



# COVID-19: Economic Implications and Policy Response

Sons in Retirement, Group 8

January 11, 2021  
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Executive Director, NEED



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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: 53 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: 585+ 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**
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- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **2017 Tax Law**
- **Autonomous Vehicles**
- **US Social Policy**

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## Credits and Disclaimer

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

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- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombeck, Lewis & Clark College

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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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## Outline

- **Evidence of Impact**
- **Government Policy**
- **Nature of the Recovery**



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# Spending Patterns Since First US Case

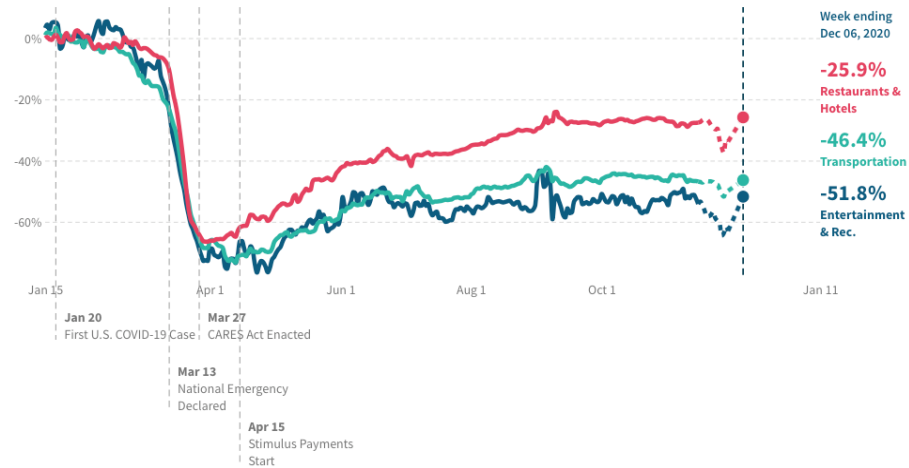
In the United States, as of December 06 2020, total spending by all consumers decreased by **1.7%** compared to January 2020.



Source: <https://tracktherecovery.org/>

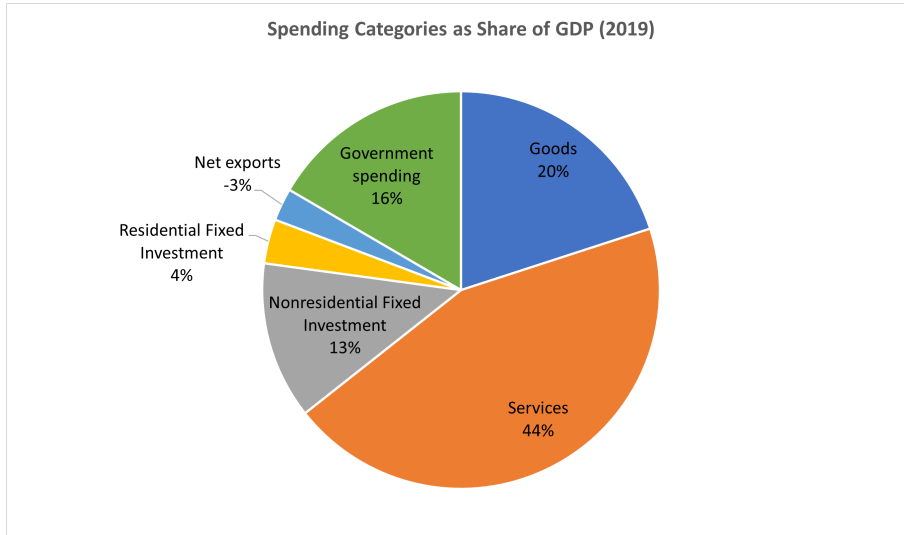
# Spending Patterns – Hardest Hit Sectors

In the United States, as of December 06 2020, arts, entertainment, and recreation spending by all consumers decreased by **51.8%** compared to January 2020.



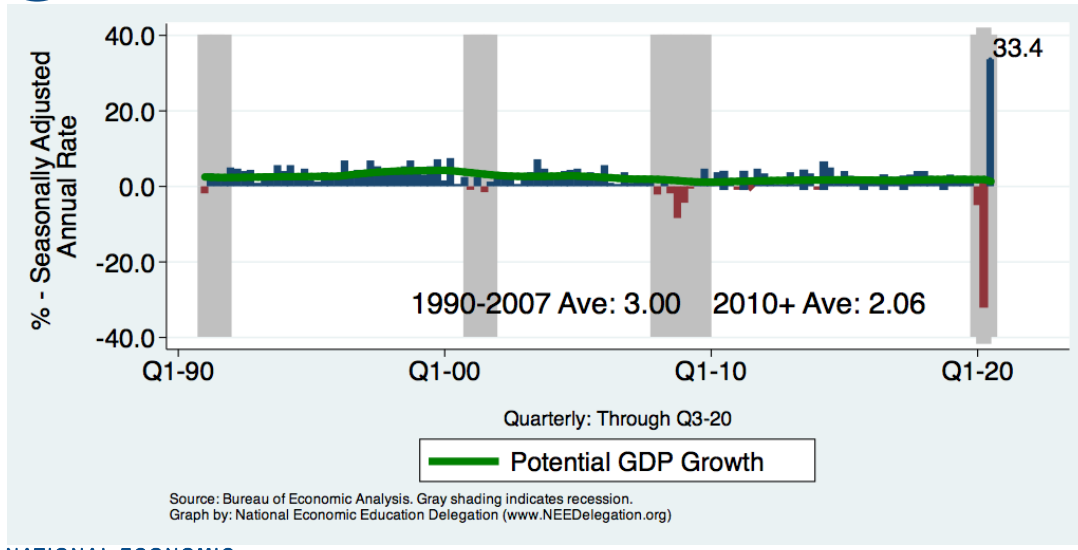
Source: <https://tracktherecovery.org/>

# Why does spending matter?



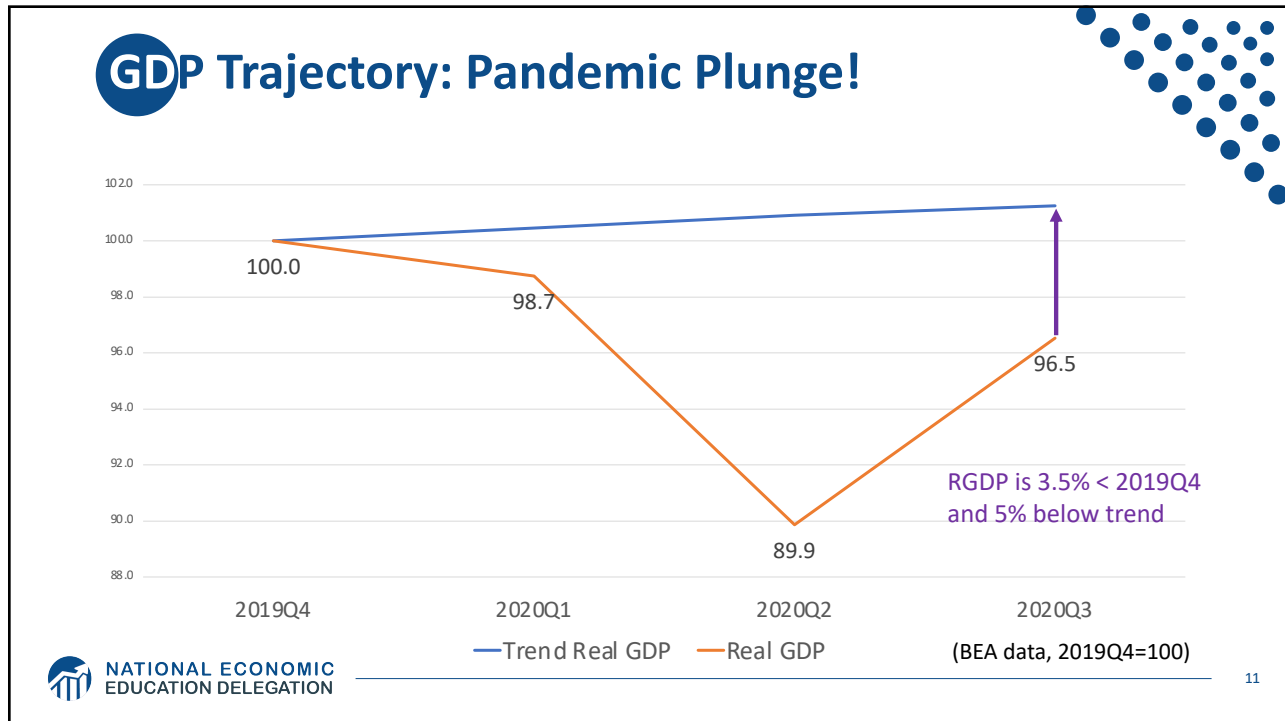
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# GDP – Quarterly Growth

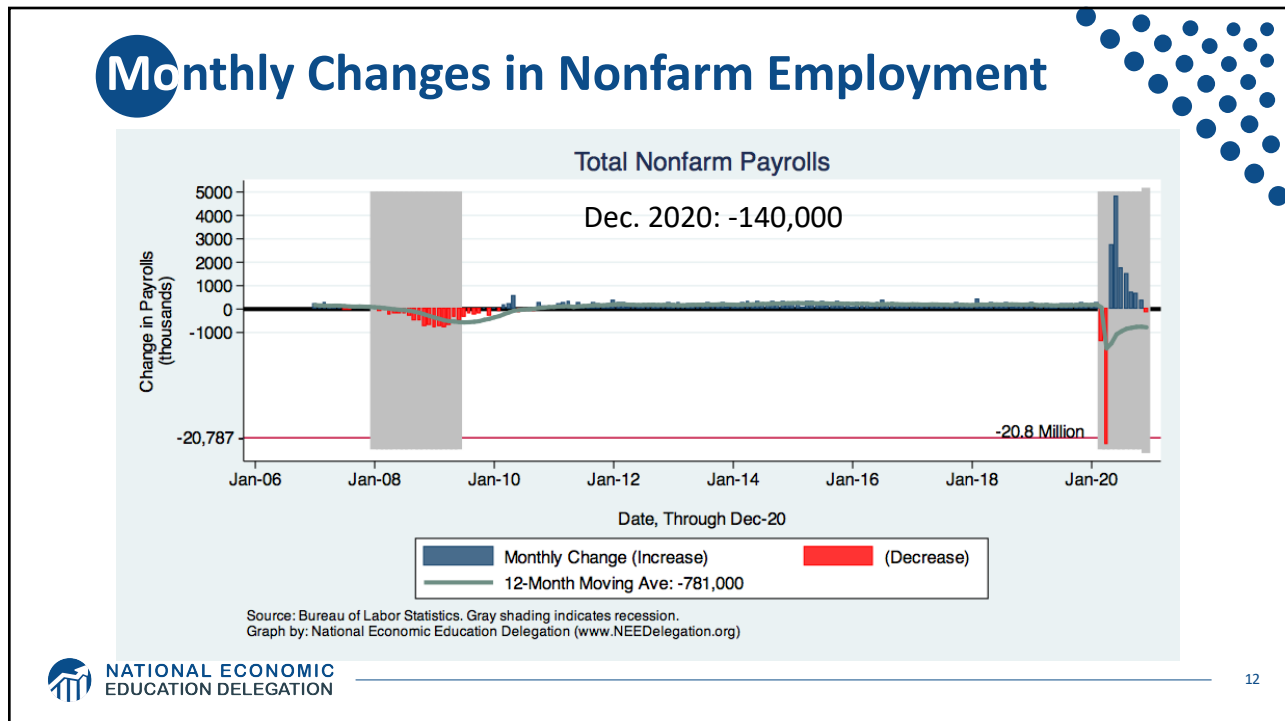


Source: Bureau of Economic Analysis. Gray shading indicates recession.  
Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

