built-in inequities.
- **Significant structural changes – accelerant.**
- **GDP will likely expand between 5.0 and 6.0 percent this year.**
- **Physical health determines economic health for the economy.**
 - Well on our way to recovery, both health and economic.
 - Variants may well slow our progress, however.



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Thank you!

Any Questions?

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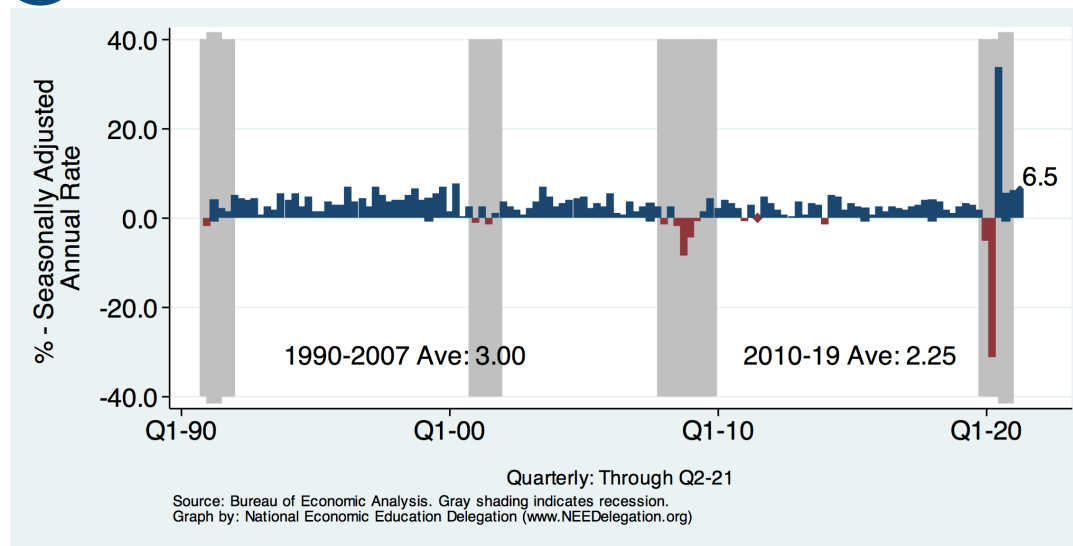


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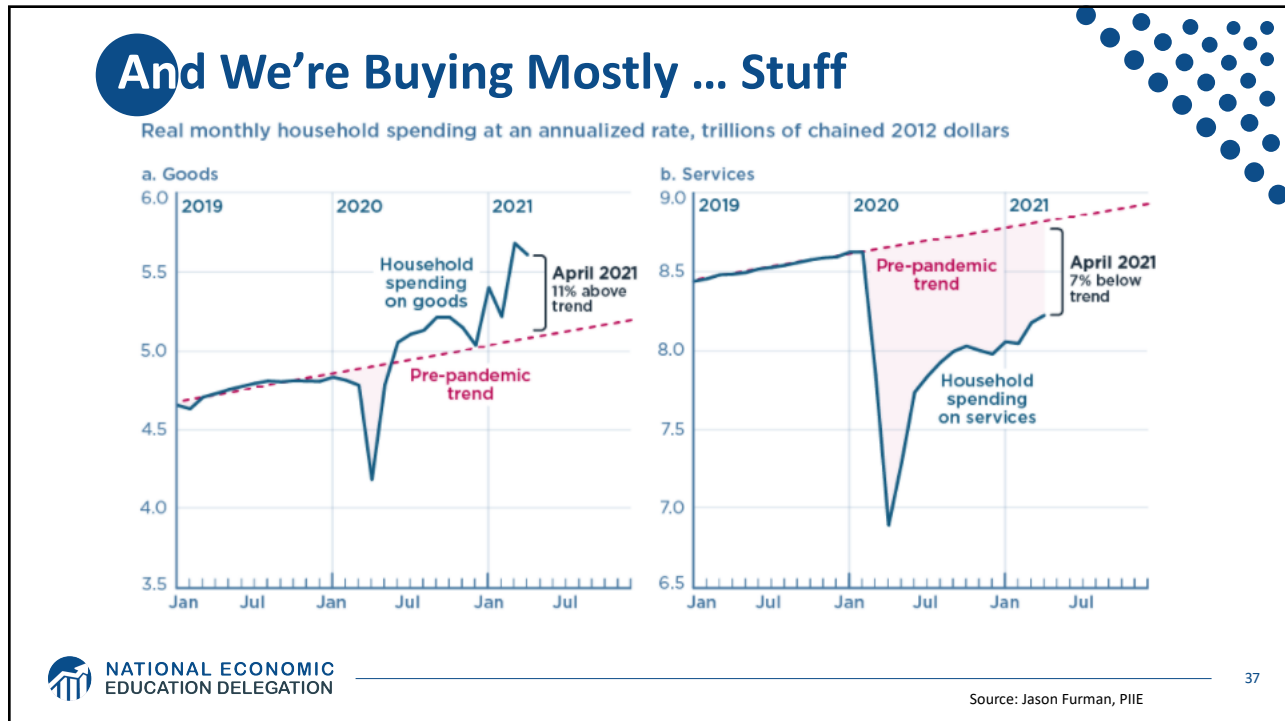
GDP: Quarterly Growth



