

COVID-19: Economic Implications and Policy Response

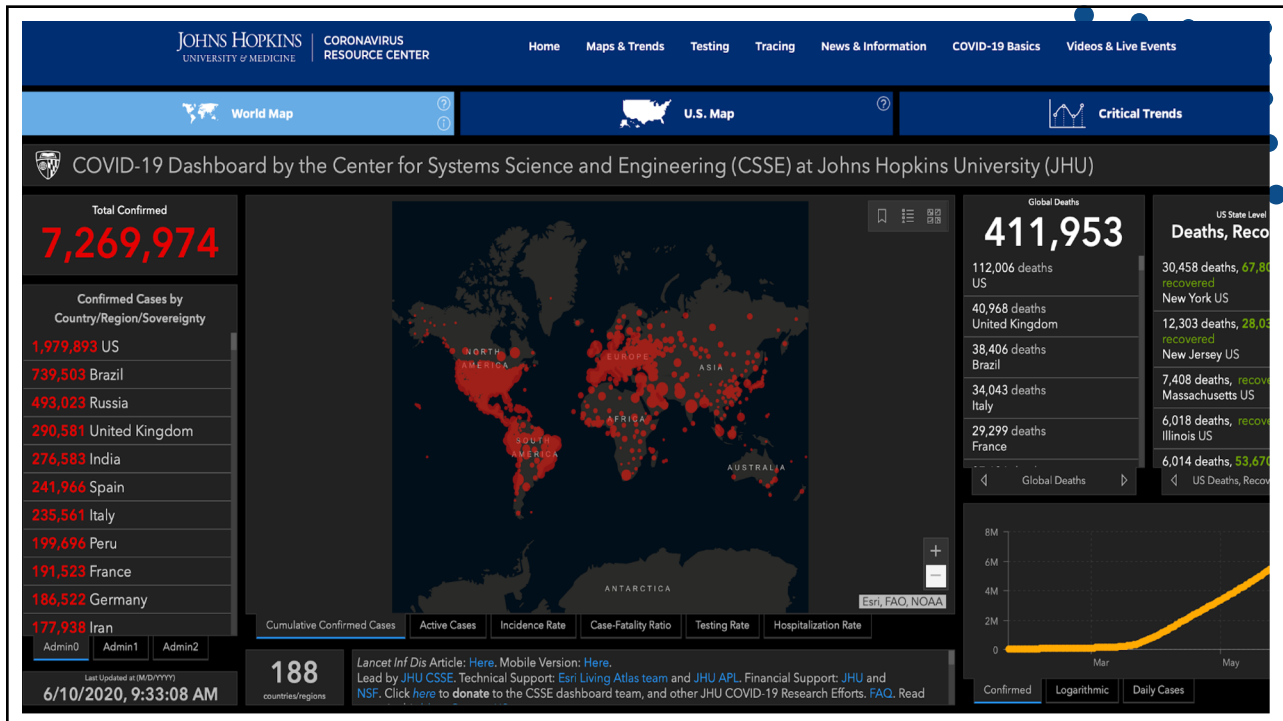
Scott L. Baier
Clemson University
and
National Economic Education Delegation

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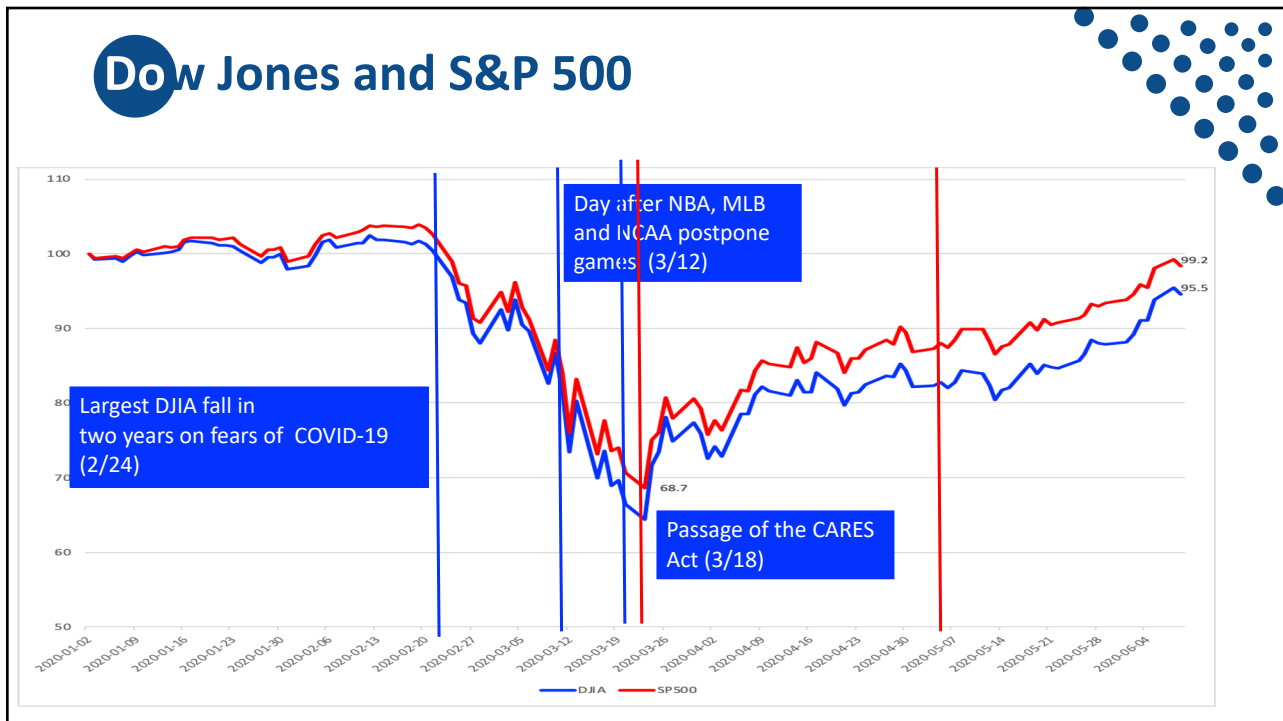
What is this?