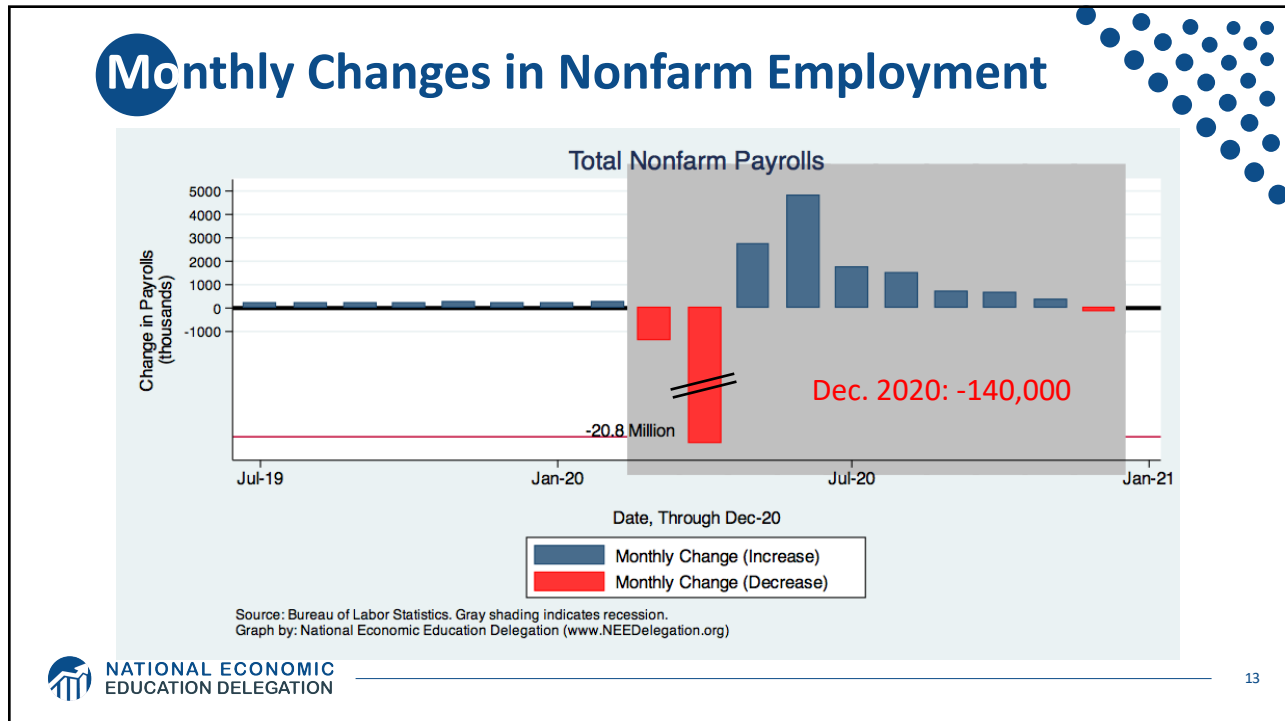
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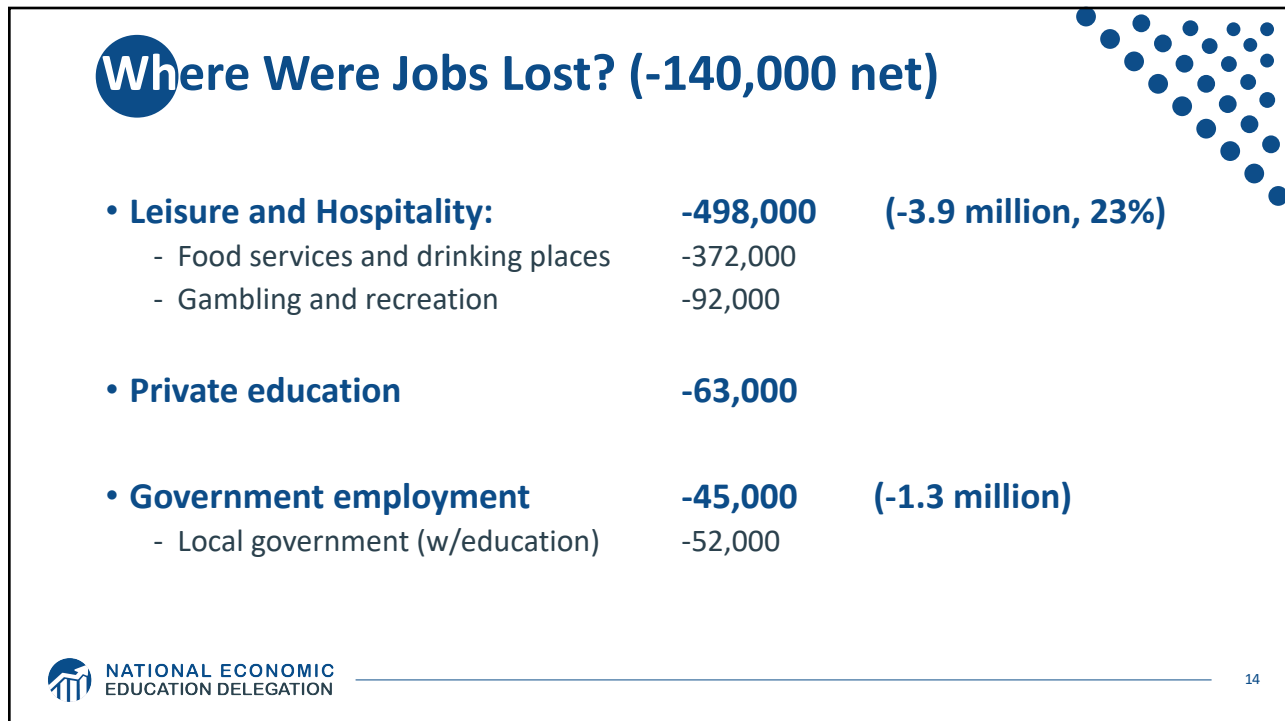
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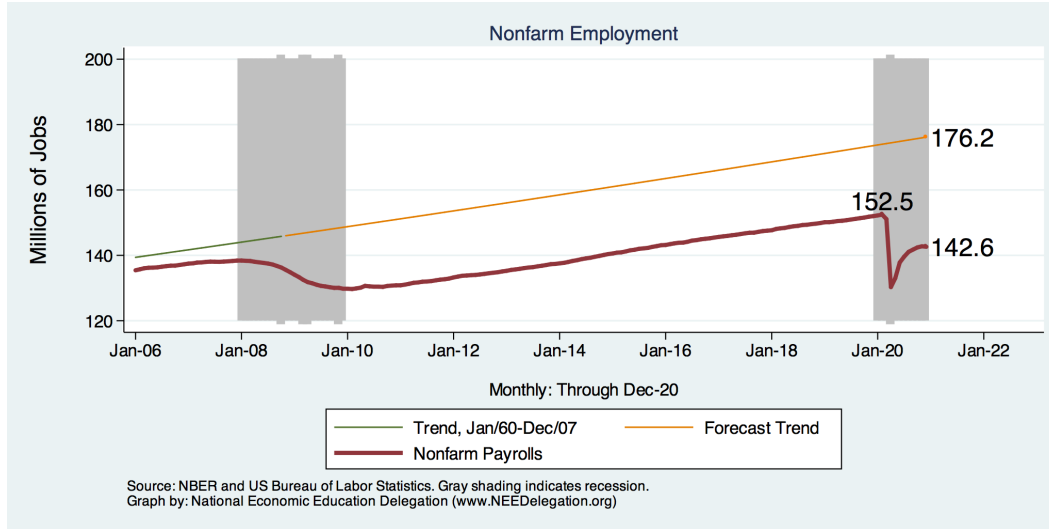


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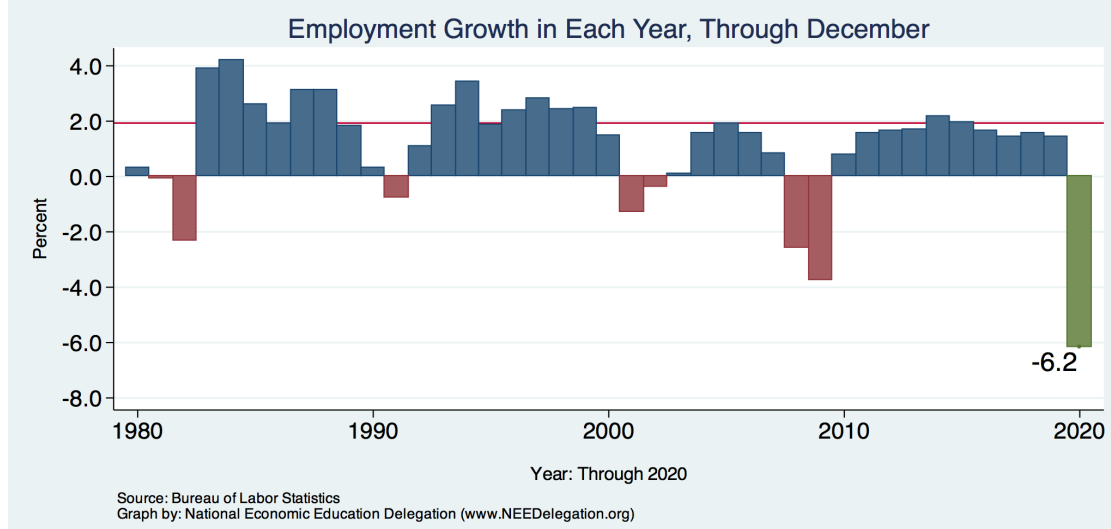
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# Employment Gap



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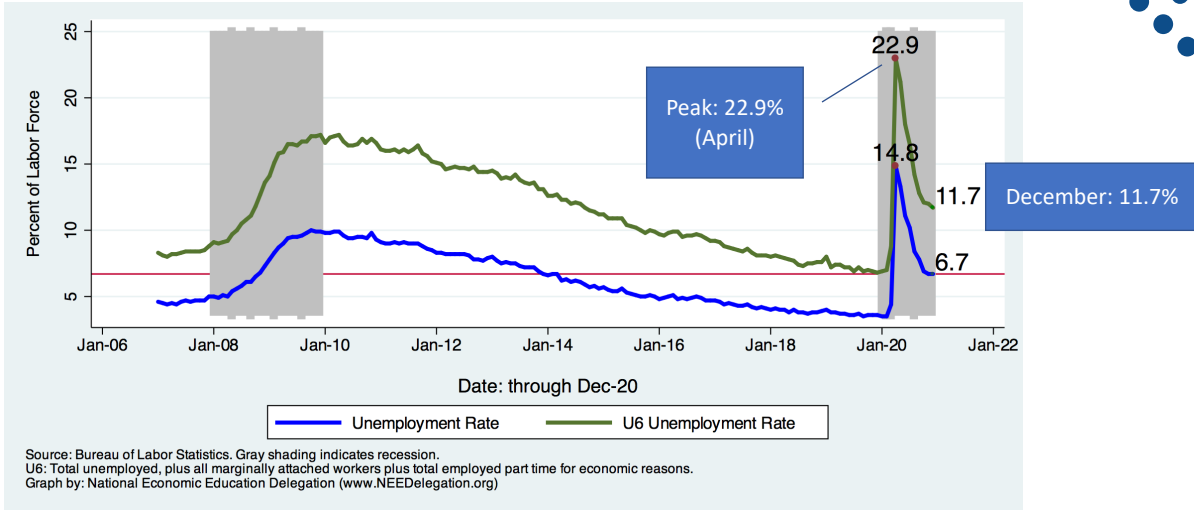
# Annual Changes in Nonfarm Employment



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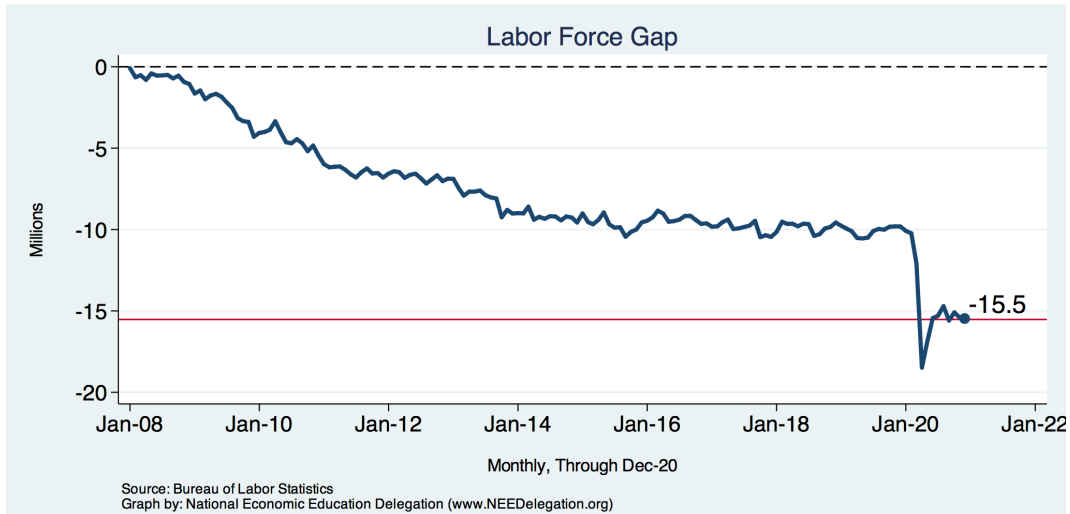


## Reduced Spending: Unemployment



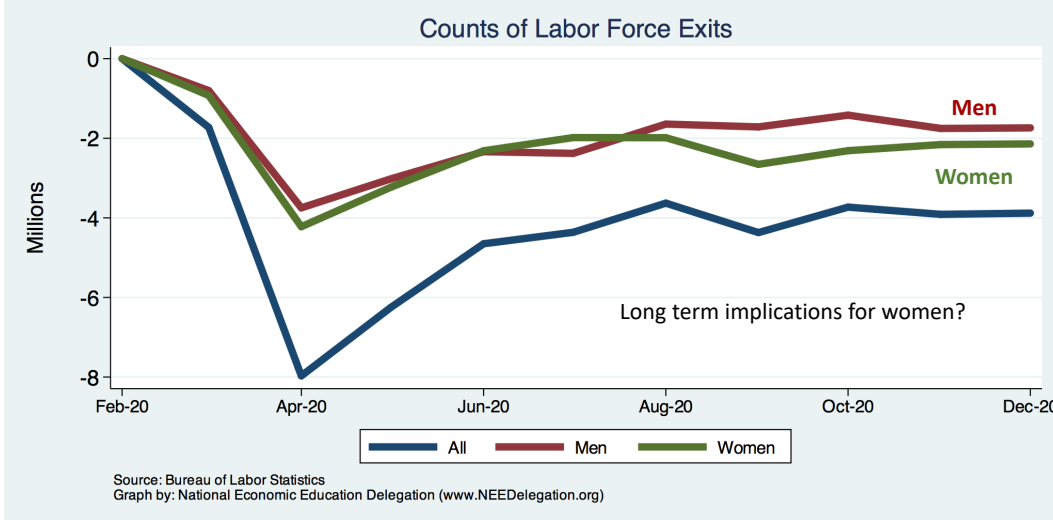
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## Labor Force is Shrinking – Drives Down UR



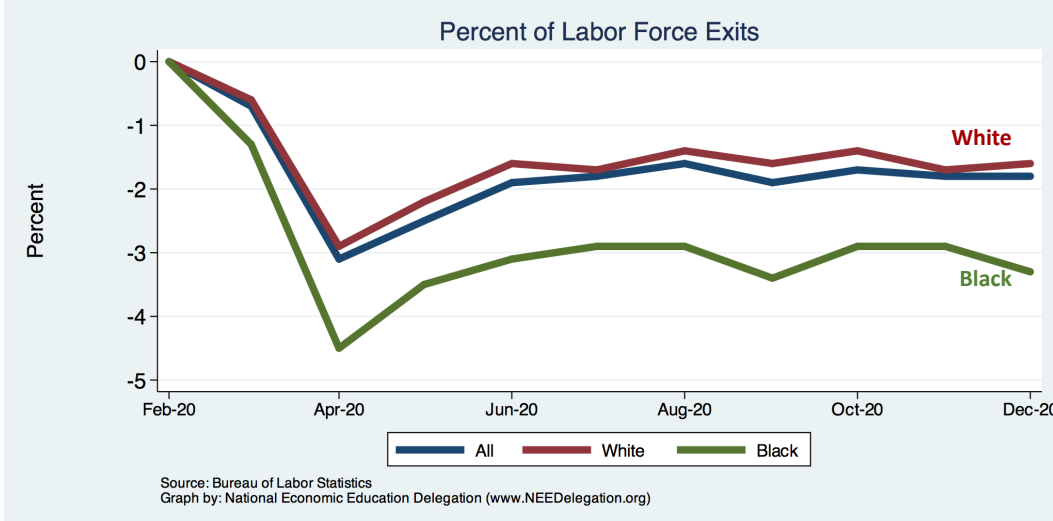
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## Affecting Women More Than Men