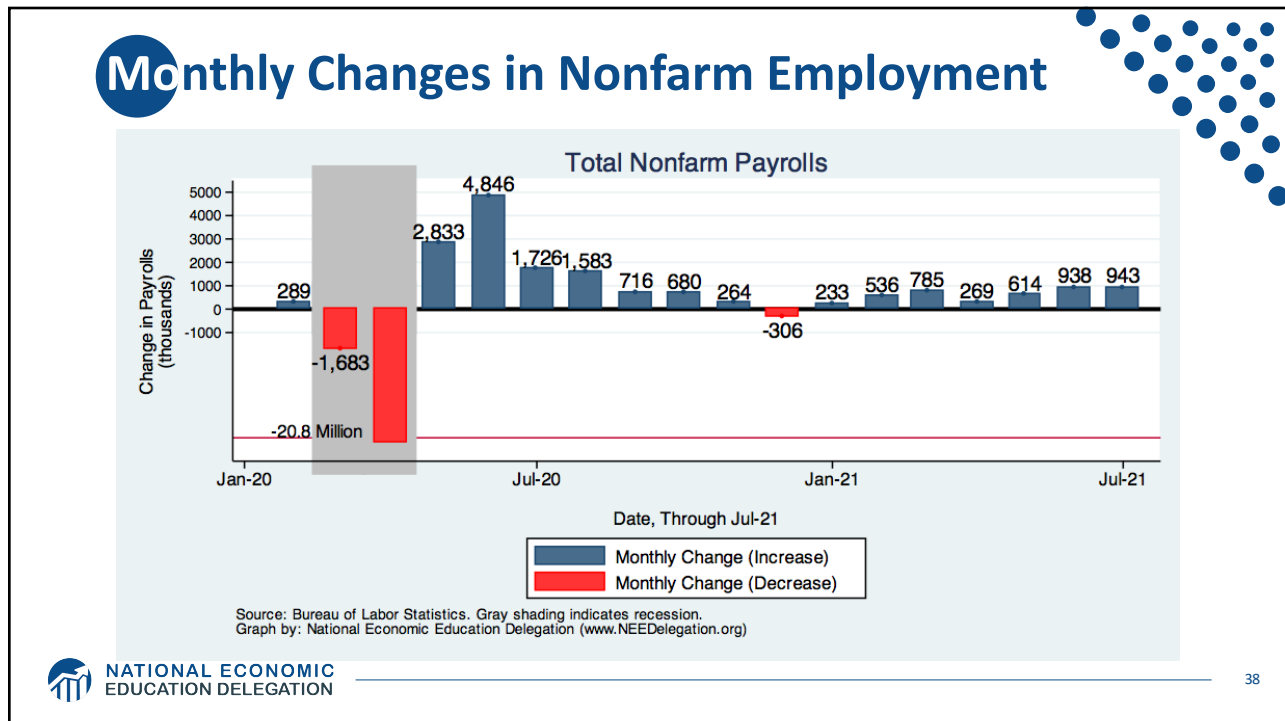
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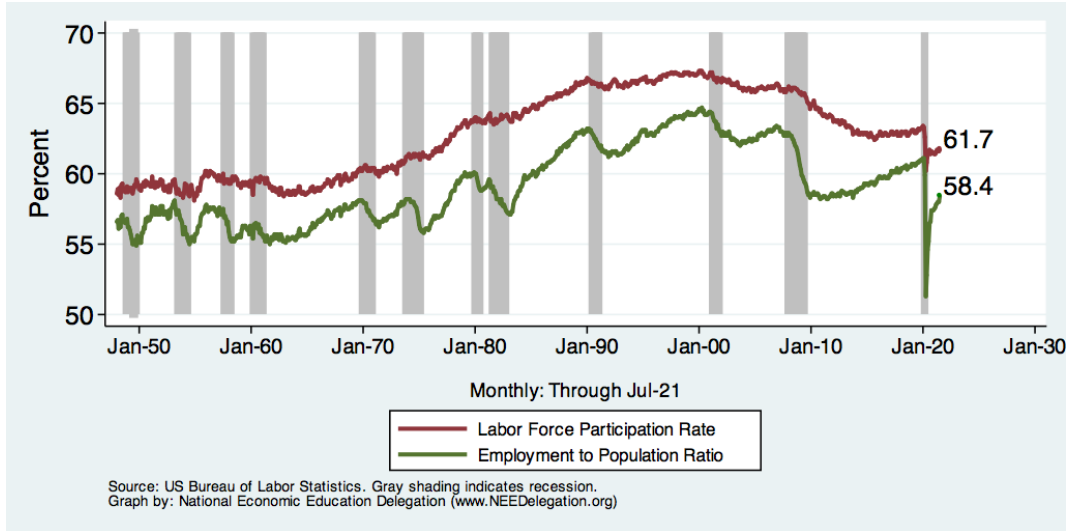


