

Current Status and Economic Outlook

PRESENTATION TO STARKVILLE ROTARY

Christopher A. Erickson, Ph.D.
Member, Rio Grand Rotary (Las Cruces)

College of Business | Economics, Applied Statistics and International Business





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National Economic Education Delegation (NEED)

Starkville Rotary
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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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Current Situation

- **Second quarter GDP saw the sharpest decline on record—down 9.0%**
- **This is the sharpest decline on record, which go back to 1947**
- **But the flash third quarter GDP saw a sharp recovery—up 7.4%**
- **Yet the third quarter is still second worse quarter on record**



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A crisis like no other

- **The recession is truly global in nature**

- By the end of 2020, 170 countries will have lower per capita incomes than at the beginning of the year
- As recently as January, the IMF projected positive growth for 160 countries
- This a stunning reversal of fortunes



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A crisis like no other (cont')

- **The nature of the crisis is such that, at least initially the service sector rather than manufacturing is most affected**

- Retail, entertainment, tourism, restaurants, hospitality, and travel

- **This means that it is relatively low skilled workers who are losing jobs**

- The likelihood is elevated unemployment for these workers for some time



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A crisis like no other (cont')

- **The unique nature of the COVID recession means that humility is required**
- **There is no historical precedent on record comparable to our current circumstances**
 - 1918 Pandemic is from an era before modern economic statistics
 - The great depression was a financial crisis, not our current circumstances
 - The demobilization from World War II might provide some insight



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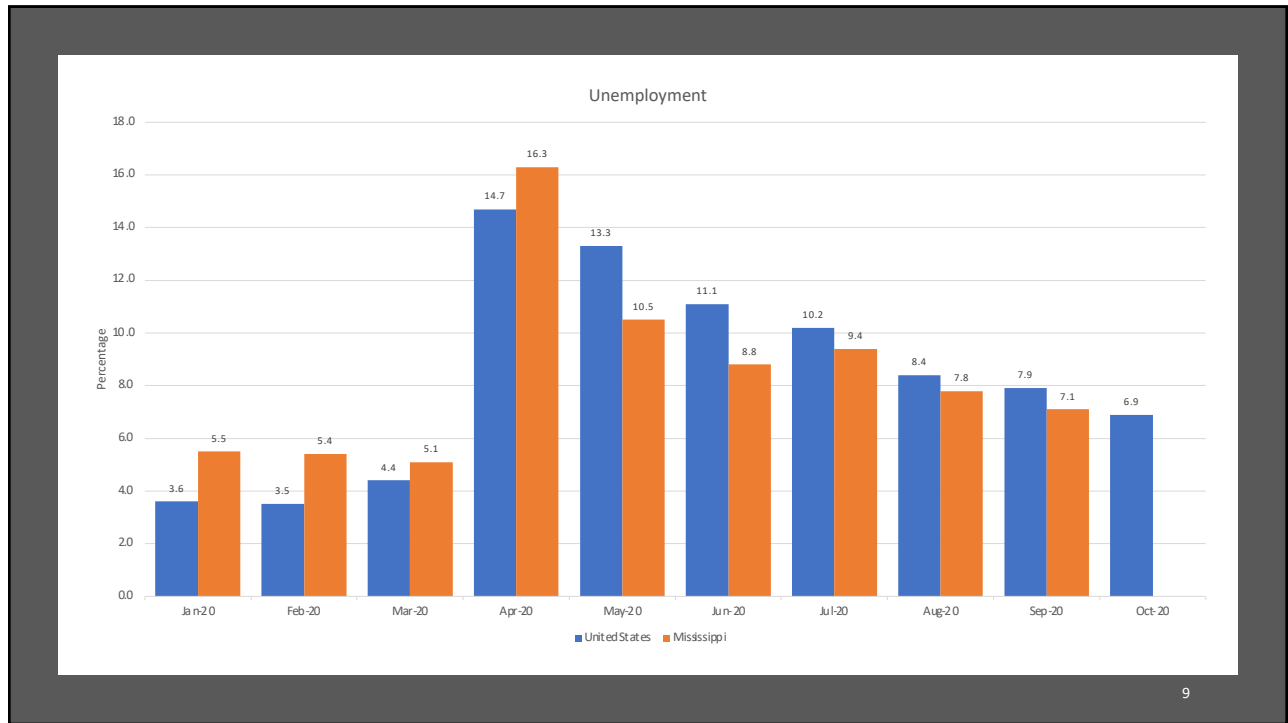
A crisis like no other (cont')

- **Understanding the recession is complicated by the complexity of the impact**
- **The pandemic affects both supply and demand**
- **The supply effect arises because an epidemic exposes people who are working to the virus**
 - People react to that risk by reducing their labor supply
- **The demand effect arises because shopping and other consumption activities exposes people to the virus**
 - People react to that risk by reducing their consumption
- **Working in tandem, these supply and demand effects generate a large, potentially persistent recession**
 - This recession arises even if governments didn't institute any containment policies
 - But government containment policies do make things worse