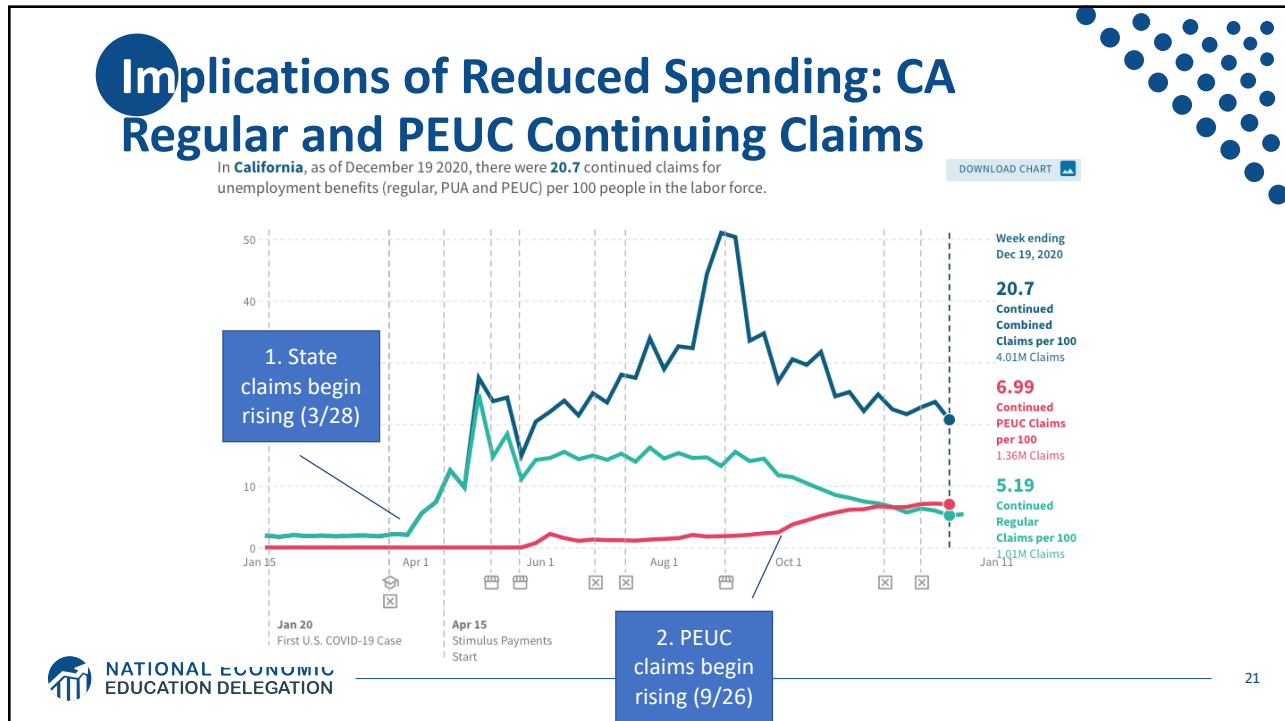


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## Affecting Black Workers More than White



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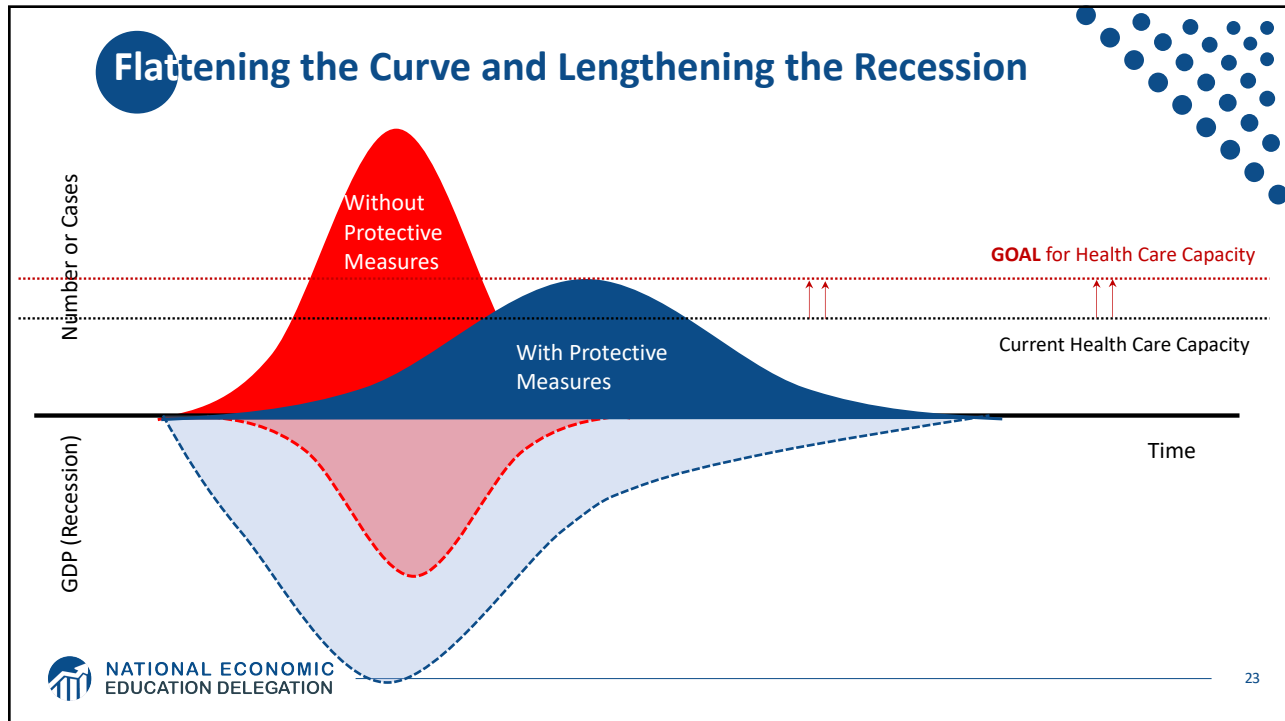
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## A Tale of Three Policies Efforts

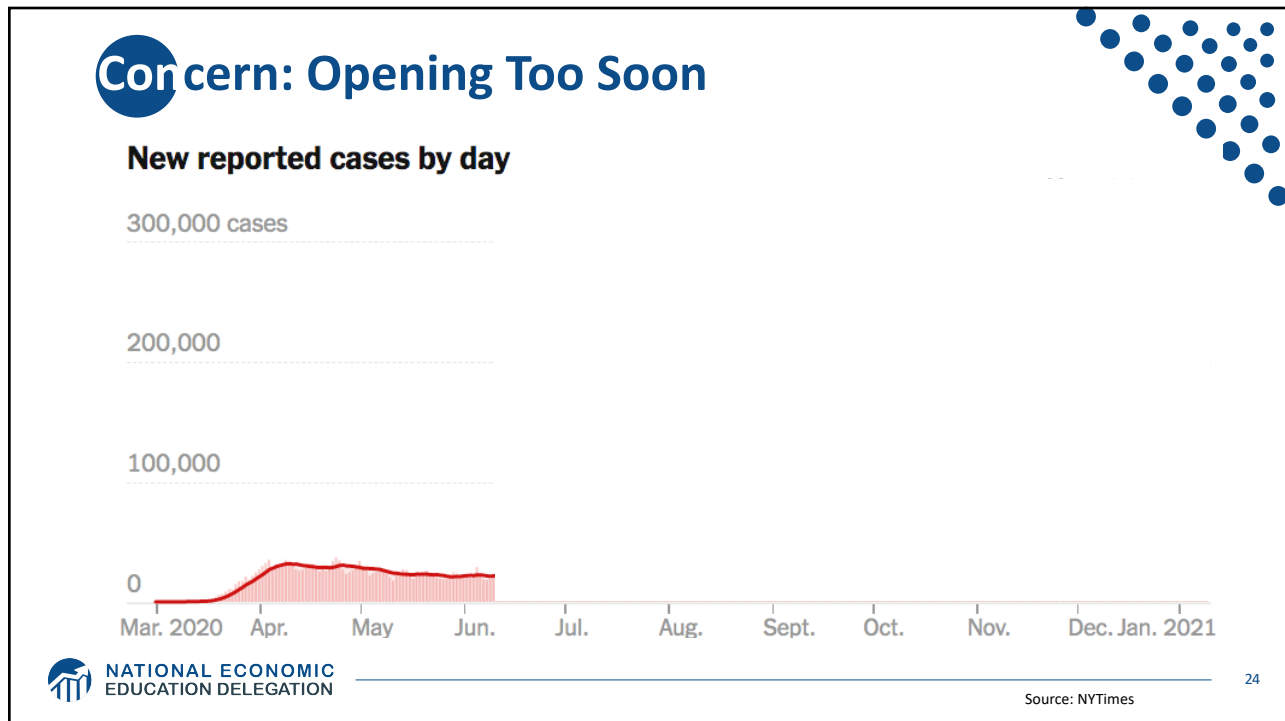
- **Social policy: Social Distancing**
- **Fiscal Policy**
- **Monetary Policy**

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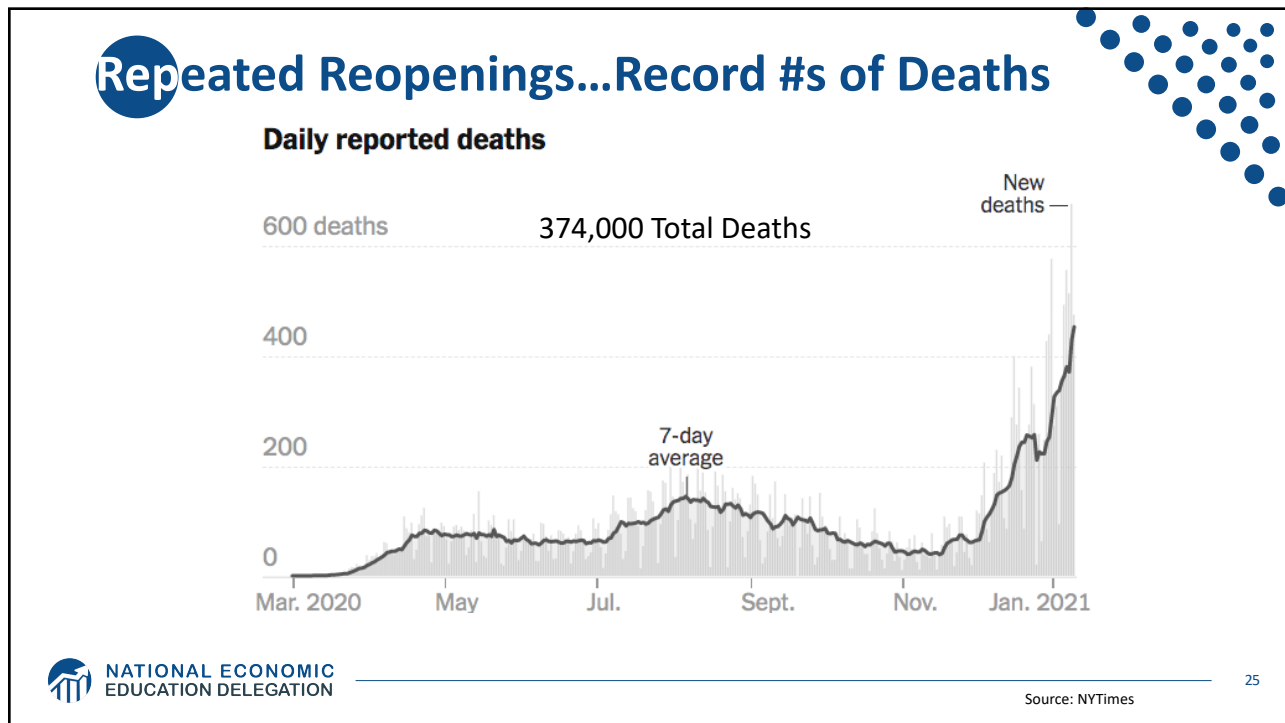
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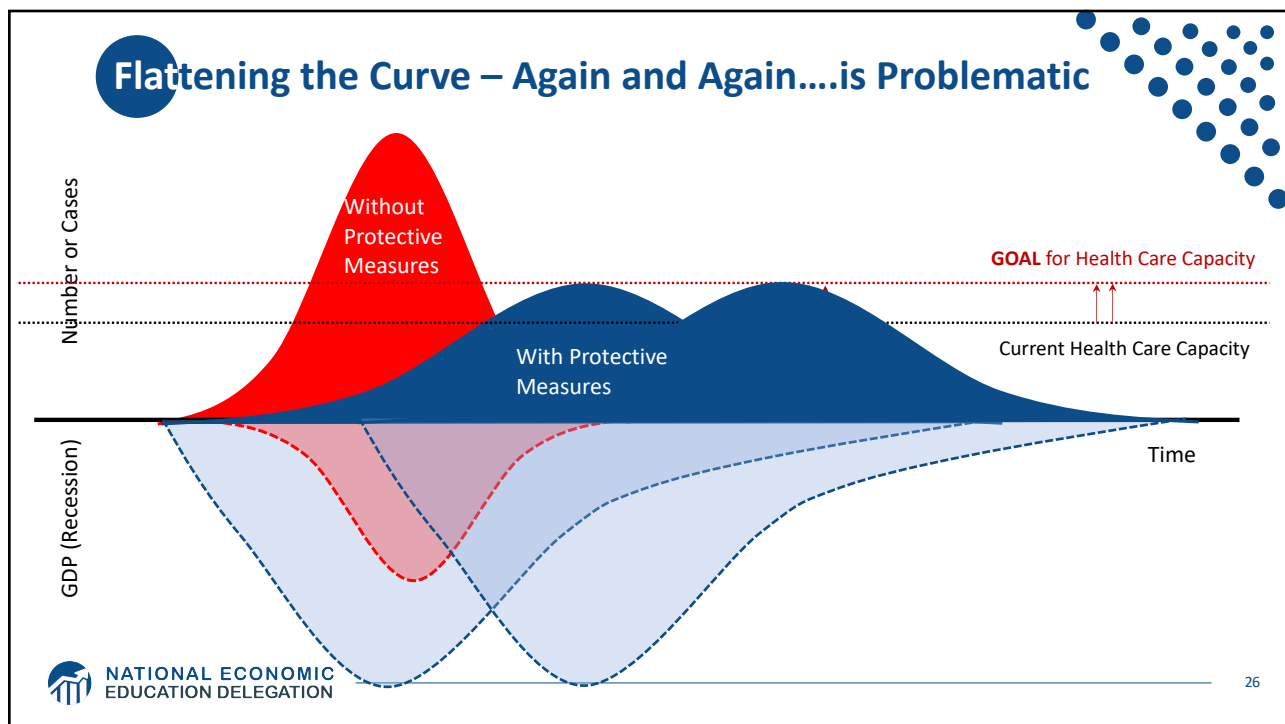
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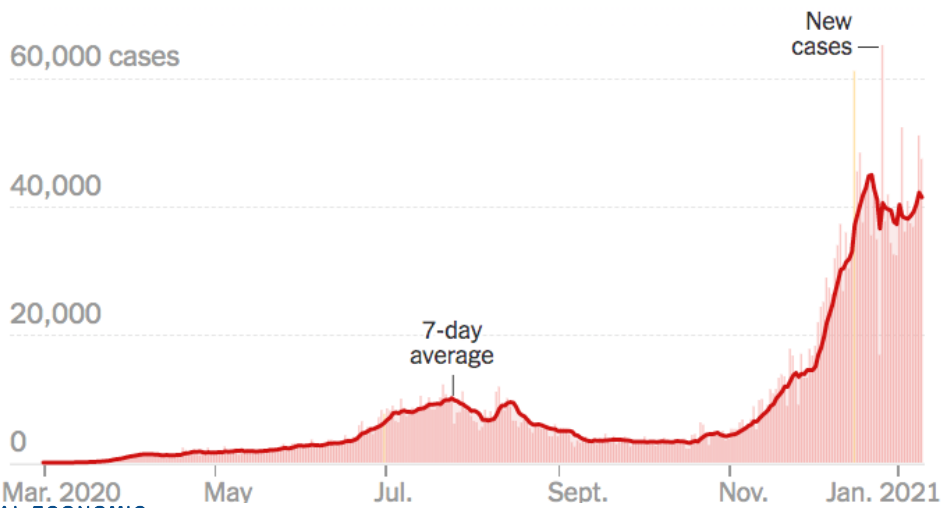
# Reopening, It's Not This Simple