- **A natural disaster – with important twists:**
 - Global
 - Duration is unpredictable
 - Economic toll is enormous and potentially durable
- **A health crisis that spilled over onto the economy.**
 - A perfect storm of economic difficulty
 - Supply side
 - Demand side
 - Financial
 - Without a culprit

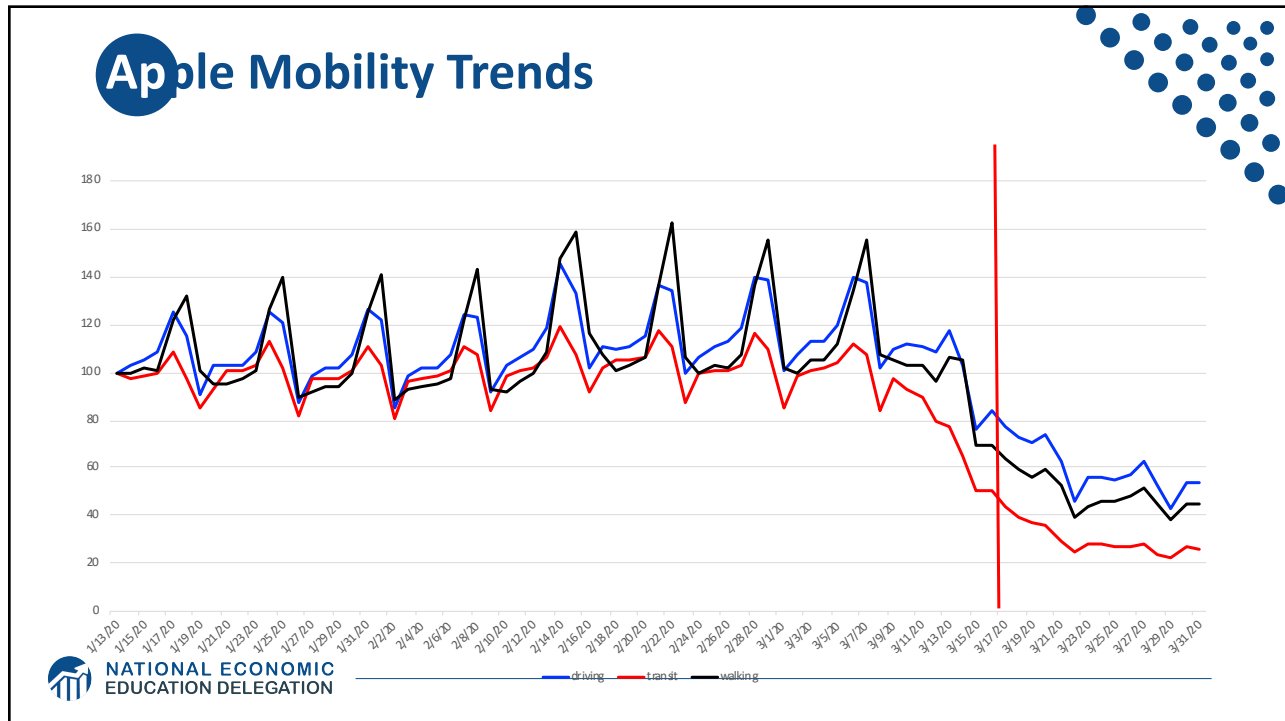