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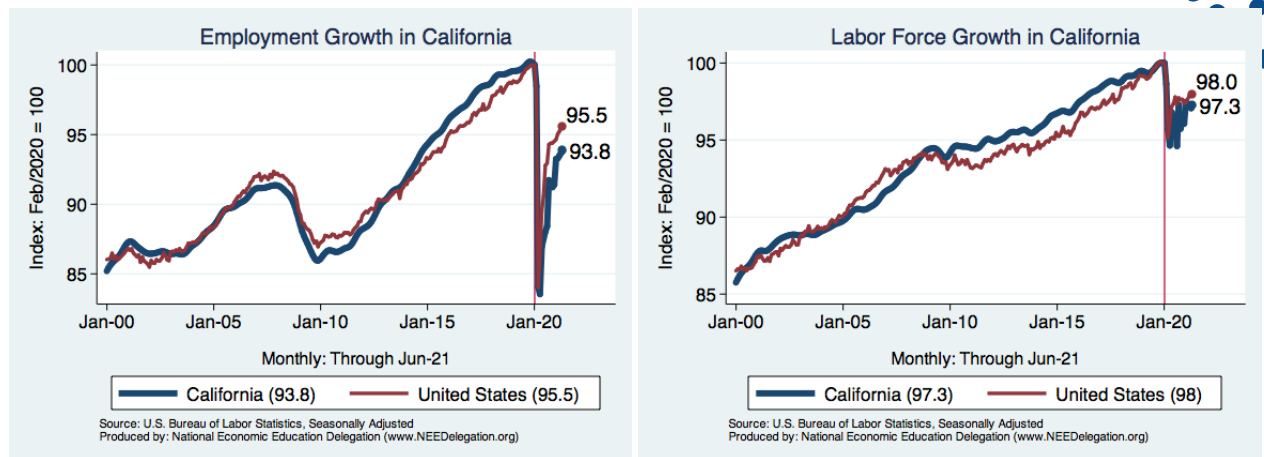
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Labor Force is Shrinking