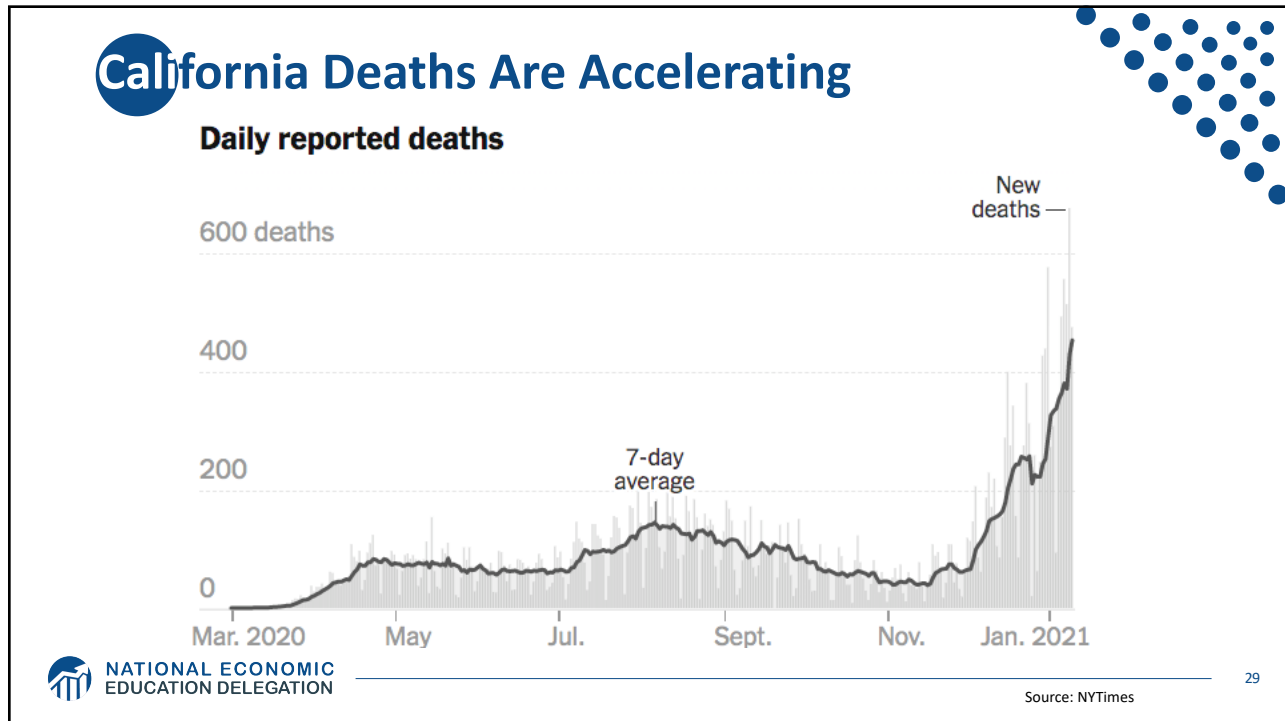
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# California Cases Are High

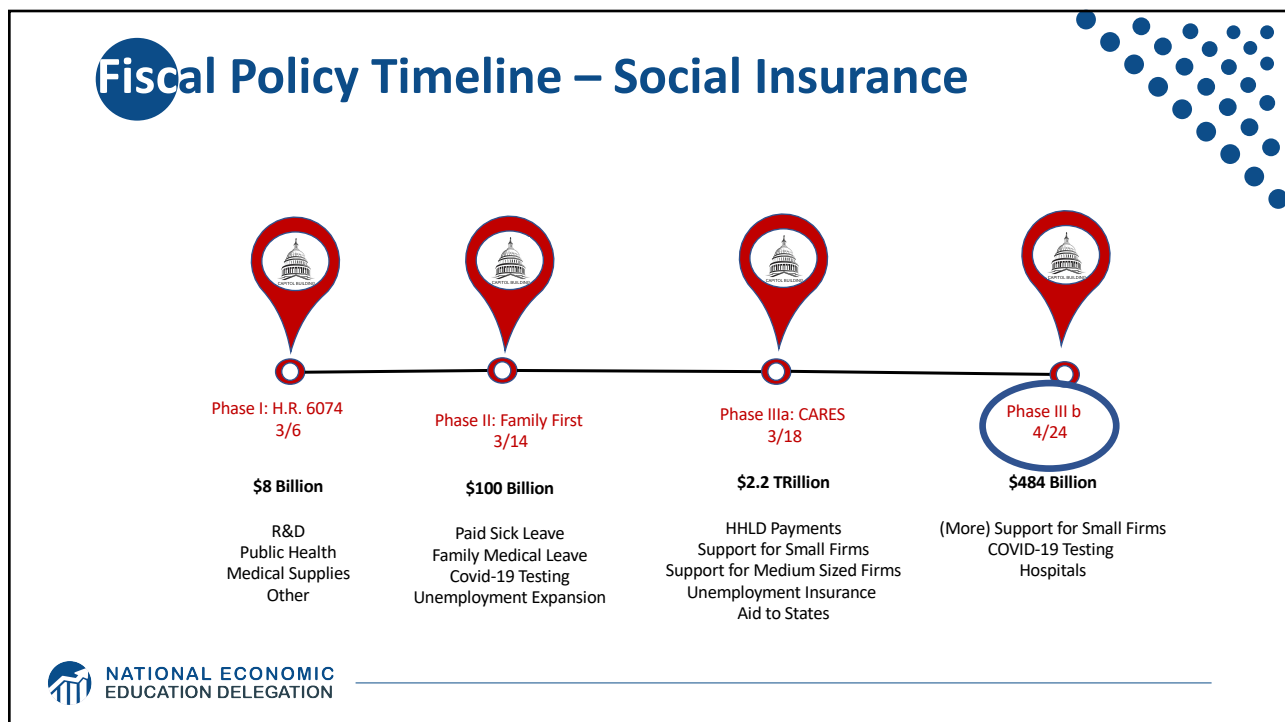
## Daily reported new cases



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## There was/is an Enormous Fiscal Policy Gap

- The last time Congress acted was April 24.
- Unemployment payments are not sufficient.
- Low wage workers are in trouble.
- Small businesses are struggling.
- Renters can't pay rent.
- Lines at food banks are very long.
- States and local governments are slashing employment.



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## New Fiscal Package: What is in it?

- \$600 (may soon be \$2,000) checks to individuals
- \$300 additional unemployment benefits (through March)
- \$284 billion for paycheck protection program
- \$82 billion for schools and universities
- \$68 billion for vaccine distribution
- \$25 billion for rental assistance
- \$93 billion in other support



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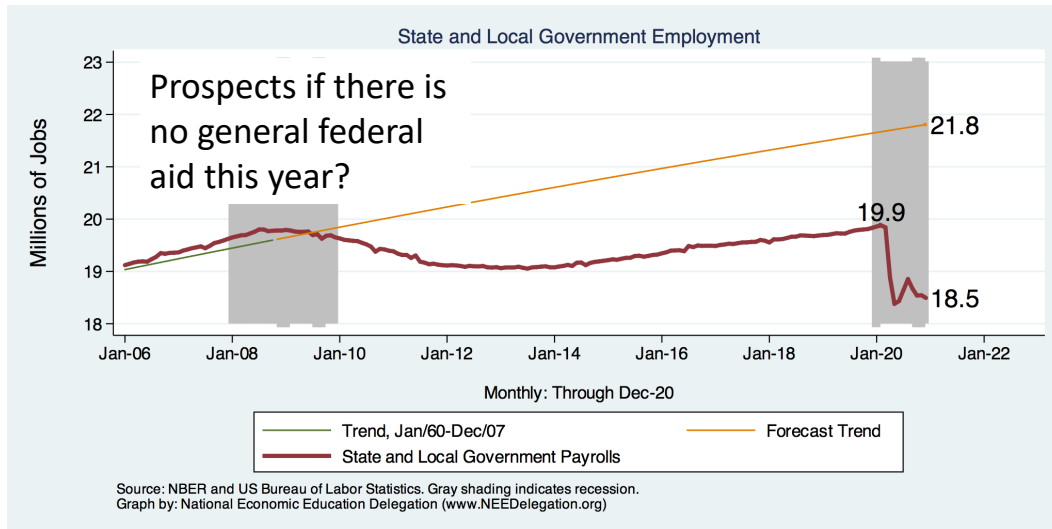


## What's Missing?

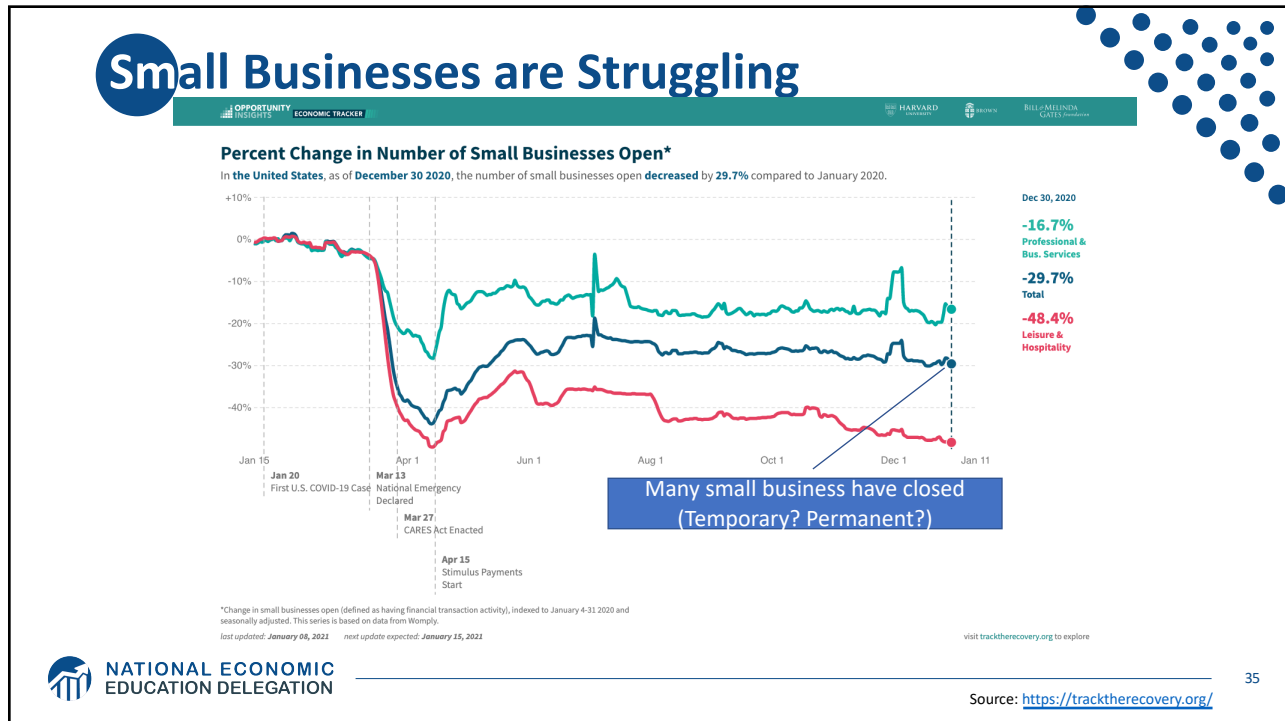
- **Real help to households**
  - \$600 just isn't enough.
- **State and local support**
- **Real support for renters**
  - Down possibly as much as \$70B.
- **Targeted small business support**
- **Independent contractors**

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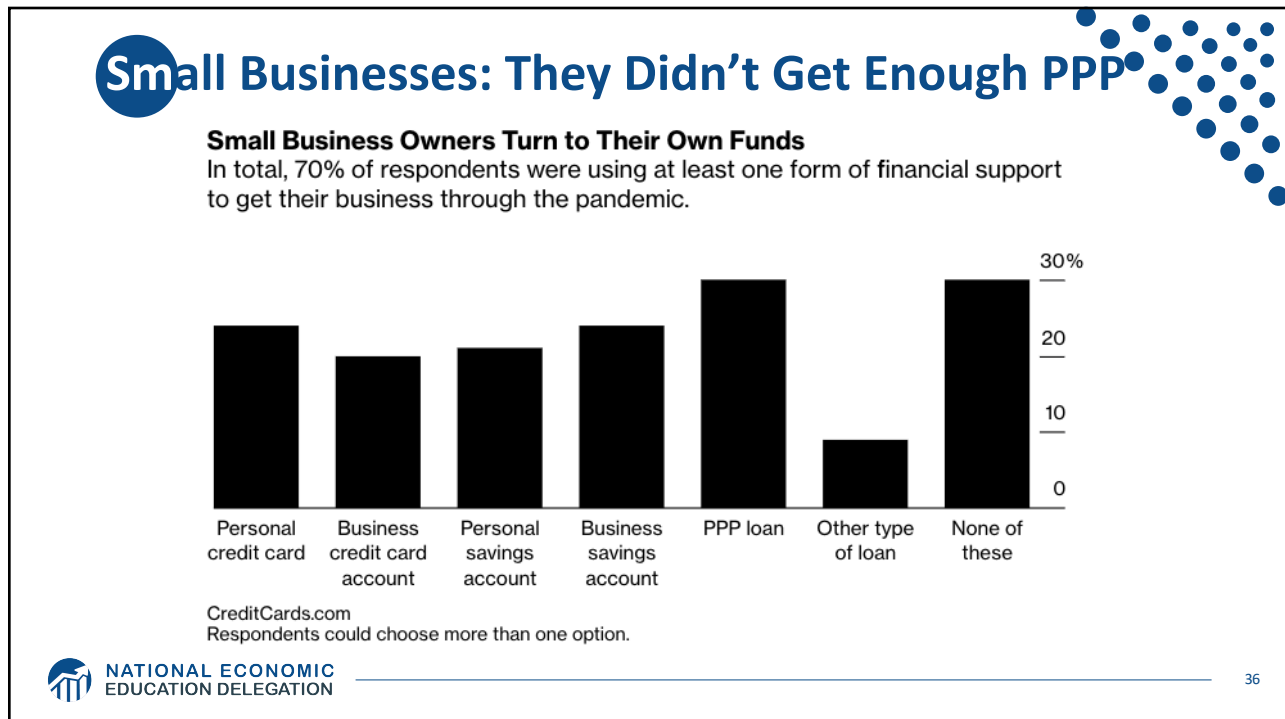
## State and Local Employment