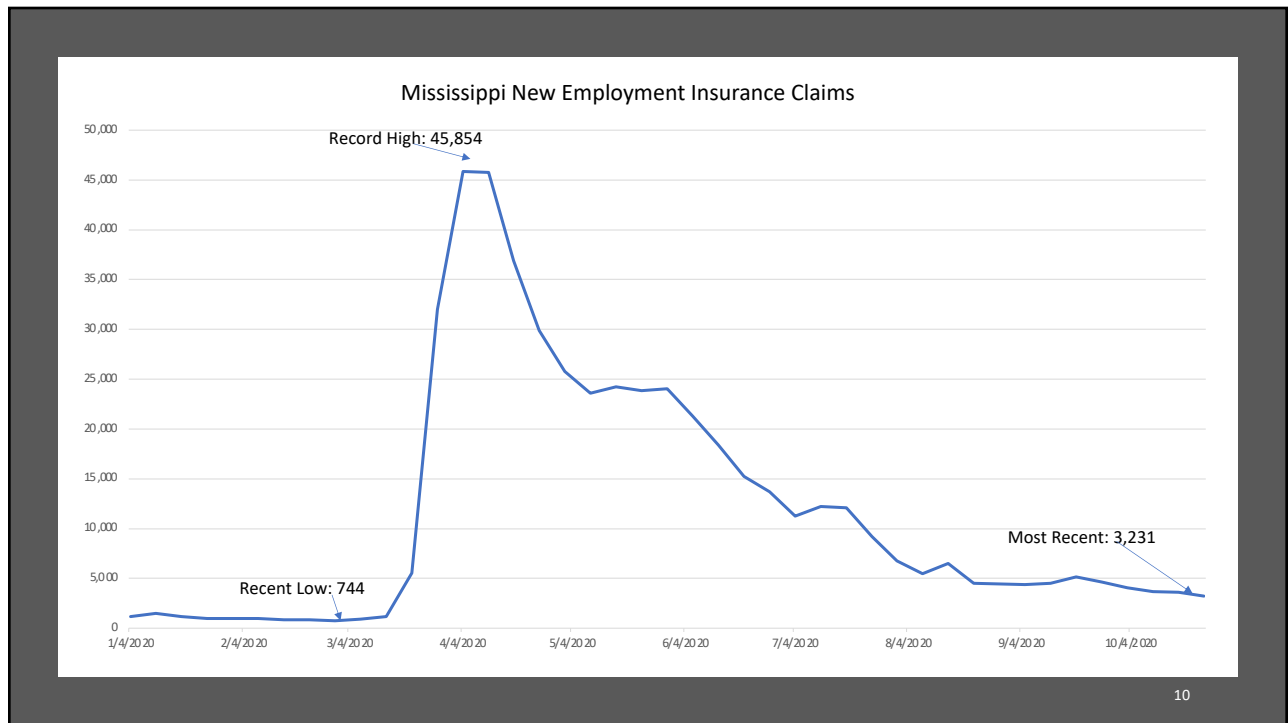


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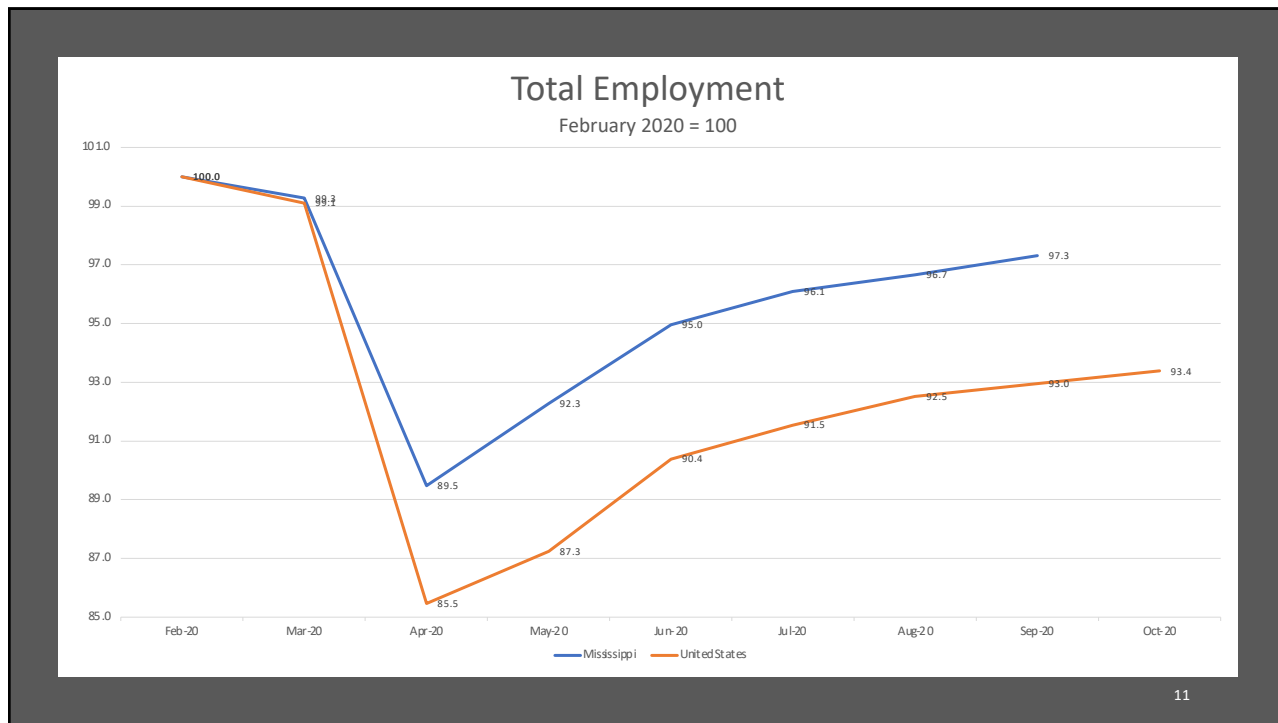
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