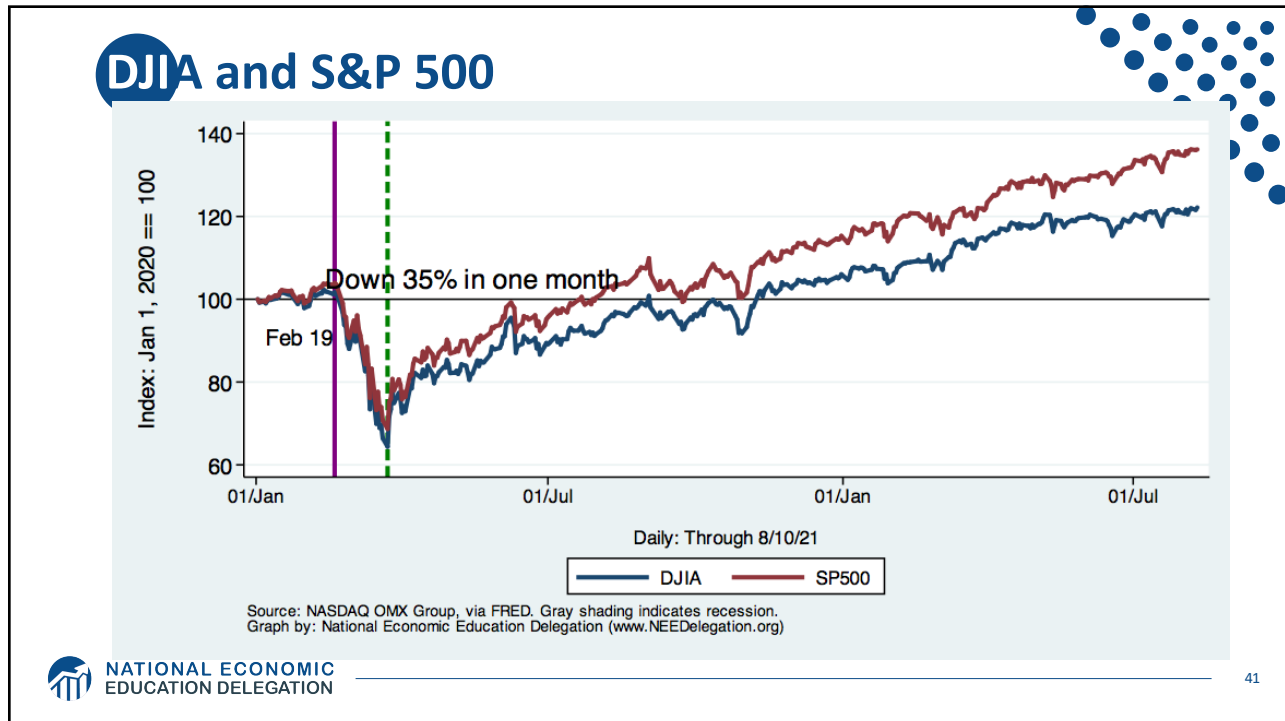


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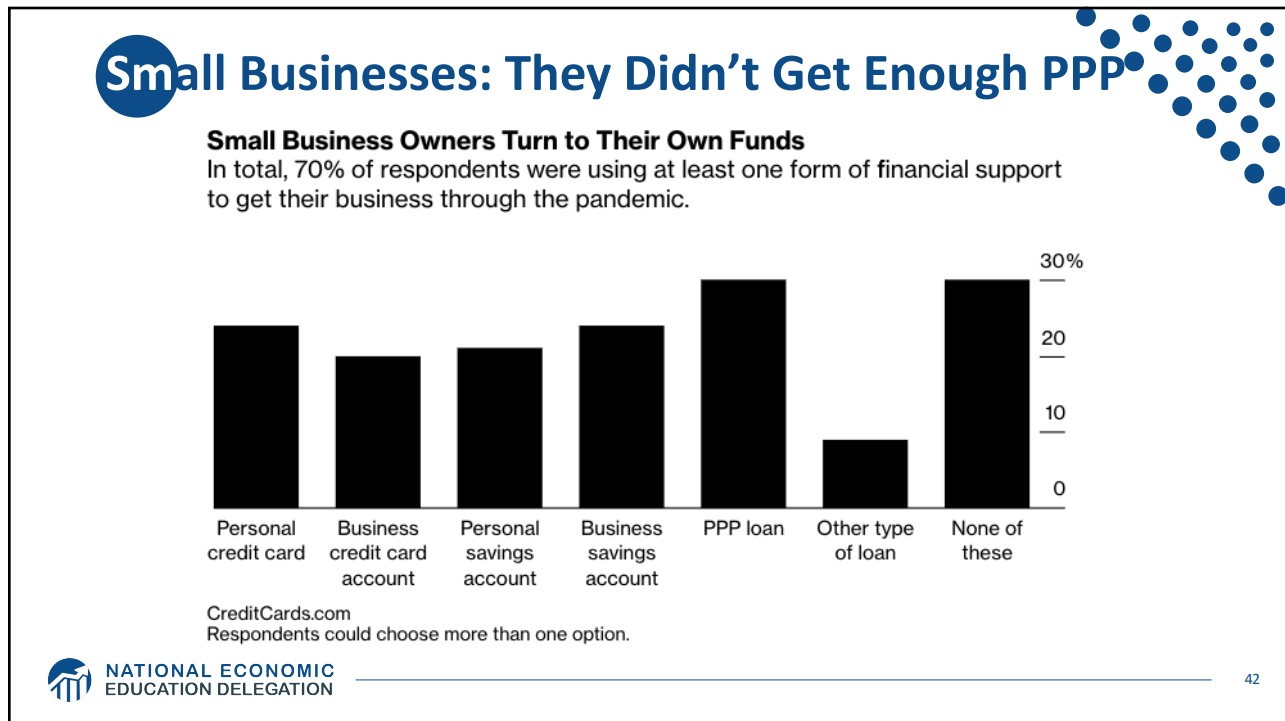