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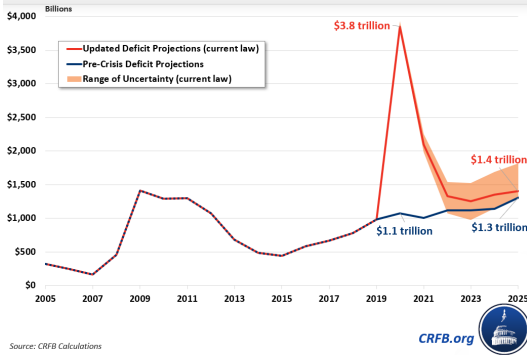
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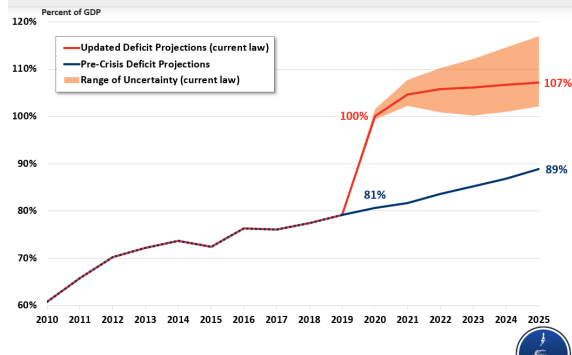
# Looking Forward: Federal Budget Implications

## Federal Deficit Will Reach Record Levels



Deficit may be nearly 20% of GDP

## Debt Will Equal Size of Economy This Year



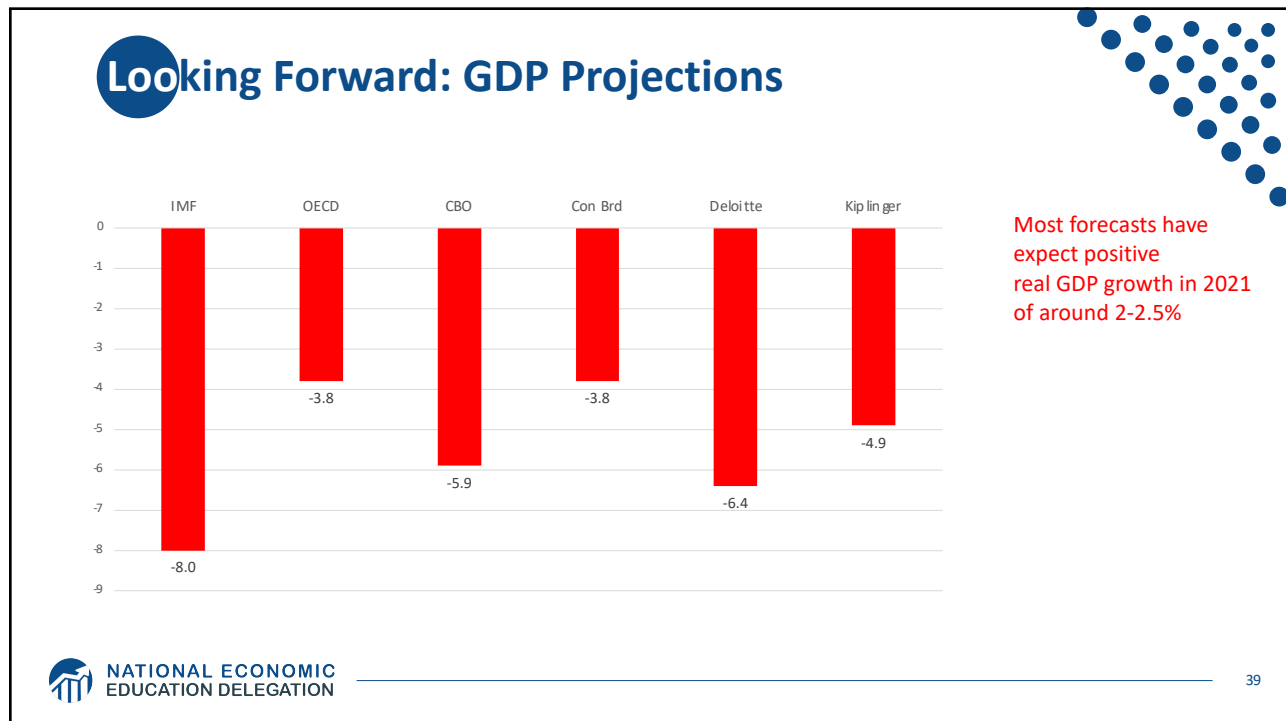
Debt will likely equal GDP this year

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# Looking Forward

- Most GDP projections indicate that GDP growth will likely be positive in 2021 and likely well above 2.0-2.5 percent range.
- The Fed Reserve's range for growth is wide – I think this represents the Fed's uncertainty about the health implications.
- While unemployment is expected to decline, the Fed expects unemployment to be above the longer run rate of 4.1 percent.
- The Fed thinks the economy is still structurally sound; otherwise, they would have increased the longer run rate of unemployment above 4.1 percent.

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## Is it a V or a K shaped recovery?

- 1. Aggregate data look good because the Cares Act (at least until the end of July) supported 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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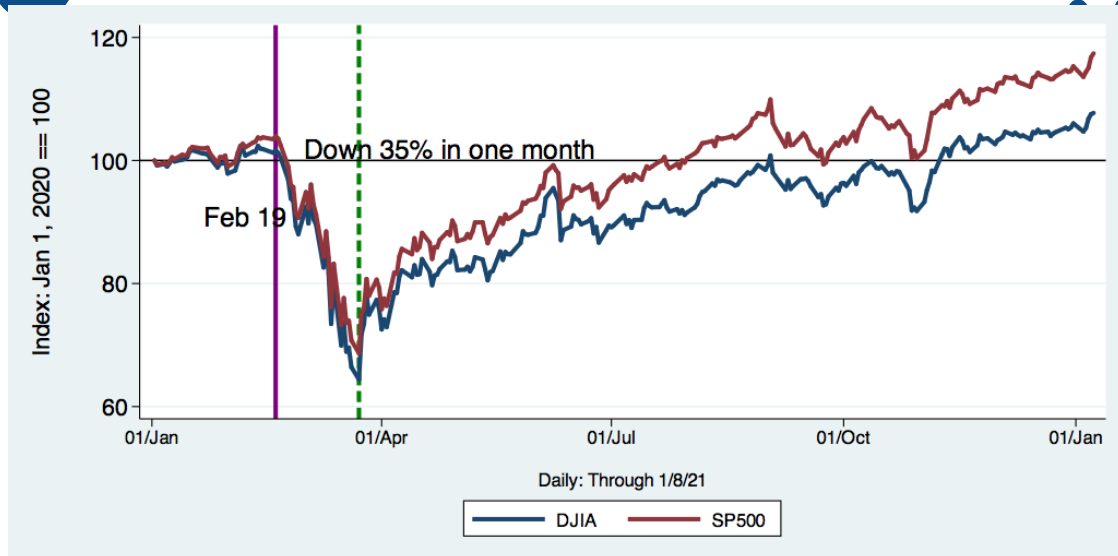
## A “K-shaped” recovery?

### 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 is very high.

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## DJIA and S&P 500



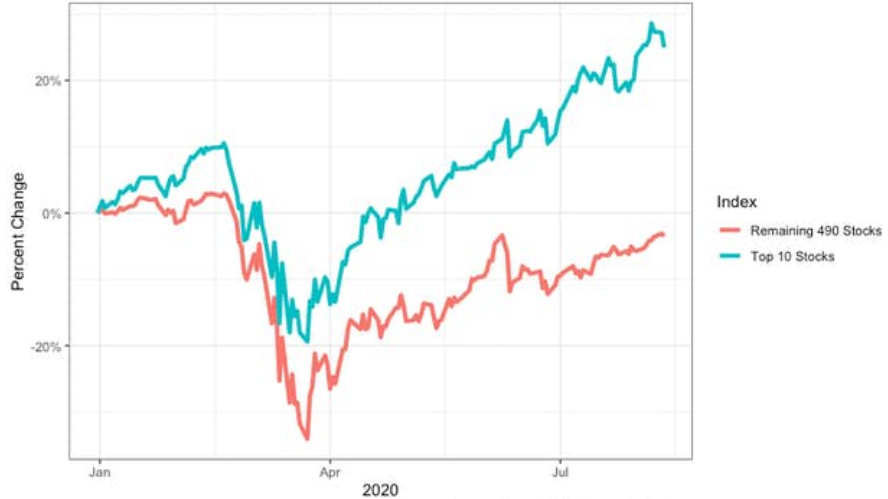
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# Recovery/Recession for Whom?

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

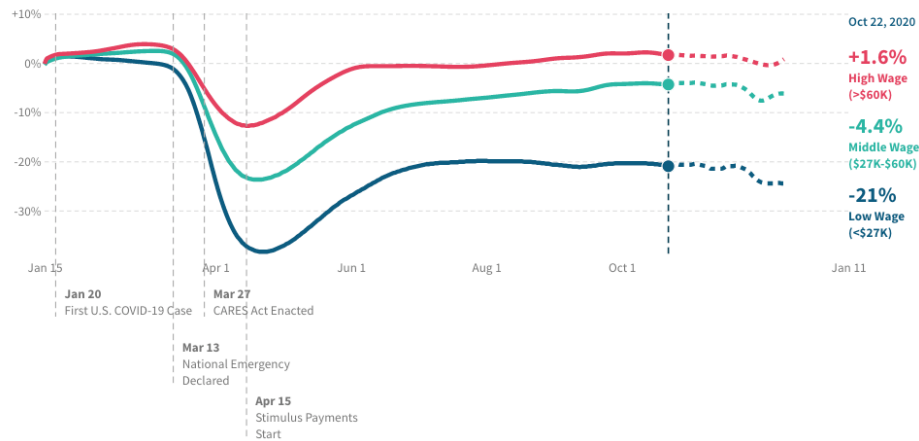


Source: TrendPlaybook.com, Bloomberg

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# Low Wage Employment is Lagging

In the United States, as of October 22, 2020, employment rates among workers in the bottom wage quartile decreased by **21%** compared to January 2020 (not seasonally adjusted).

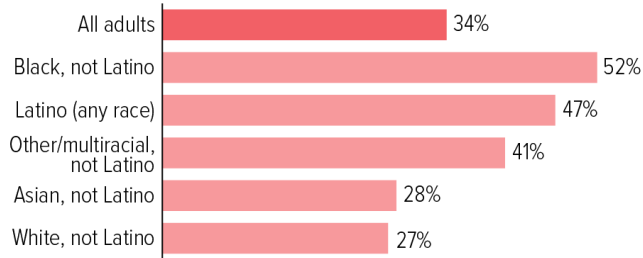


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# Low Income Troubles

## 1 in 3 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



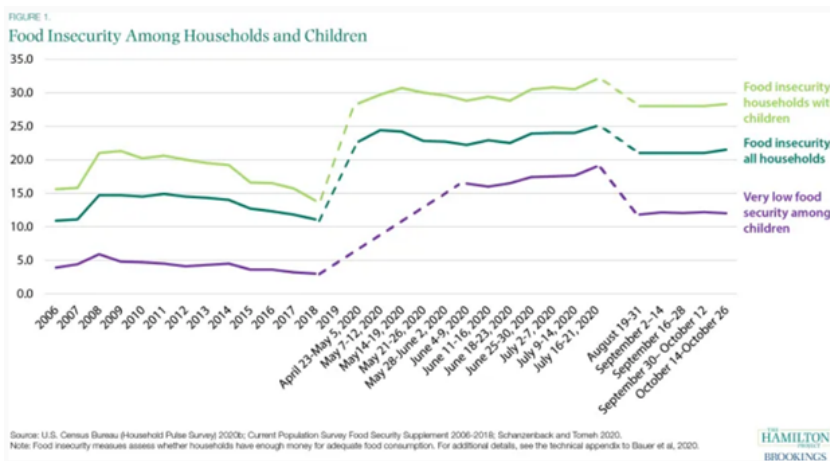
Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

Source: CBPP analysis of Census Bureau Household Pulse Survey tables for October 28 – November 9, 2020

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG



# Food Insecurity is Elevated



Source: <https://tracktherecovery.org/>

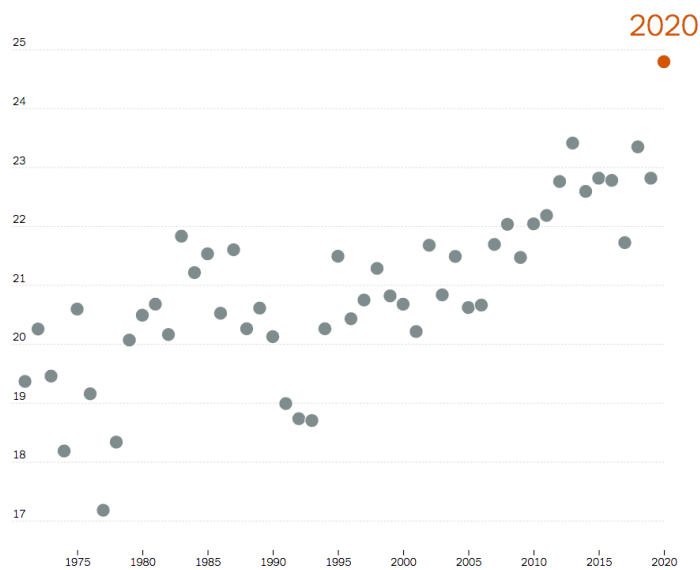
# Structural Changes?