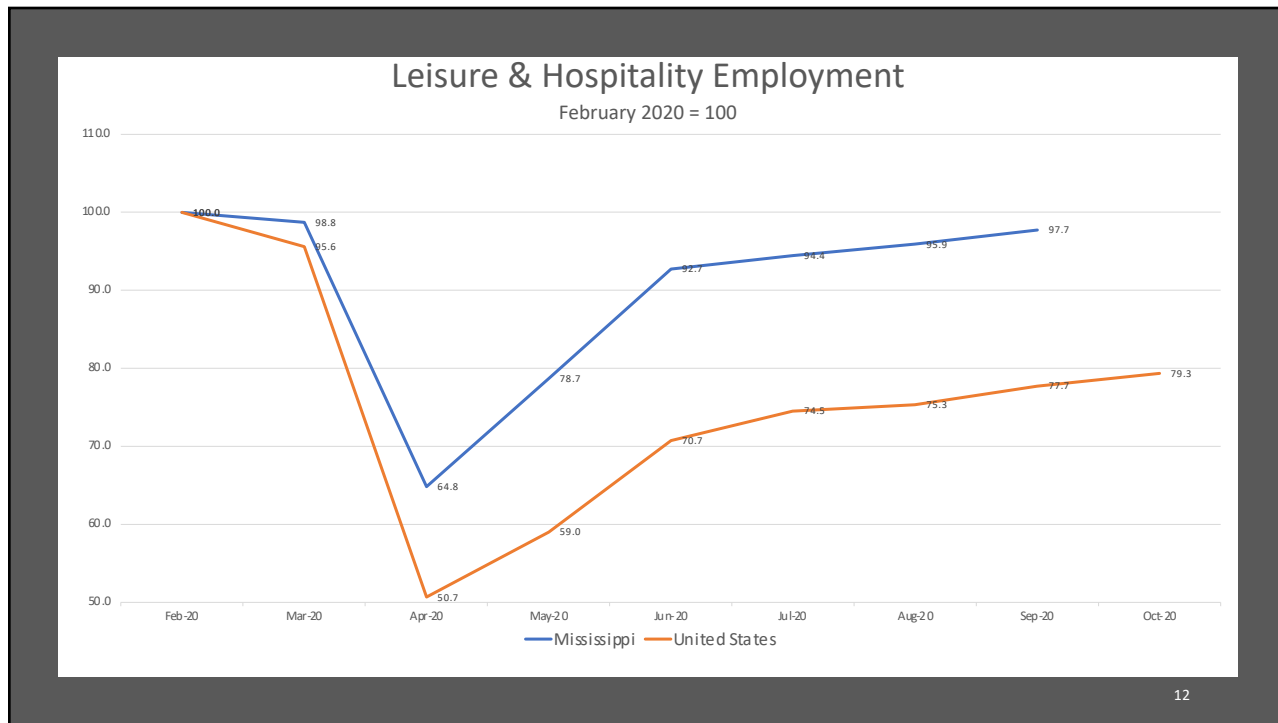
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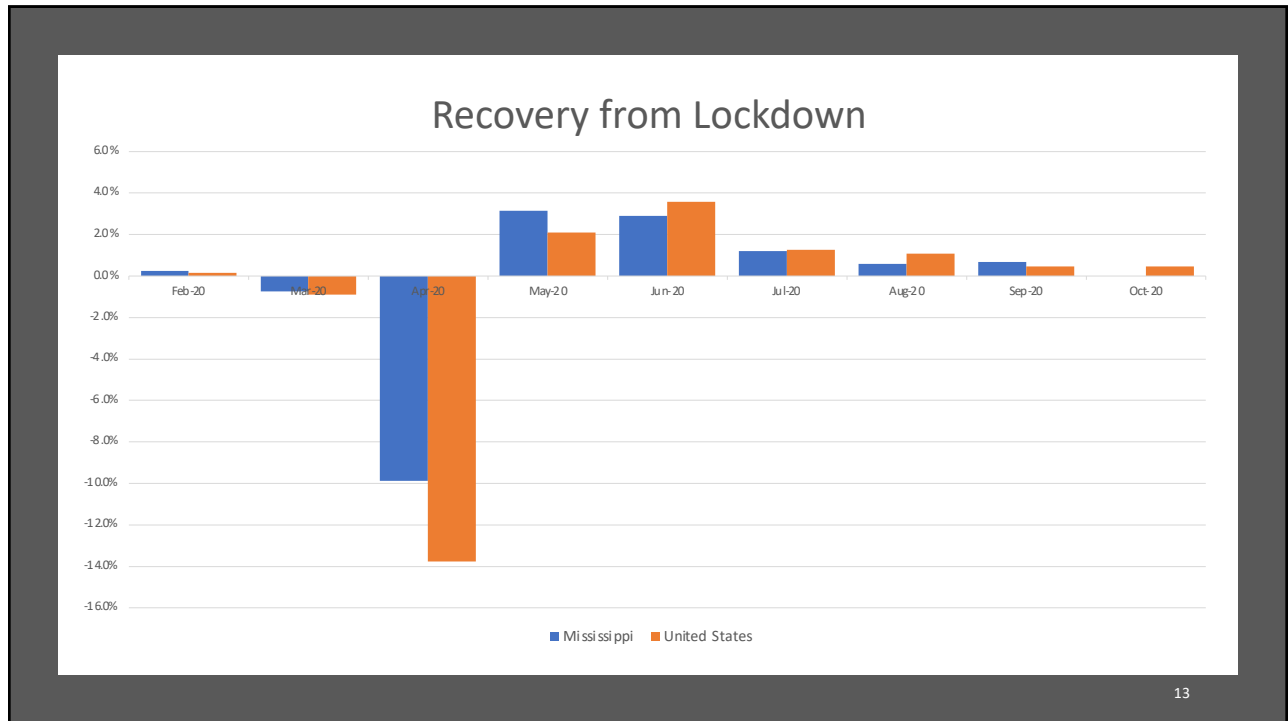
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Nike Swoosh Recovery