Employment in California



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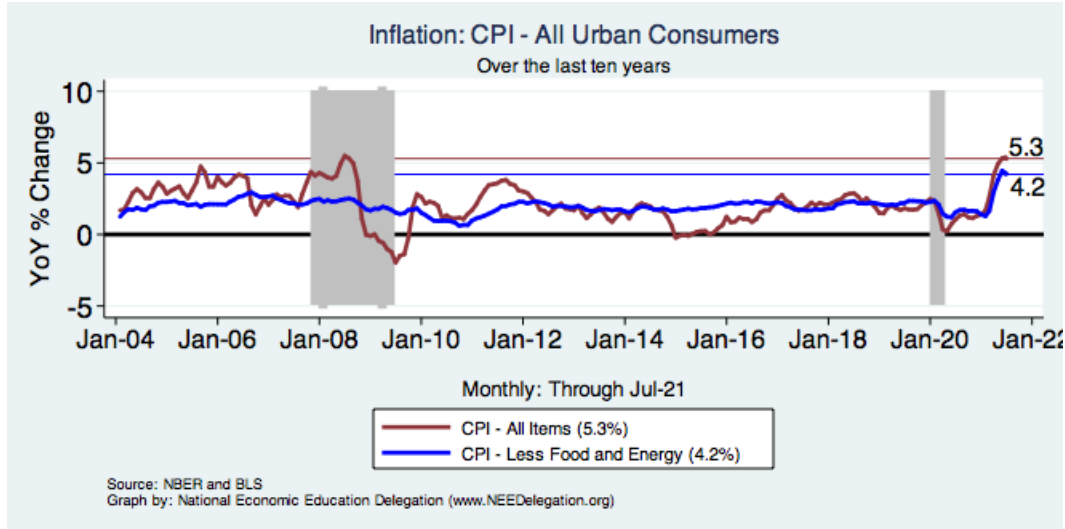