- **Pandemic has been an accelerant.**
  - Not a change agent.
- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel**
- **Wealth concentration**
- **Industry concentration**
- **Automation**
- **NFL Scoring**

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# NFL Scoring

Average points per team, per game



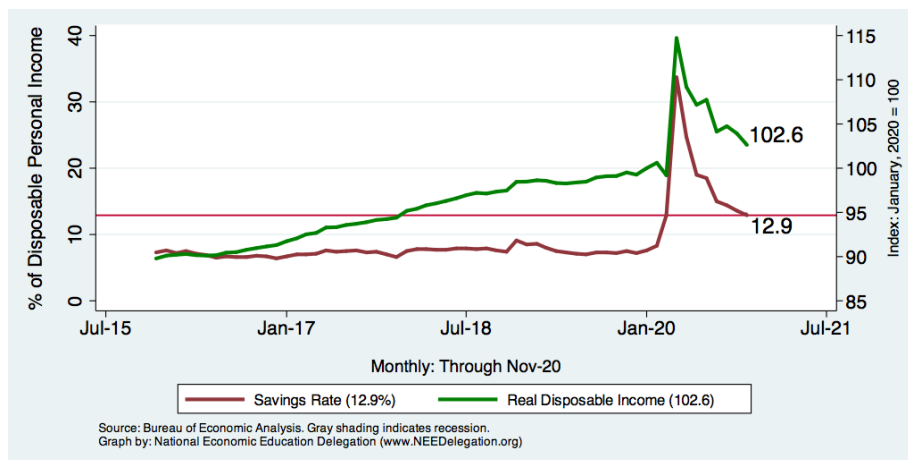
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## The Good News (Sort of)

- **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
- **Savings are off the charts!**

## Source of Optimism About Recovery?



## 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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## Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
  - With enormous built-in inequities.
- **Significant structural changes - accelerant**
- **GDP will likely contract between 3.0 and 5.0 percent this year.**
  - Positive growth will likely return in 2021.
- **Gov't spending induced growth in Q3**
  - Spending stopped in Q4.
- **Policy gap has created enormous hardship.**
  - Hunger, evictions, foreclosures, additional deaths.
  - Loss of GDP: 4-5%                      Unemployment: up 4-5 pts.
- **Physical health determines economic health for the economy.**



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**Thank you!**

# Any Questions?

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

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Jon@NEEDelegation.org

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# Bonus Slides



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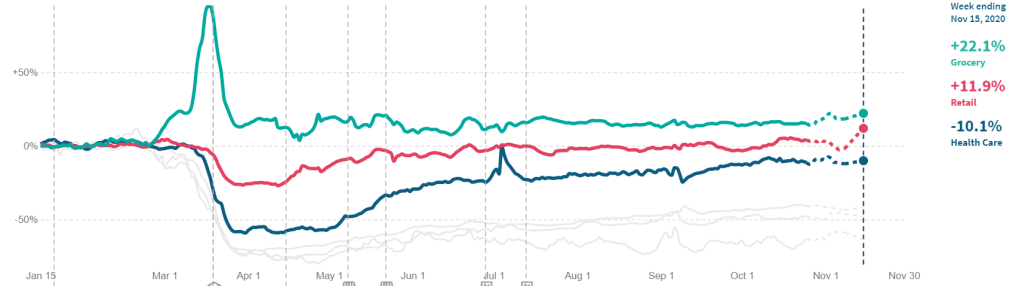
# Spending Patterns Since First US Case

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

HARVARD BUSINESS SCHOOL BILL & MELINDA GATES FOUNDATION

## Percent Change in All Consumer Spending\*

In California, as of November 15 2020, health care spending by all consumers decreased by 10.1% compared to January 2020.



\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

last updated: November 24, 2020 next update expected: December 02, 2020

visit [tracktherecovery.org](https://tracktherecovery.org/) to explore



Source: <https://tracktherecovery.org/>

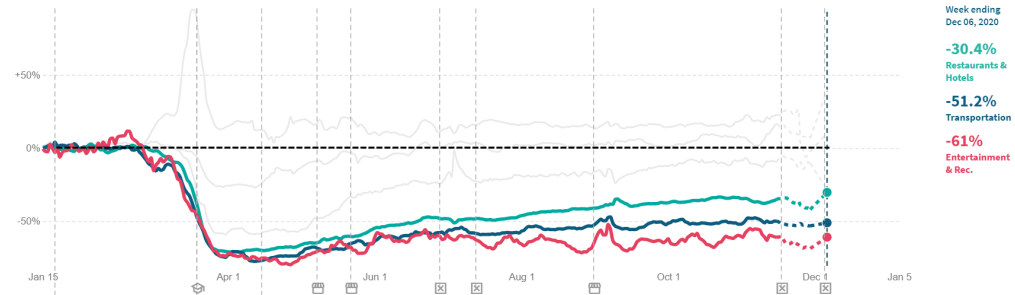
# Spending Patterns Since First US Case: CA

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

HARVARD BUSINESS SCHOOL BILL & MELINDA GATES FOUNDATION

## Percent Change in All Consumer Spending\*

In California, as of December 06 2020, transportation spending by all consumers decreased by 51.2% compared to January 2020.



\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

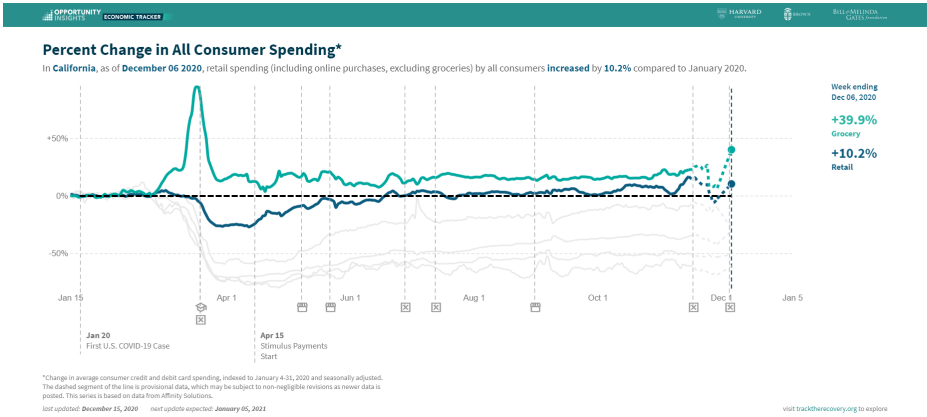
last updated: December 15, 2020 next update expected: January 05, 2021

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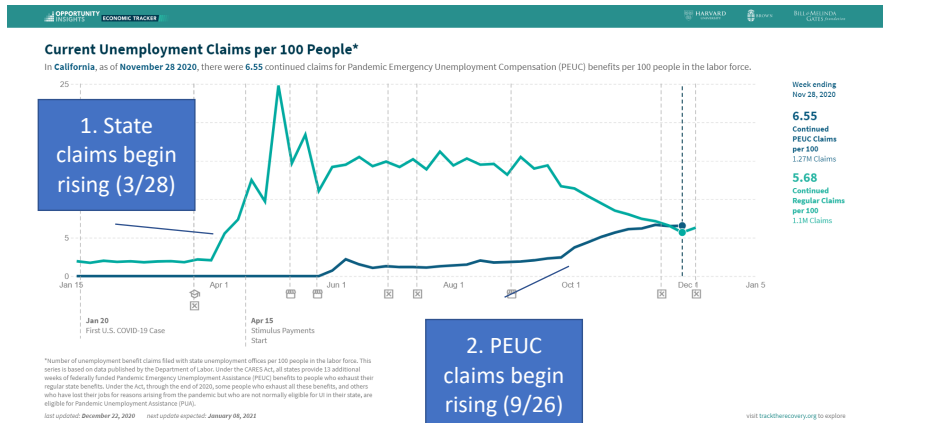
Source: <https://tracktherecovery.org/>

# Spending Patterns Since First US Case

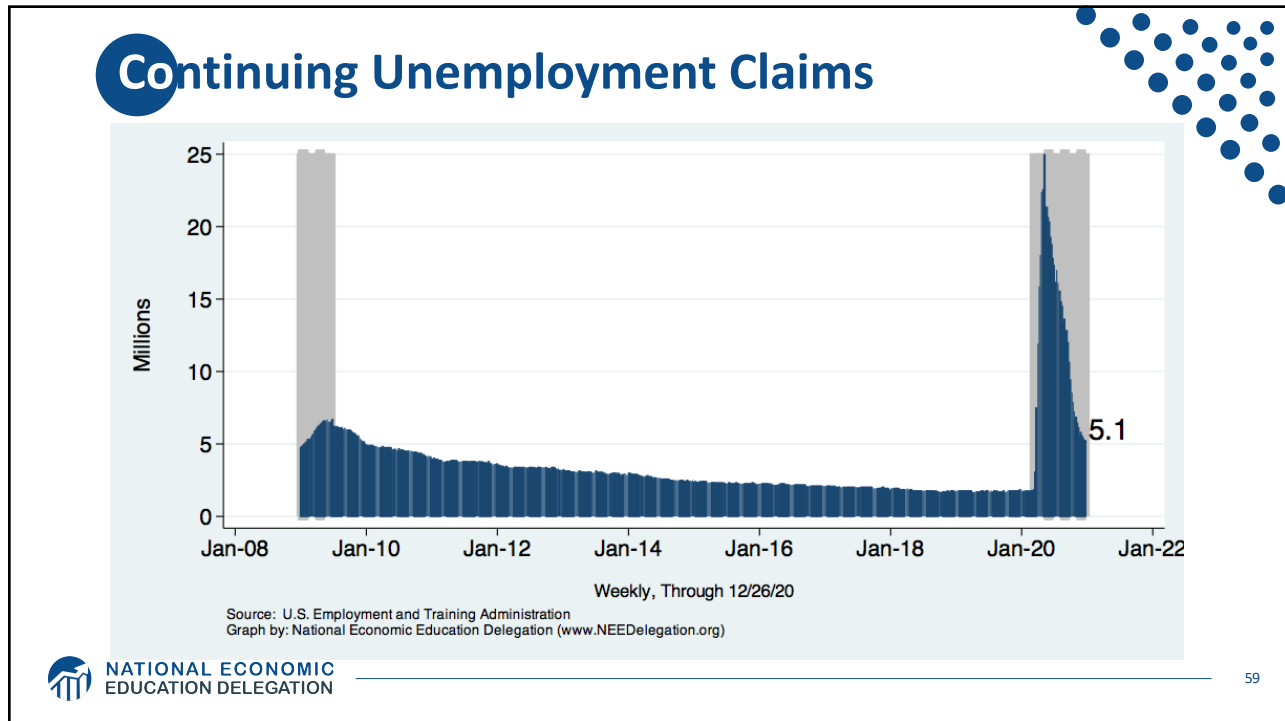


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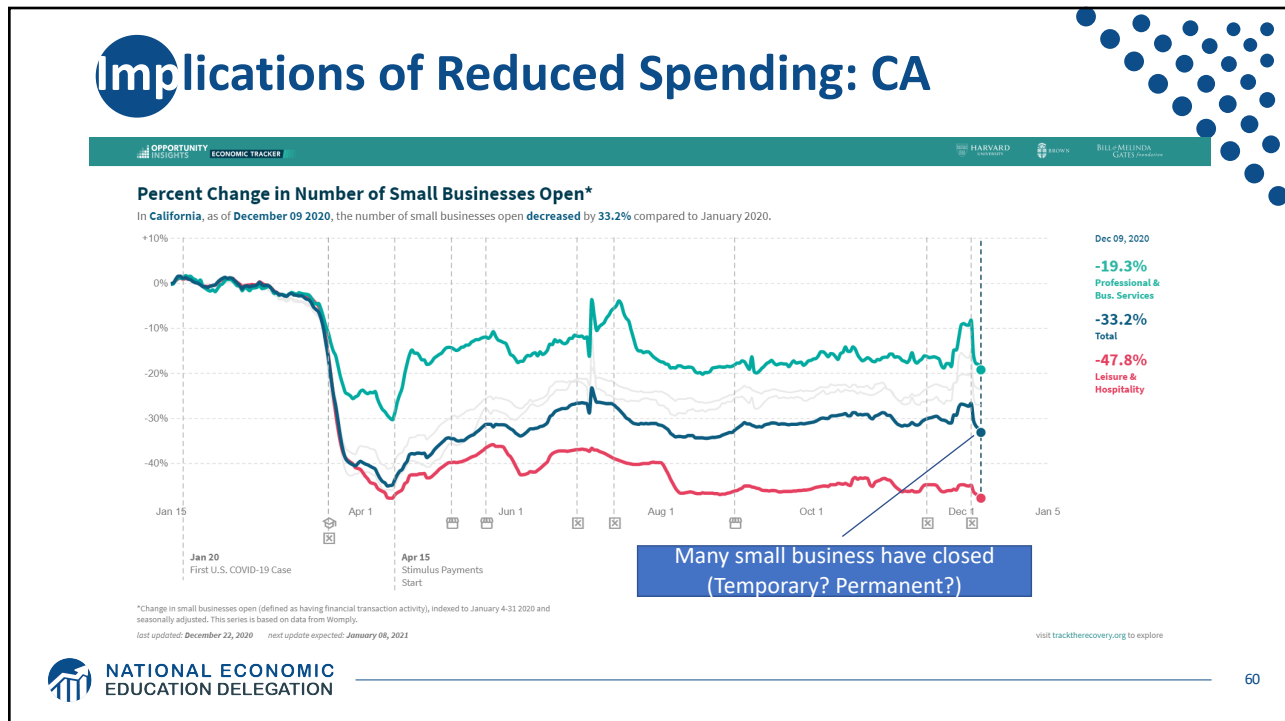
# Implications of Reduced Spending: Regular and PEUC claims



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

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## Current Unemployment Claims per 100 People\*

In California, as of December 05 2020, there were 6.31 continued claims for regular unemployment benefits per 100 people in the labor force.