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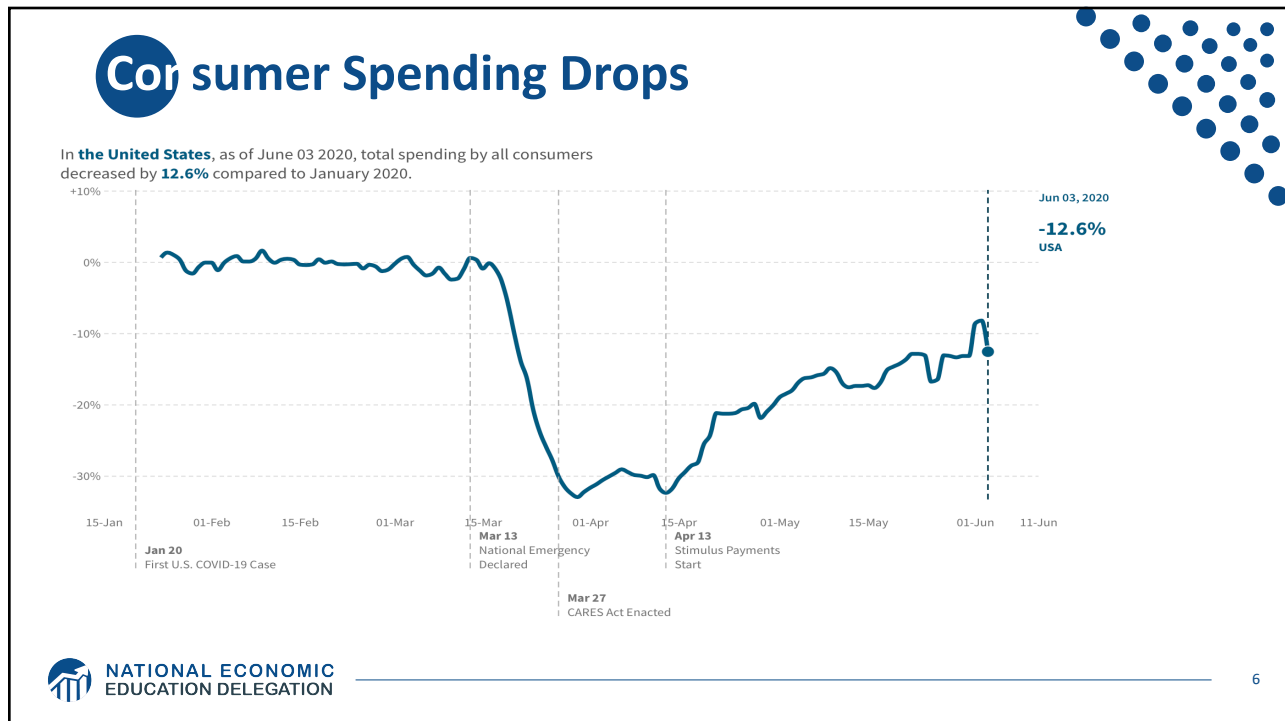
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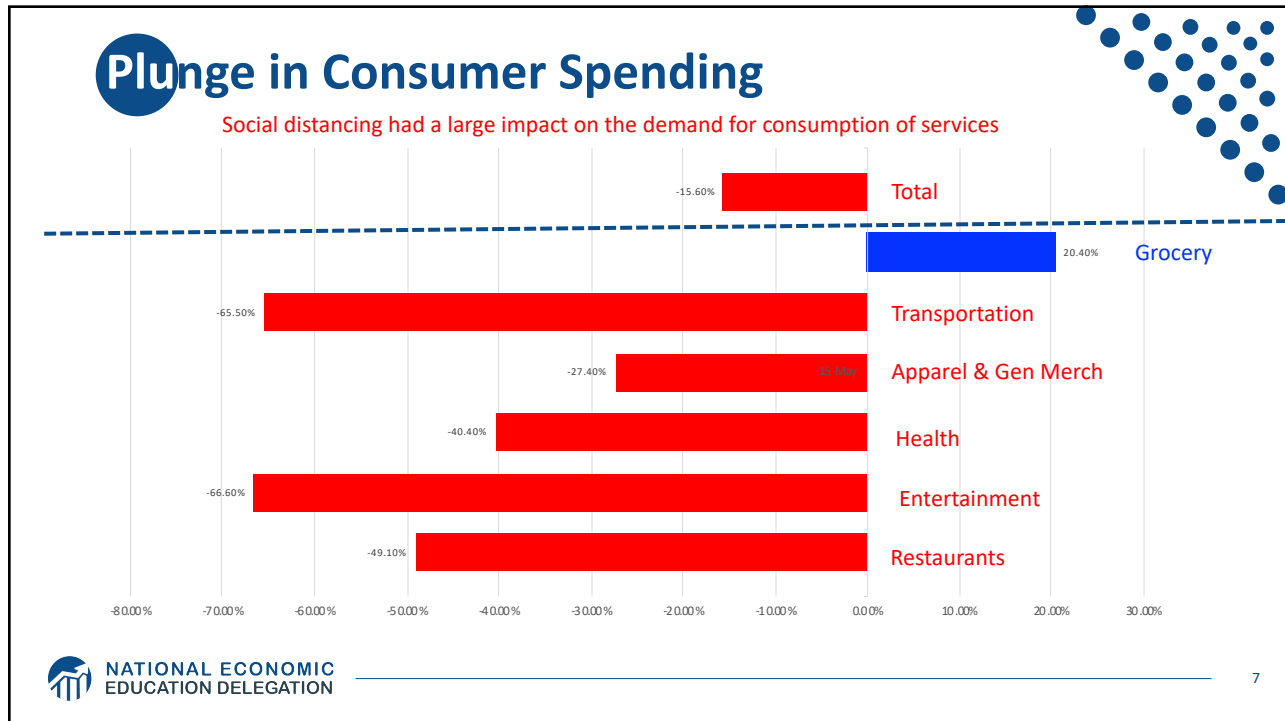
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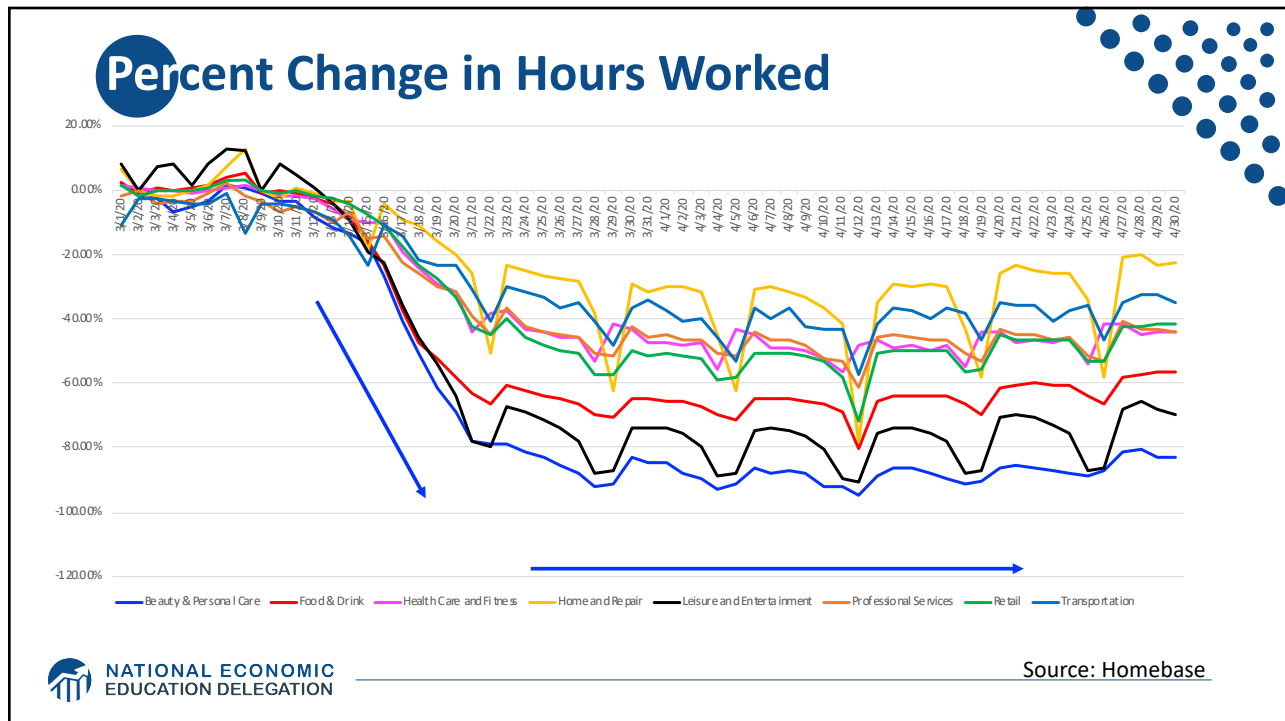
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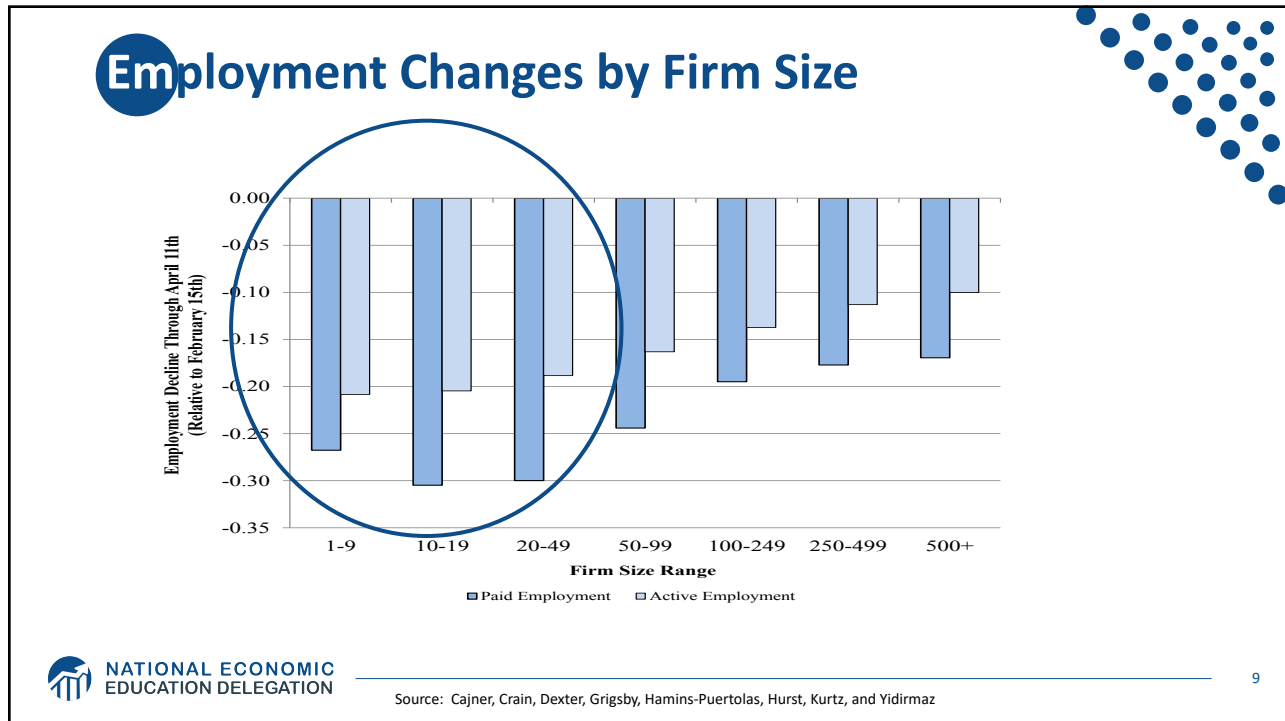