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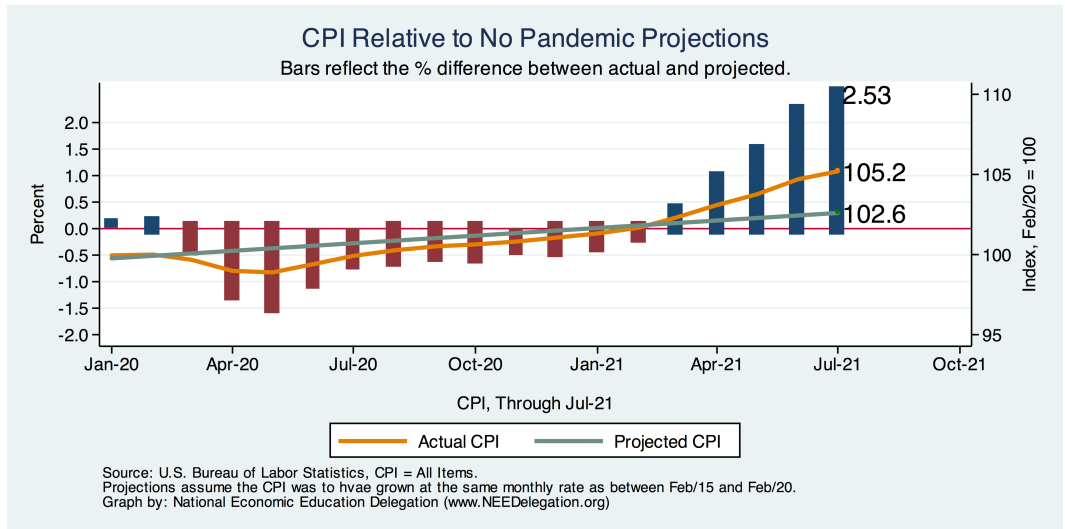
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Inflation – Prepandemic Stability