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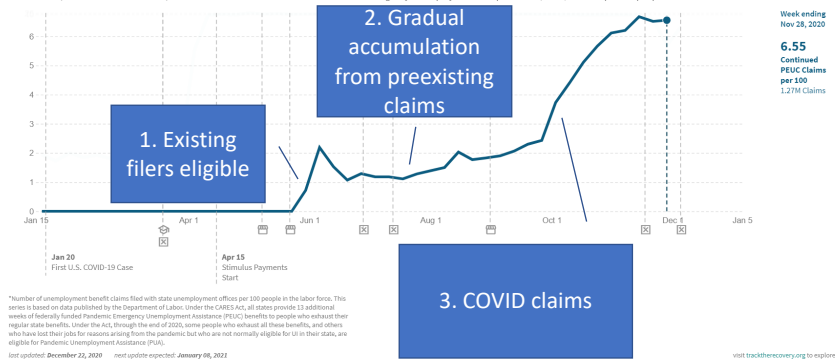
# Implications of Reduced Spending: Continued Claims (Federal PEUC)

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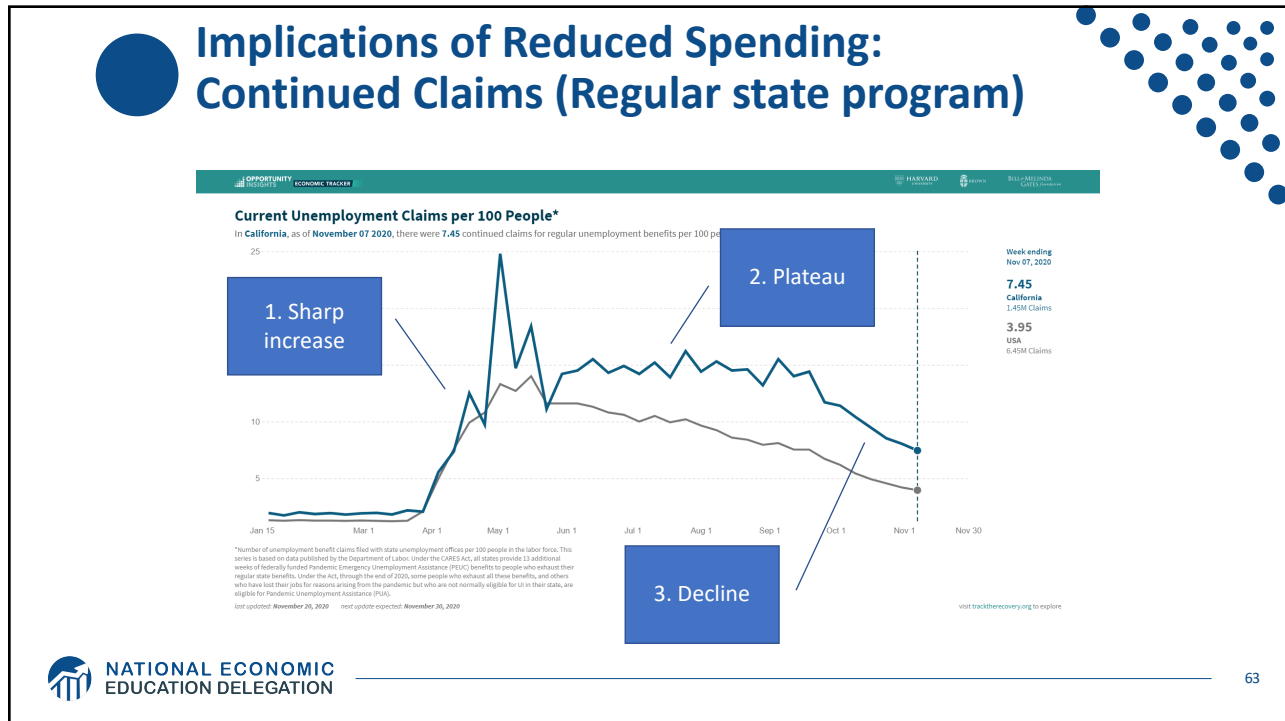
HARVARD BROADENHOUS INSTITUTIONS

## Current Unemployment Claims per 100 People\*

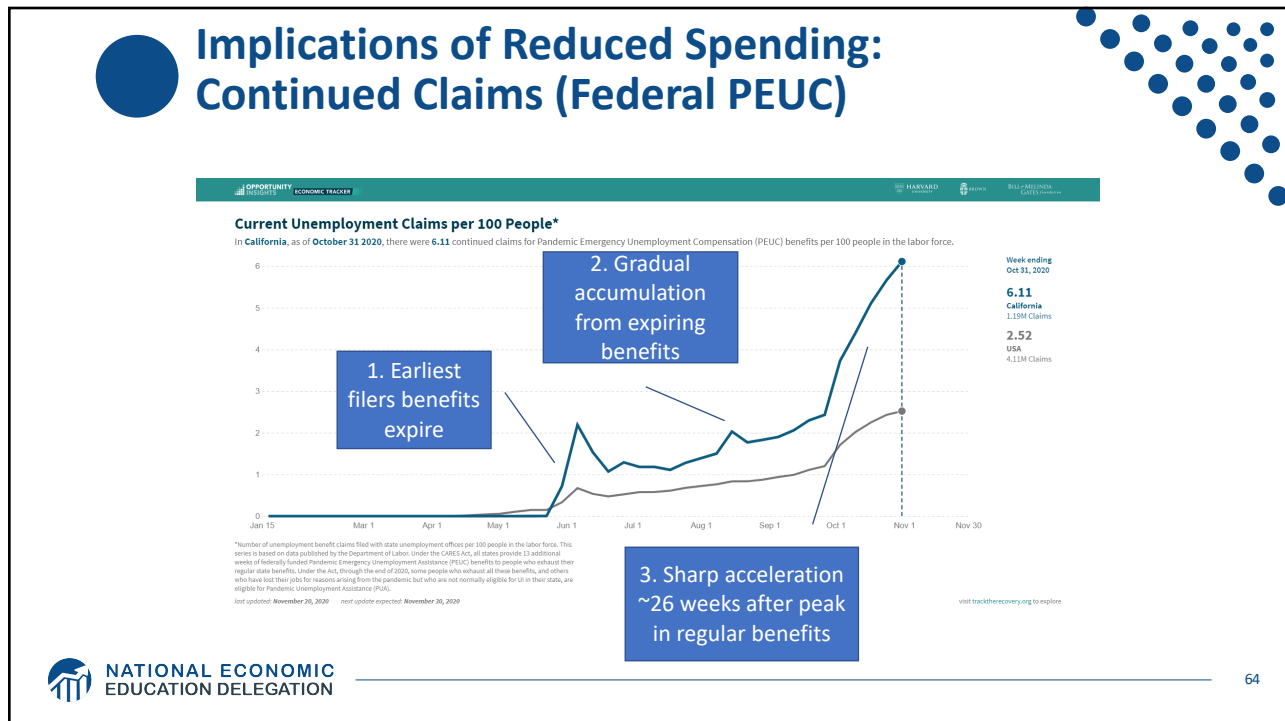
In California, as of November 28 2020, there were 6.55 continued claims for Pandemic Emergency Unemployment Compensation (PEUC) benefits per 100 people in the labor force.



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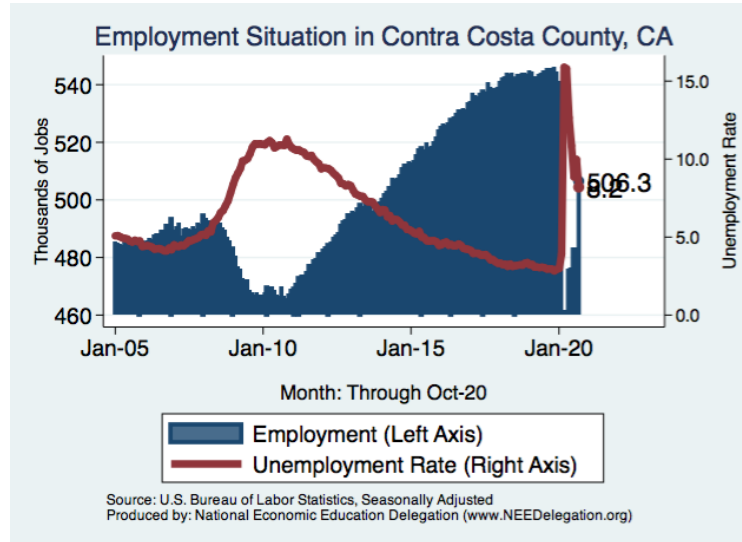
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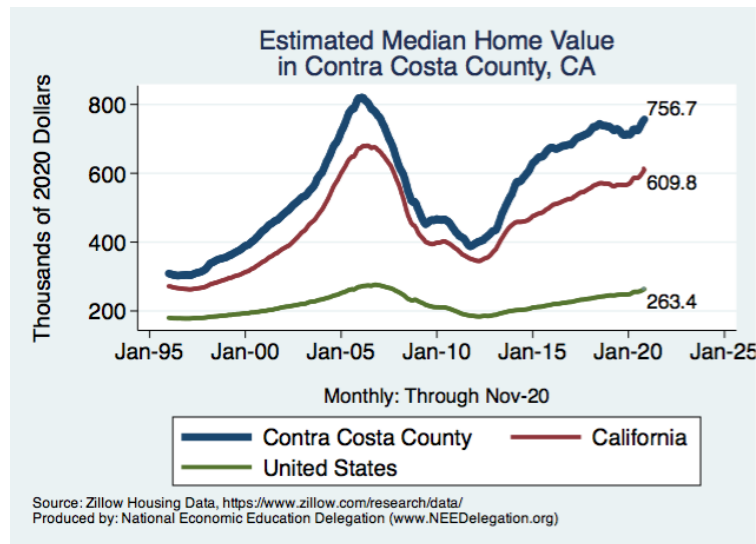
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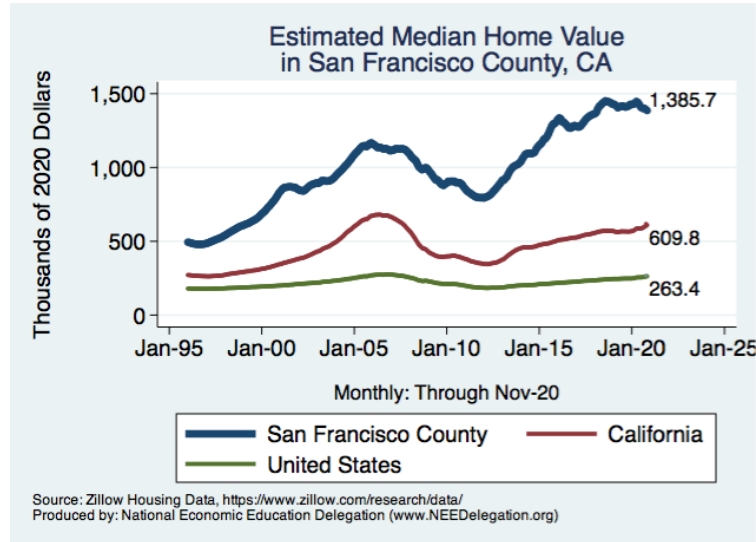
# Contra Costa County Economic Situation



# Contra Costa County Home Values



# San Francisco County Home Values



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# Deficit Impact

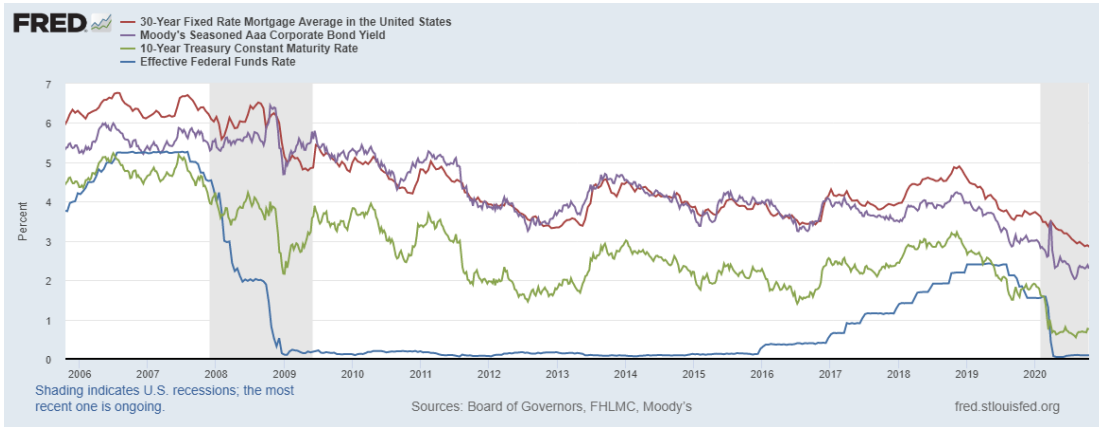
## Estimated Deficit Impact of Major COVID Relief Legislation (billions)

	Families First	CARES	PPHCE	Response & Relief	Total
Small Business Support <sup>^</sup>	-	\$375	\$225	\$325	\$960
Unemployment Benefits	\$5	\$460	-	\$120	\$585
Recovery Rebates	-	\$290	-	\$165	\$460
Health Care Spending	\$90	\$160	\$100	\$70	\$420
State and Local Aid <sup>*</sup>	\$85	\$175	-	\$80	\$340
Tax Relief	\$25	\$265	-	\$40	\$330
Other Spending	\$20	\$170	-	\$135	\$325
<b>Total COVID Relief (Net Cost)</b>	<b>\$225</b>	<b>\$1,900</b>	<b>\$355</b>	<b>\$935</b>	<b>\$3,415</b>

Rounded to nearest \$5 billion.  
Source: Committee for a Responsible Federal Budget based on CBO, JCT, and other sources.  
<sup>^</sup>We assume the PPP from the CARES Act cost based on its initial score and allocate all returned or unused funds to the PPHCE  
<sup>\*</sup>Includes Coronavirus Relief Fund money and funding for public schools, transit, and existing Medicaid costs.

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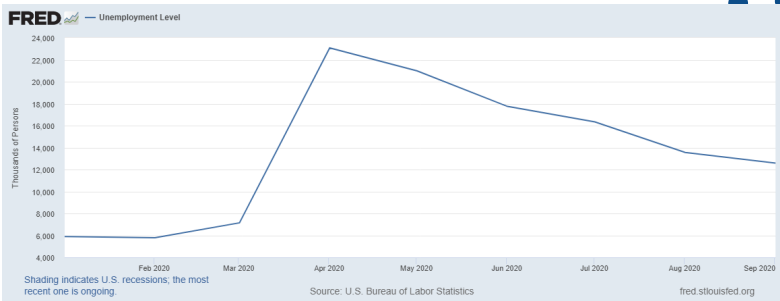
# Impact on Borrowing Rates



# Characterizing Unemployment

Important Definitions:

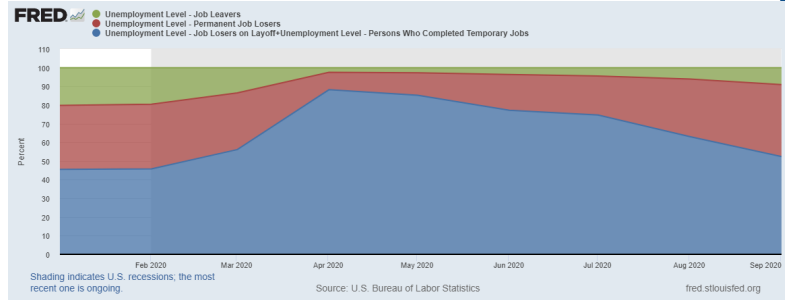
- A person is **employed** if they worked for pay or were temporarily absent in the last week
- A person is **unemployed** if they were (1) not employed, (2) were available for work, and (3) actively sought work in the previous 4-weeks
- A person is **not in the labor force** if they are neither employed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



# 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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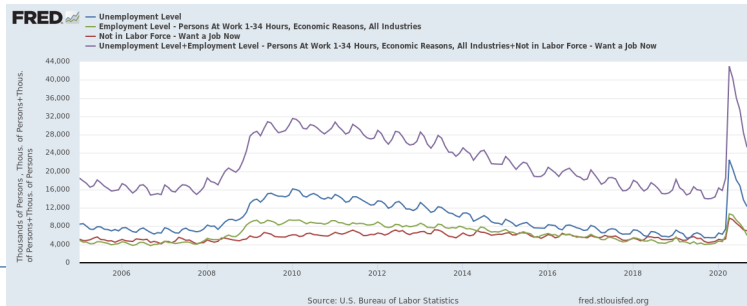
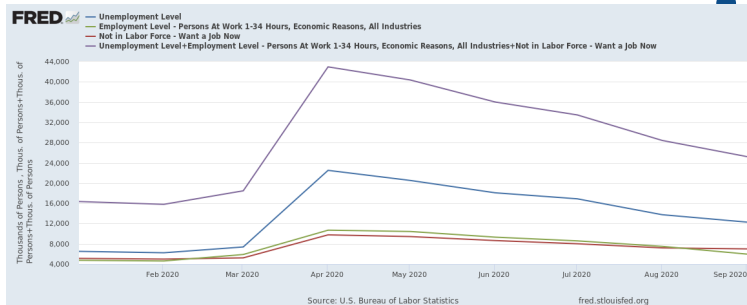
# Characterizing Unemployment