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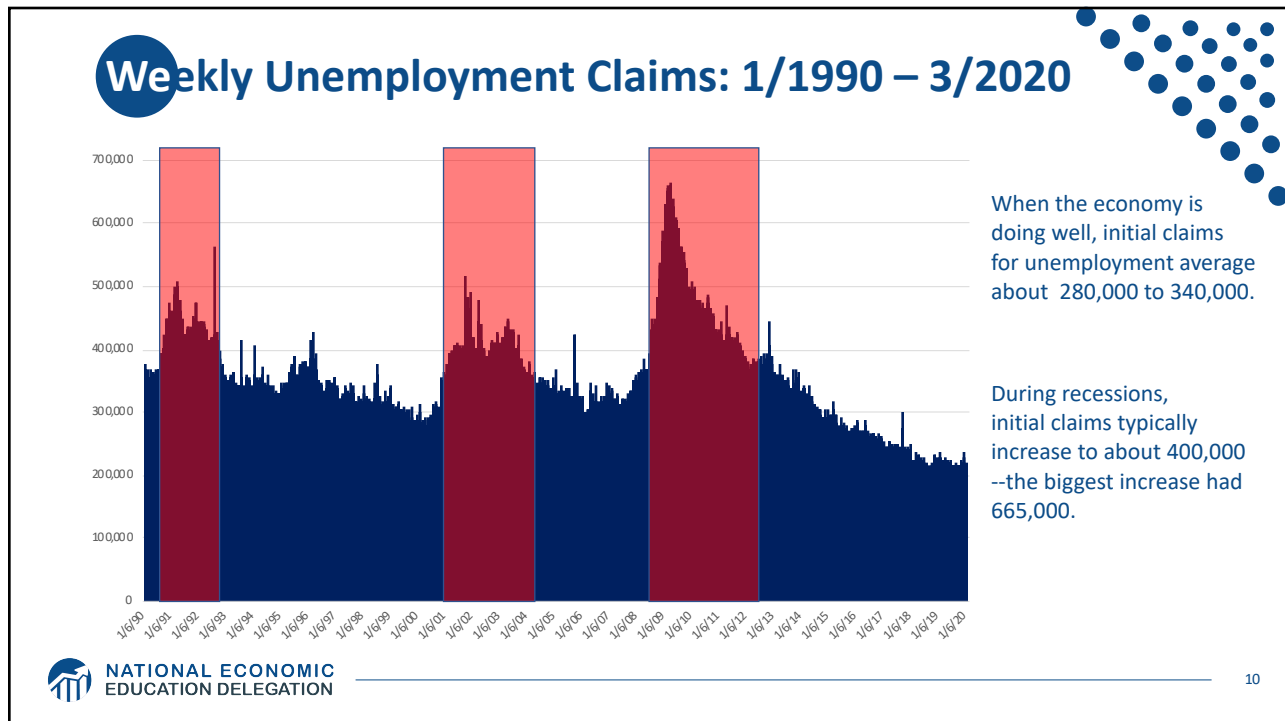
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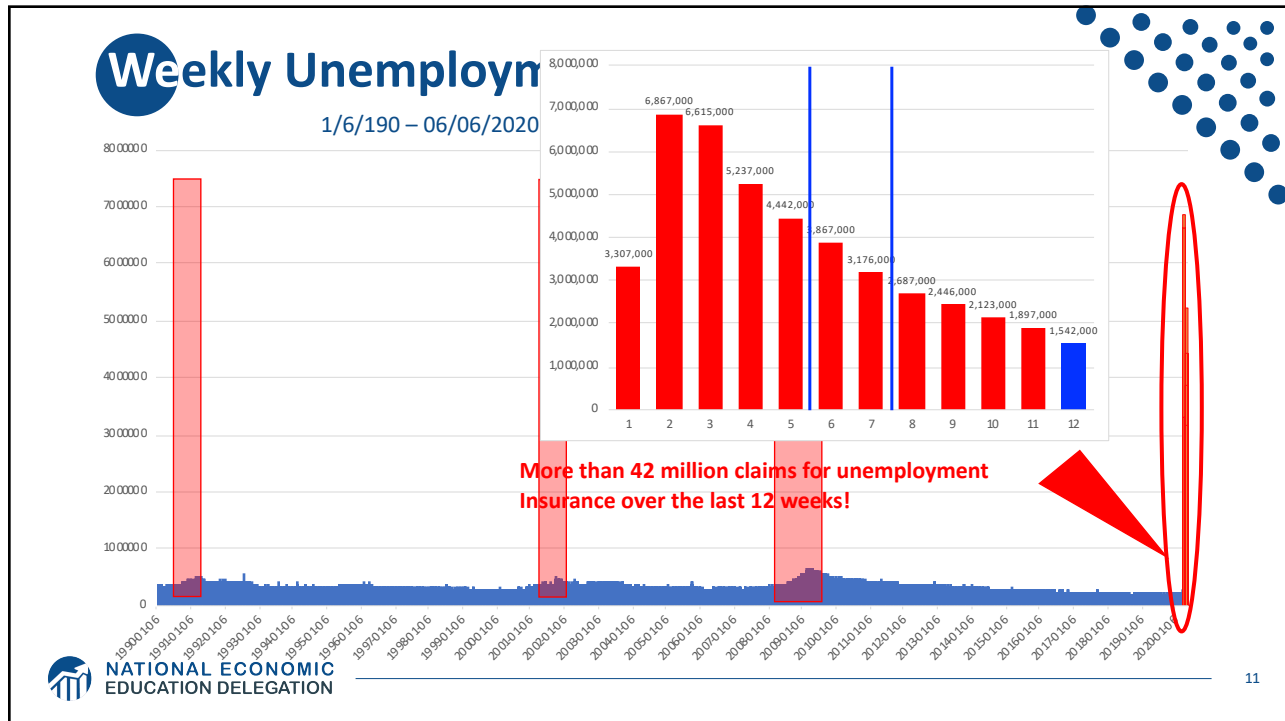
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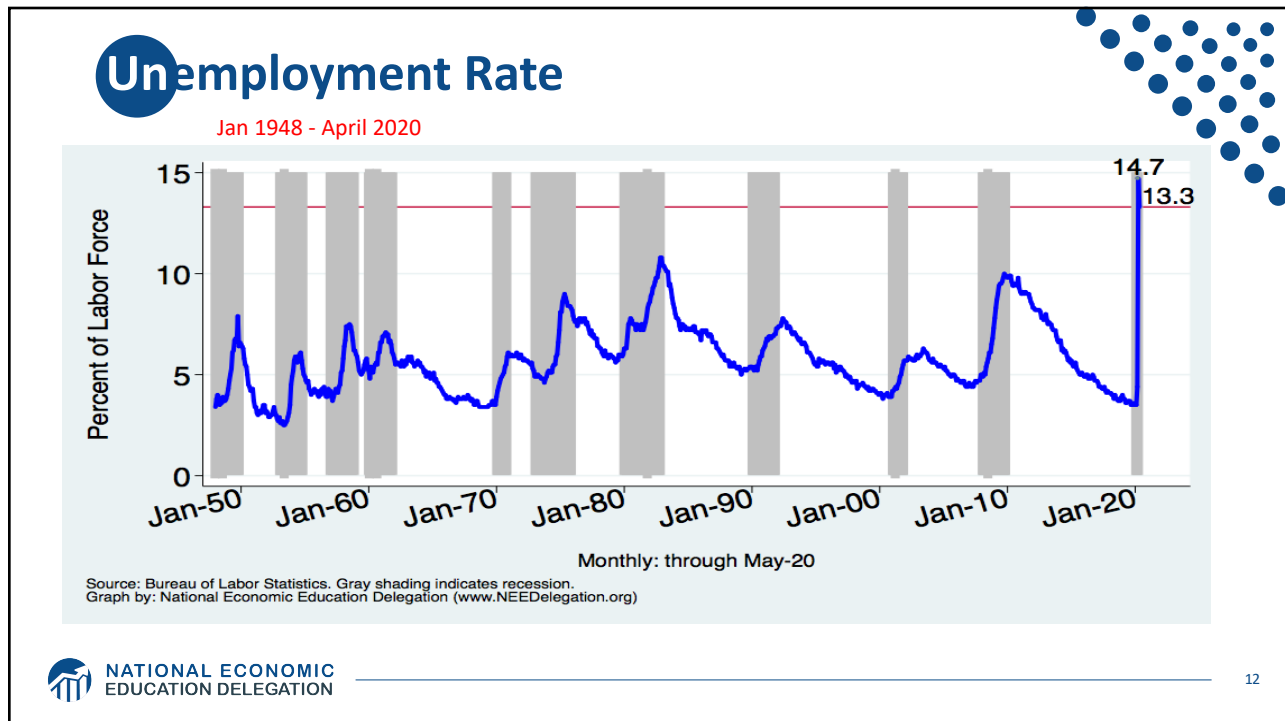
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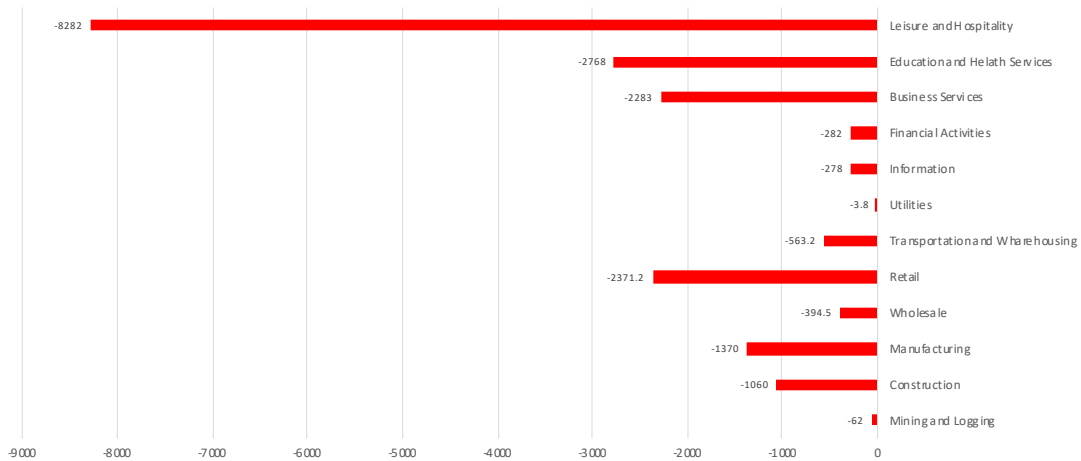