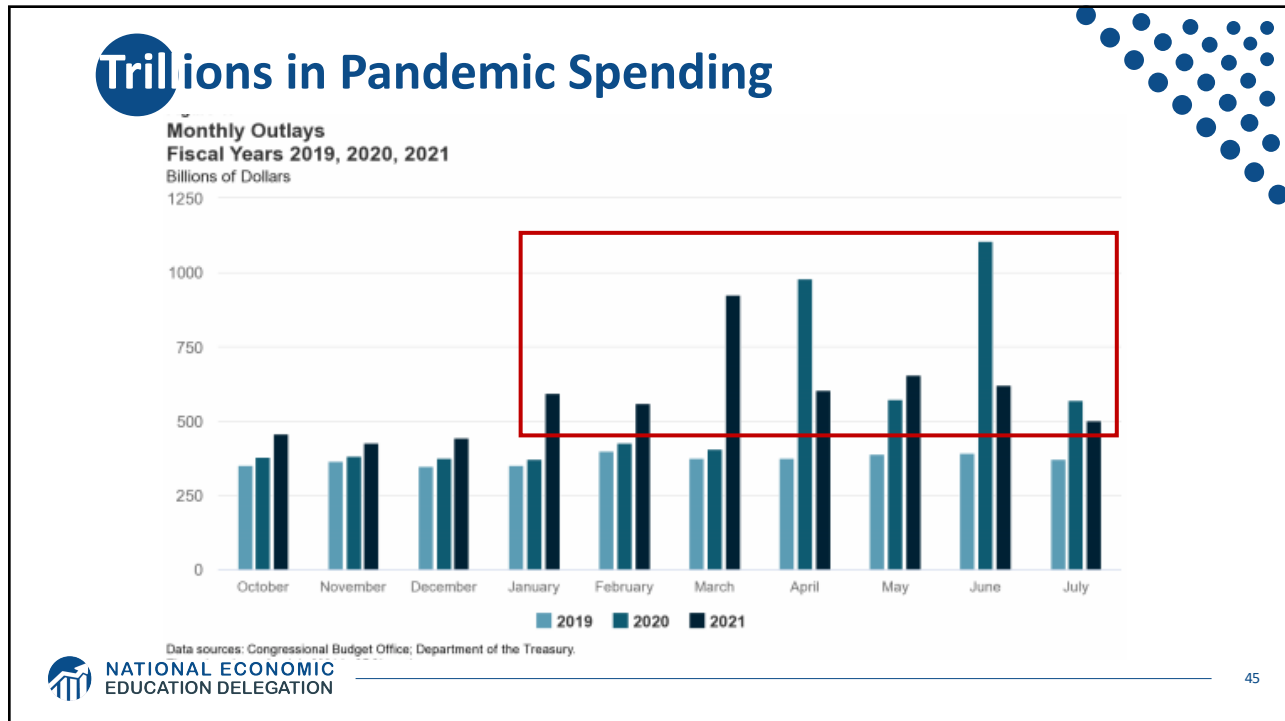


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Inflation – CPI Suggests: Yes!



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Why so Excited About Telecommuting?

- **Productivity at home appears to be really high during pandemic.**
 - Nothing else to do.
 - Short term – corporate culture and new hires – visibility to the boss – camaraderie.
- **CEOs are salivating over reduced Comm RE costs.**

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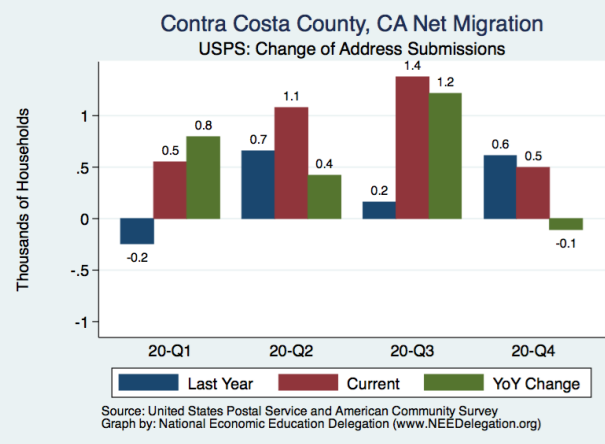
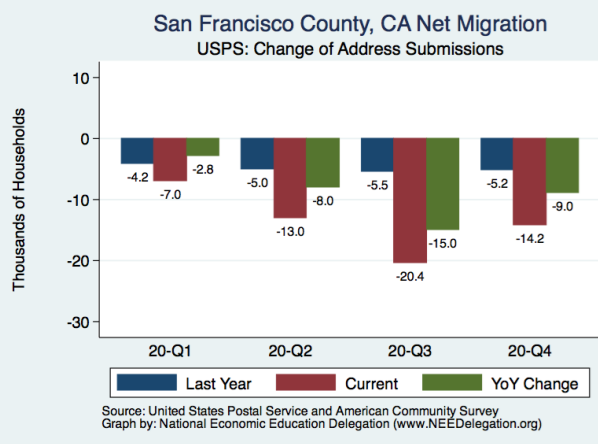
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Telecommuting – Will it Stick?

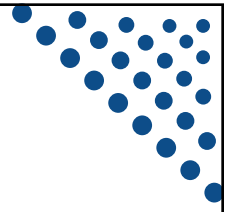
- Working from home is ALWAYS less productive than working in the office.
 - But the gap has shrunk because of technology.
- In the interest of workplace productivity, employers are likely to allow more working from home.
 - Increased in-office moral and hence productivity.
 - But not 100% or even 50%. How much?
- Has important implications for real estate.

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Population Change: San Francisco & CCC



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www.NEEDelegation.org/LocalGraphs

For every state and county in the United States.
Detailed graphs on employment, housing, moves, and other statistics.