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)

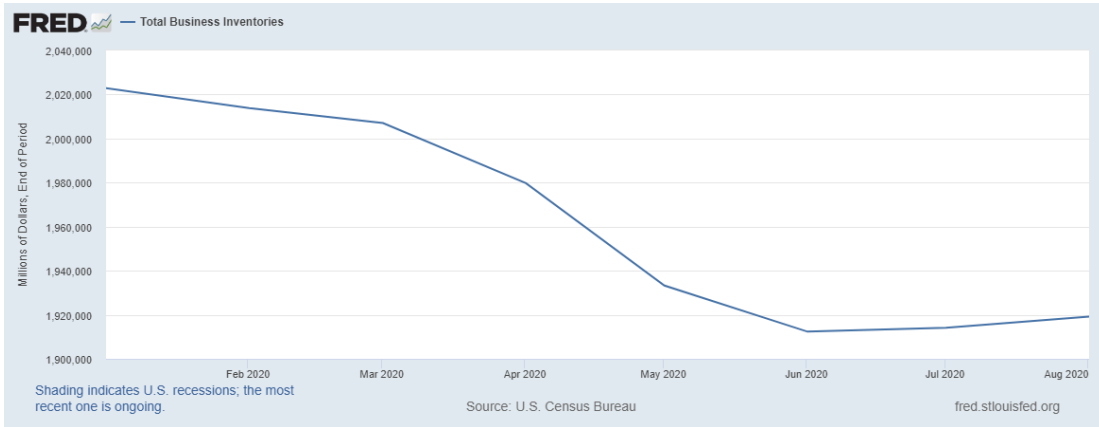
**Key Takeaways:**

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



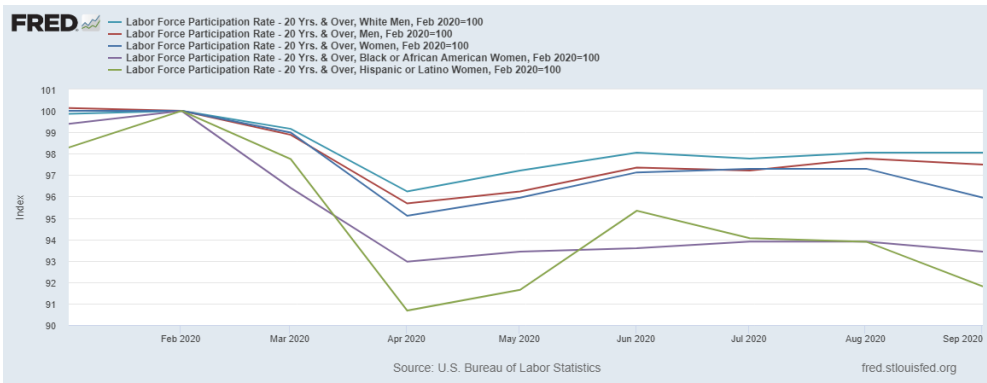
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# Business Inventory



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# Recovery/recession for whom?

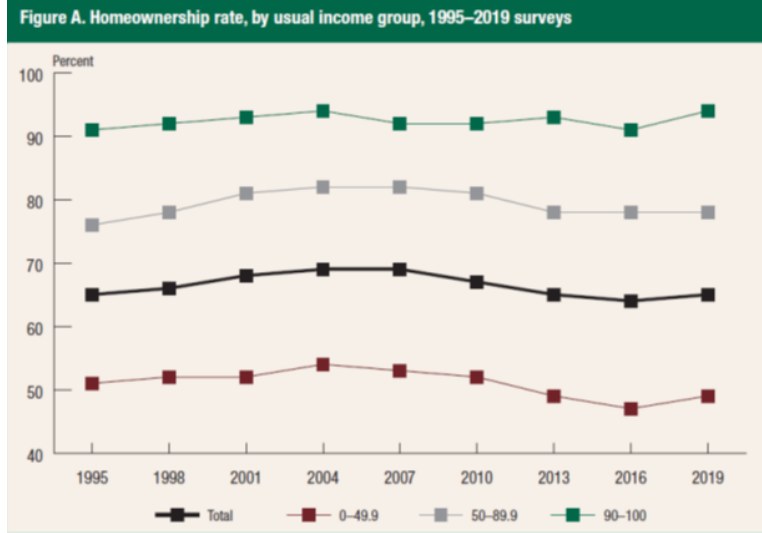


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# Recovery/recession for whom?

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



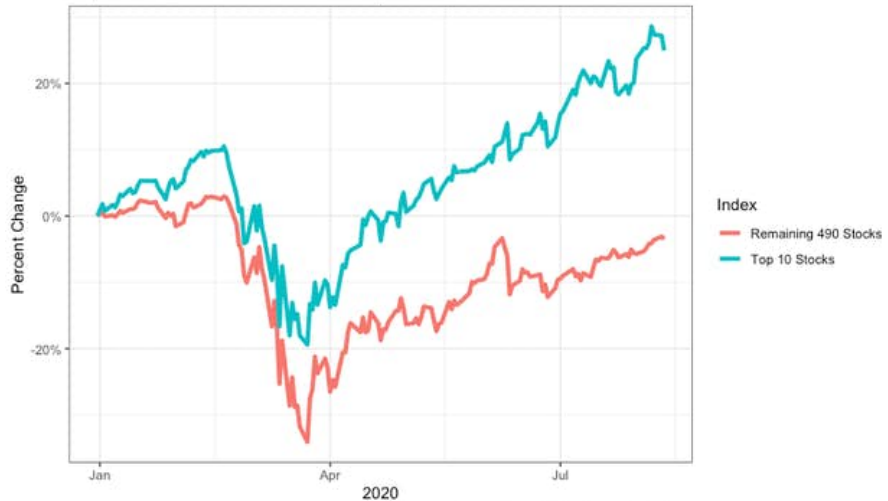
75

# Recovery/recession for whom?

Top 10 S&P Stocks:

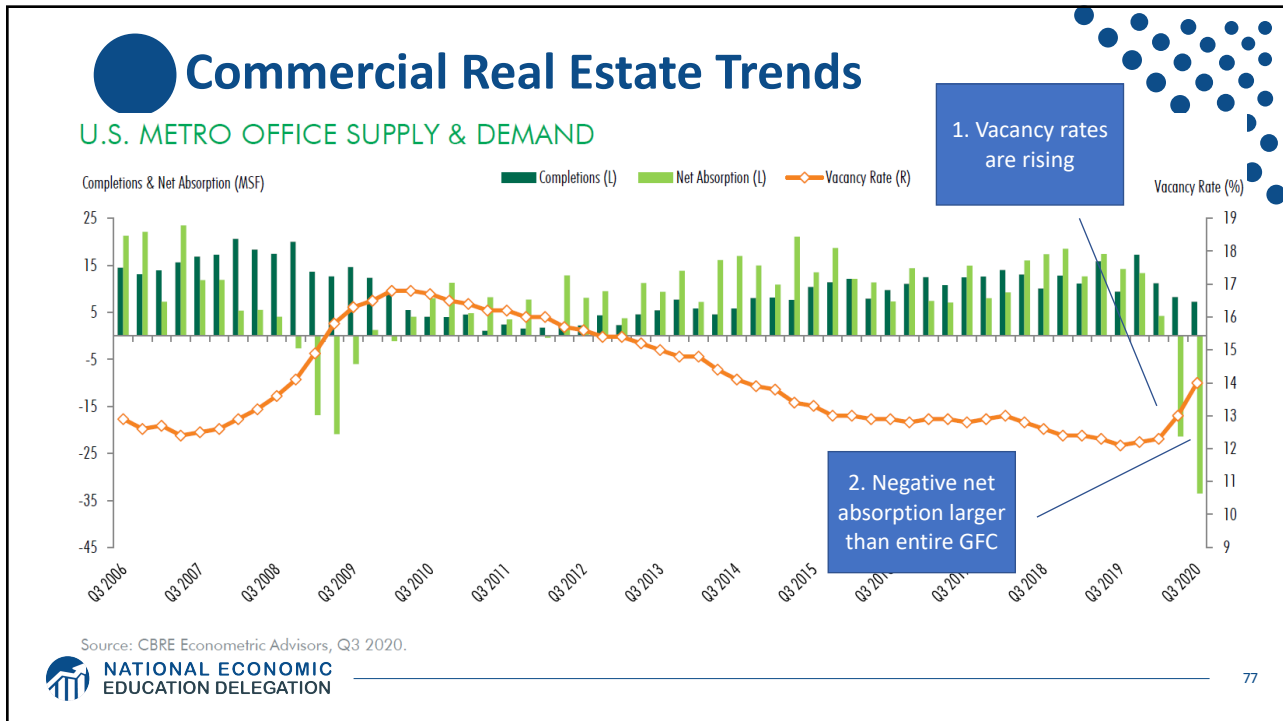
1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

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

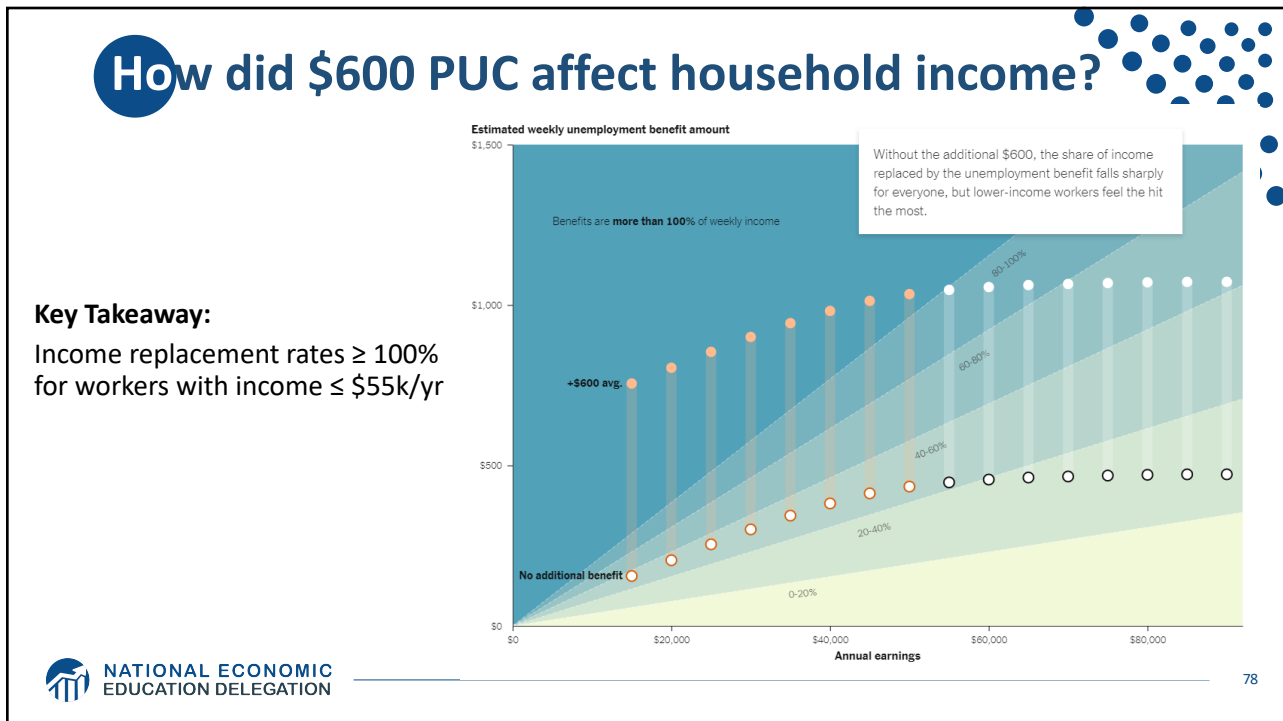


Source: TrendPlaybook.com, Bloomberg

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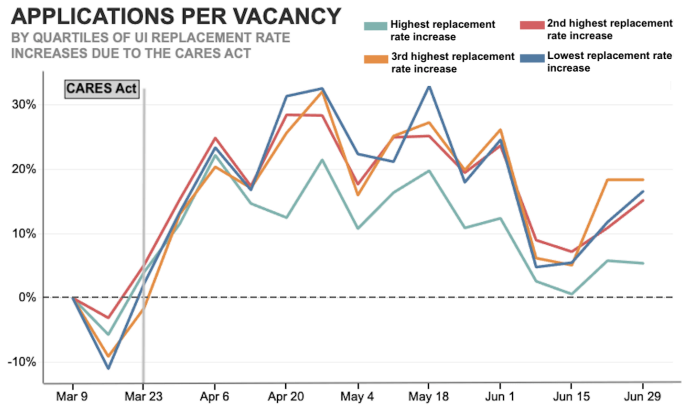


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# Was there a disincentive effect from \$600?

## Key Takeaways:

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

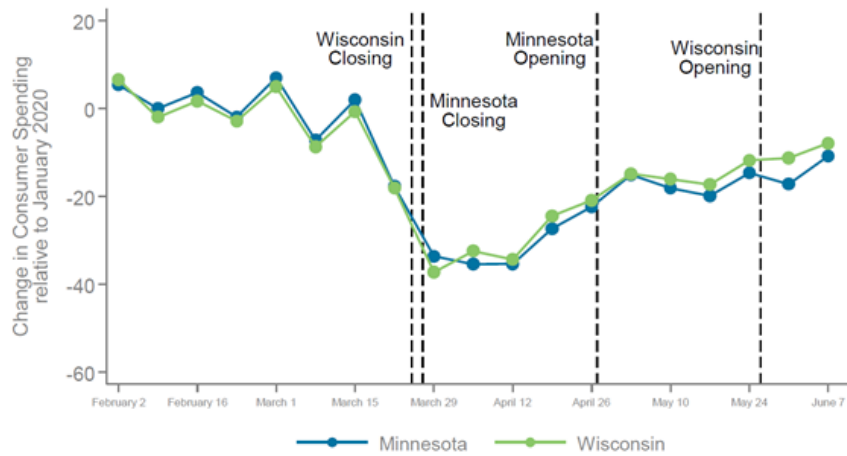


Source: Glassdoor (2020), and author's calculations EconoFact econofact.org

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# How impactful is government?

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



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