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March and April: Job Losses



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This Time is Different

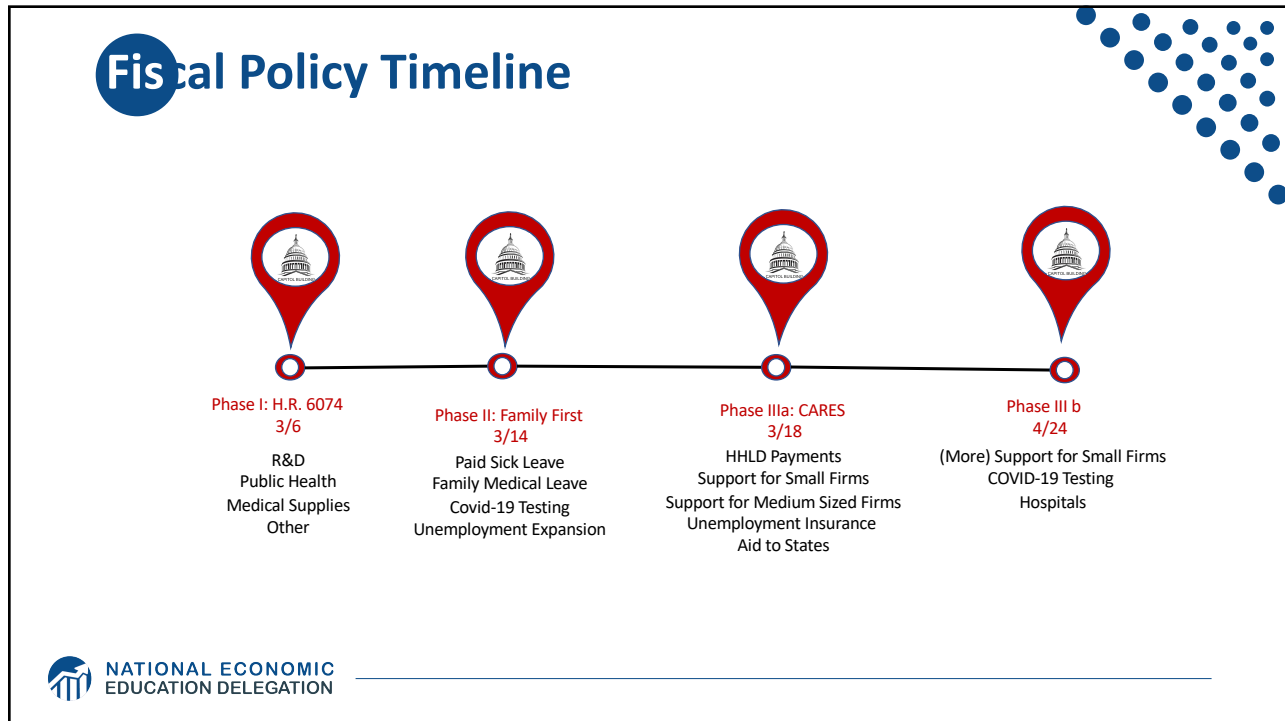
- **Great Depression**
 - A Financial Crisis which and (initial) flawed policy response
 - that resulted in persistent high unemployment
- **Great Recession**
 - A Financial Crisis
- **Oil Crisis of 1975 : Supply Shock due to a sharp rise in the price of oil**
- **Prior to the pandemic none of the above:**
 - Financial markets were not in trouble.
 - Real GDP growth was strong buoyed by strong consumer spending.
 - Unemployment and inflation were both low.
 - Oil prices were falling.
- **COVID-19 – “Health Shock”**
 - Supply Shocks: Disrupted supply chains
 - Demand Shocks: Limit market transaction in order to reduce the spread
- **Spanish Flu (1918)**
 - Structure of production and consumption is notably different