- **Consumers account for about two-third GDP**
- **For recovery to occur that consumers start to spend**
 - Saving rates are unusually high
- **The fear is that the ongoing coronavirus pandemic hampers consumer spending so there is a slow recovery**



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W-shaped Recovery

- The V becomes a W if multiple waves of COVID cause repeated shutdowns
- Bring the virus to heal before reopening, as was done more or less in China, would avoid the start-stop of a W-recession
- The outlook for doing this in the United States is less positive



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An alphabet of scenarios

- **K-Recovery**
 - Some sectors recover quickly – tech, real estate
 - Others recover more slowly – airlines, movie theaters
- **U-Recovery**
 - A slow painful recovery taking several years
 - This is the Fed's base line scenario
- **L-Recovery**
 - Permanent reduced output and employment
 - We never recover to trend



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Federal Reserve Policy Actions

- The Federal Reserve has embarked on a large-scale program employing emergency powers in order to stabilize the economy
- Chief among these emergency actions were cutting interest rates effectively to zero and a \$700 billion round of quantitative easing
- The Fed lowered the primary credit rate 150 basis points, an action designed to encourage a more “active” use of the window
- The Federal Reserve established the Main Street Lending Program (Program) to support lending to small and medium-sized for-profit businesses and not-for-profit organizations that were in sound financial condition before the onset of the COVID-19 pandemic
- The Fed announced its support for banks using capital reserves, which normally are not considered accessible, to lend to households and businesses impacted by coronavirus; also the Fed reduced reserve requirements to zero



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Failure to pass an extension of the CARES ACT

- **The Fed Chair Jay Powell has made clear that monetary policy is pretty much exhausted**
- **The need now is fiscal policy to take up the slack**
- **Despite this, Congress has yet to pass an extension of the (Coronavirus Aid, Relief, and Economic Security) Act, which expired July 31**
- **This represents a mistake and a threat to the to the economy recovery**



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Contact Information

Chris Erickson

College of Business

Economics/Applied Statistics/International Business

<https://business.nmsu.edu/departments/economics/>

(575)680-6098

chrerick@nmsu.edu



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