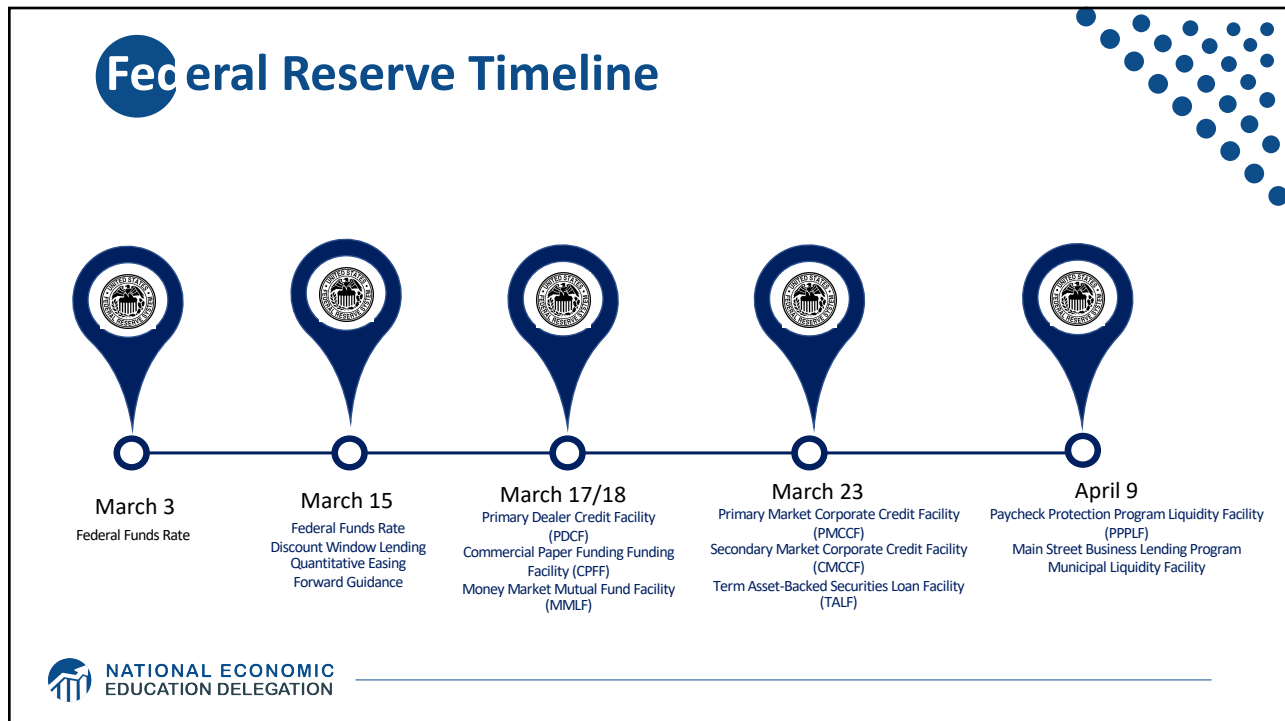
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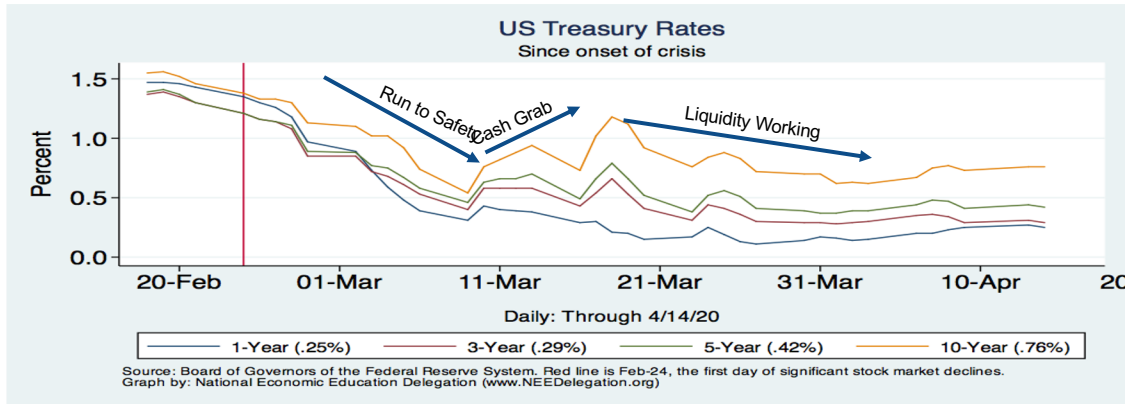


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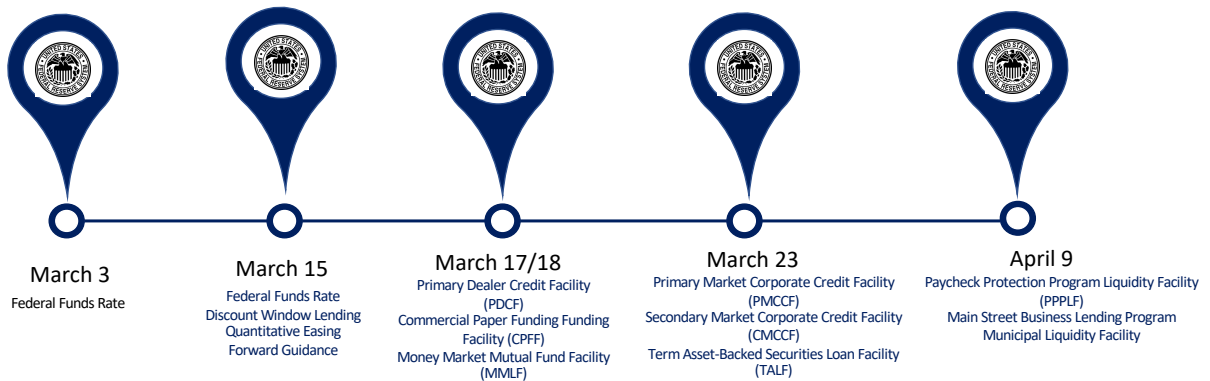
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US Treasury Rates: A Safe Haven?



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Federal Reserve Timeline



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SBA Distribution

Distribution of PPP Eligible Firms			
Firm Size	Percent of Firms	Percent of Employment	PPP Loan Size (est)
Under 5	61.9%	9.8%	\$16,985
5 to 9	16.9%	11.0%	\$57,239
10 to 19	10.6%	14.0%	\$121,470
20 to 99	9.1%	35.3%	\$387,137
100 to 499	1.5%	29.9%	\$2,248,253

But Is It Enough? Loans: are for 8 weeks

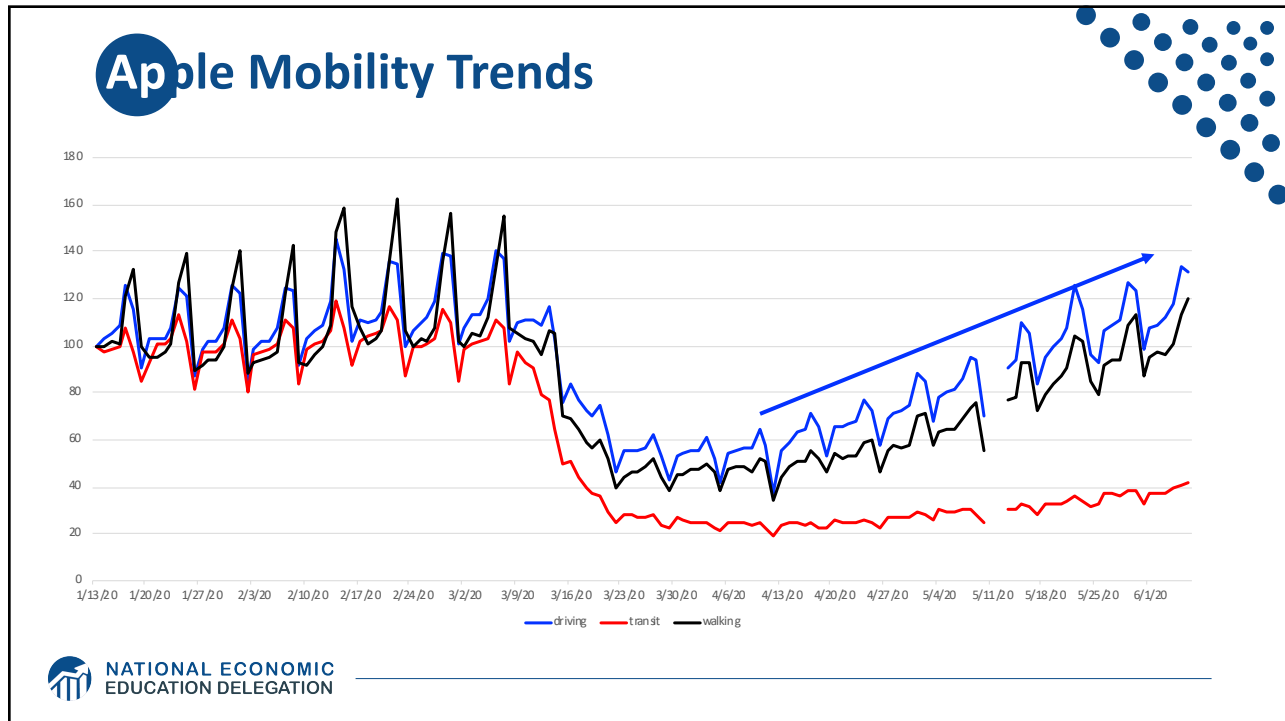
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PPP Loan Major Recipients By Industry

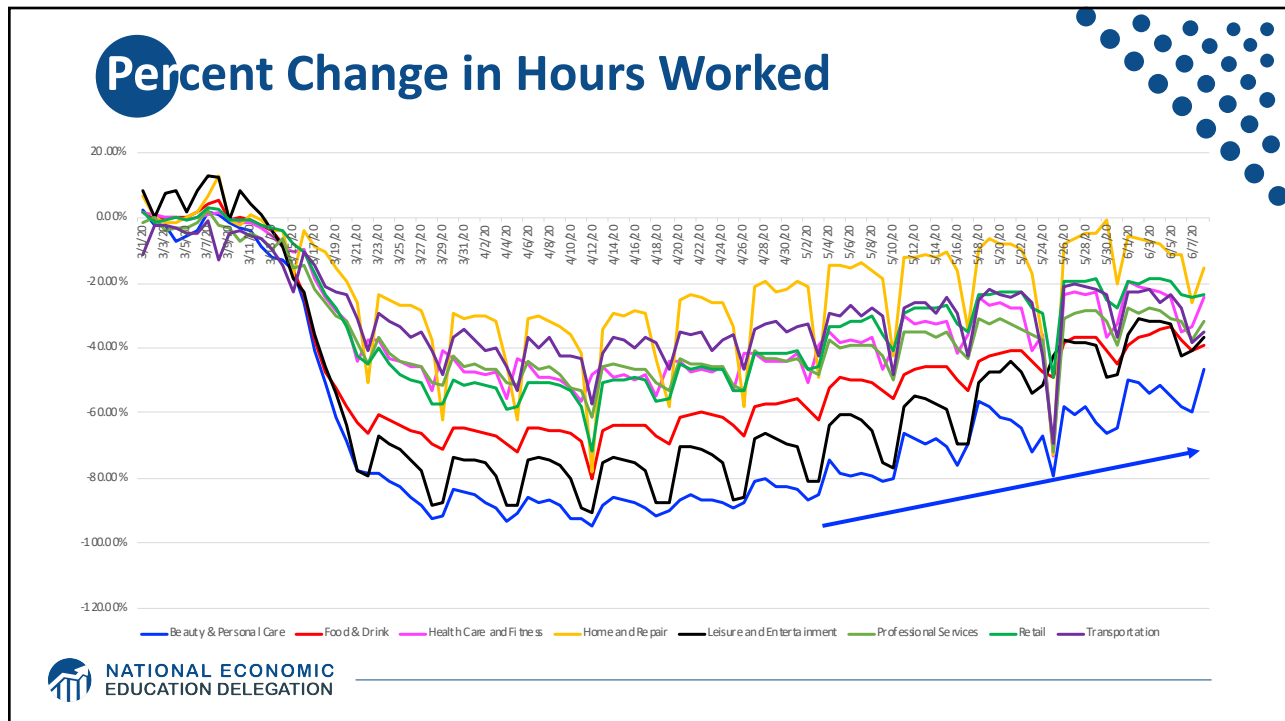
Industry	Amount (Billions)	Percent of Loans
Construction	\$44.9	13.1
Professional, Technical and Scientific, Services	\$43.3	12.7
Manufacturing	\$40.9	12.0
Health Care and Social Assistance	\$39.9	11.7
Accommodation and Food Service	\$30.5	8.9
Retail Trade	\$29.4	8.6
Wholesale Trade	\$19.5	5.7

These seven (7) industries account for nearly 75% of the PPP loans

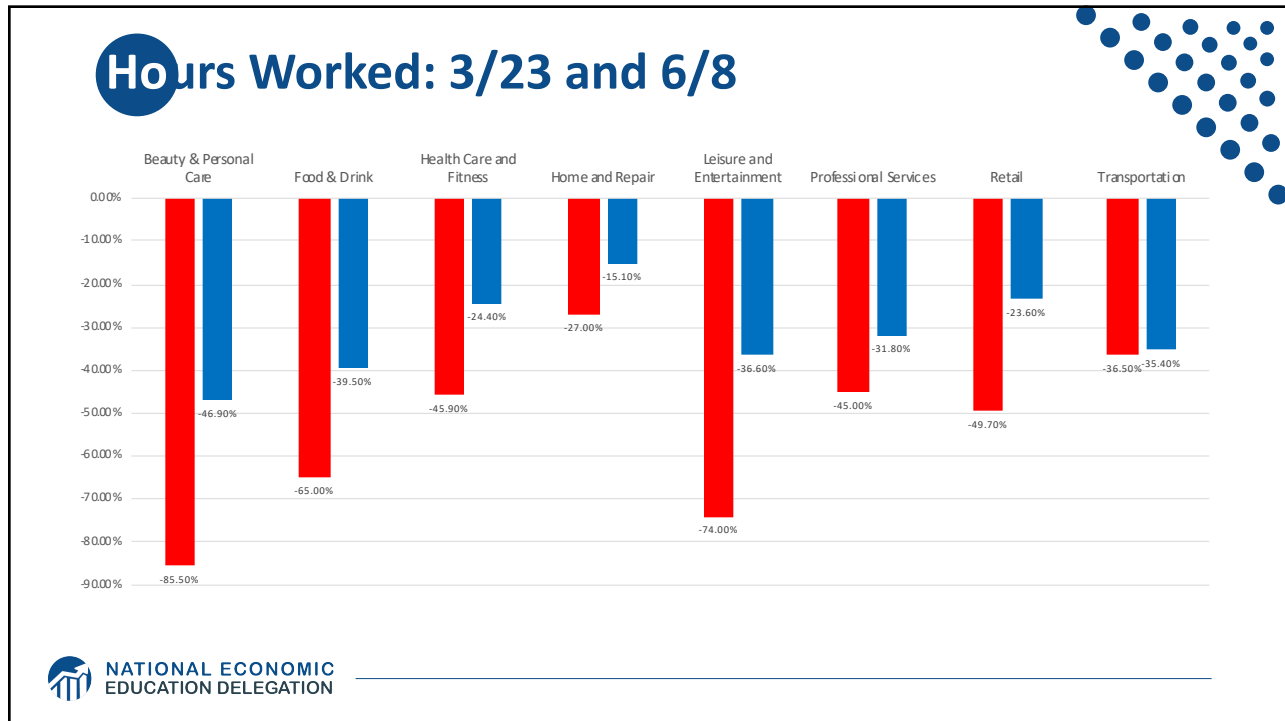
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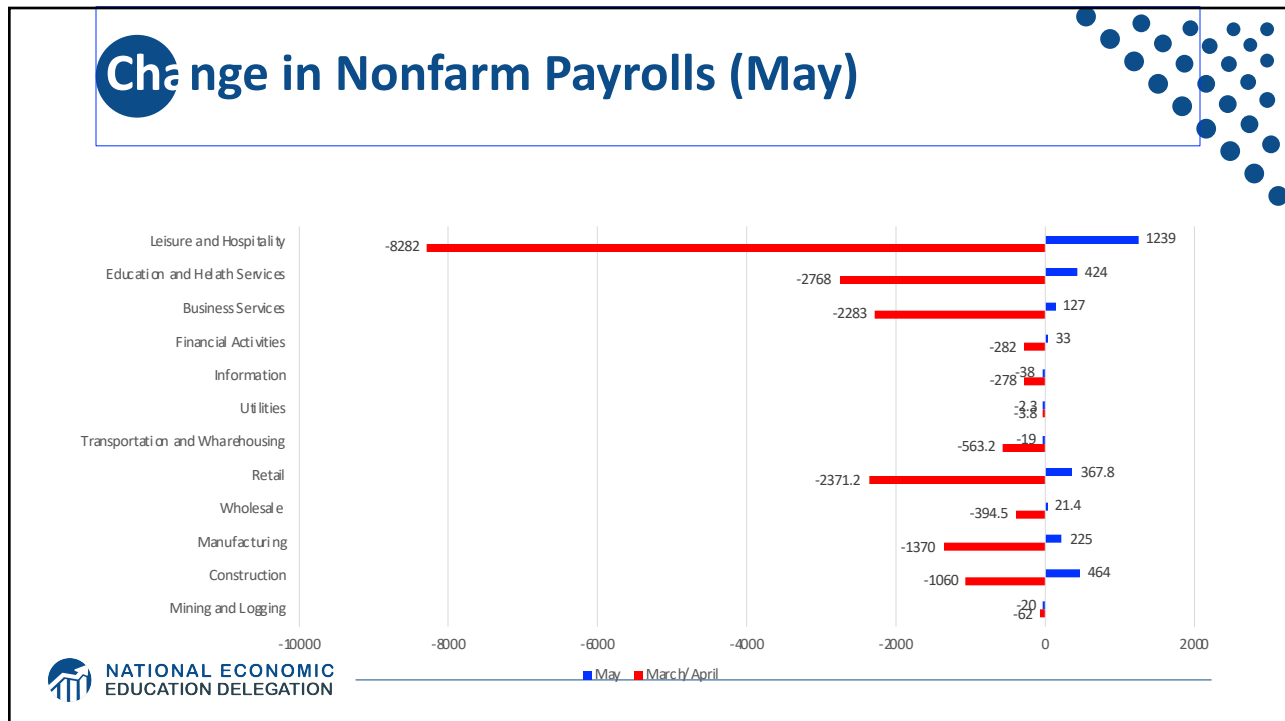
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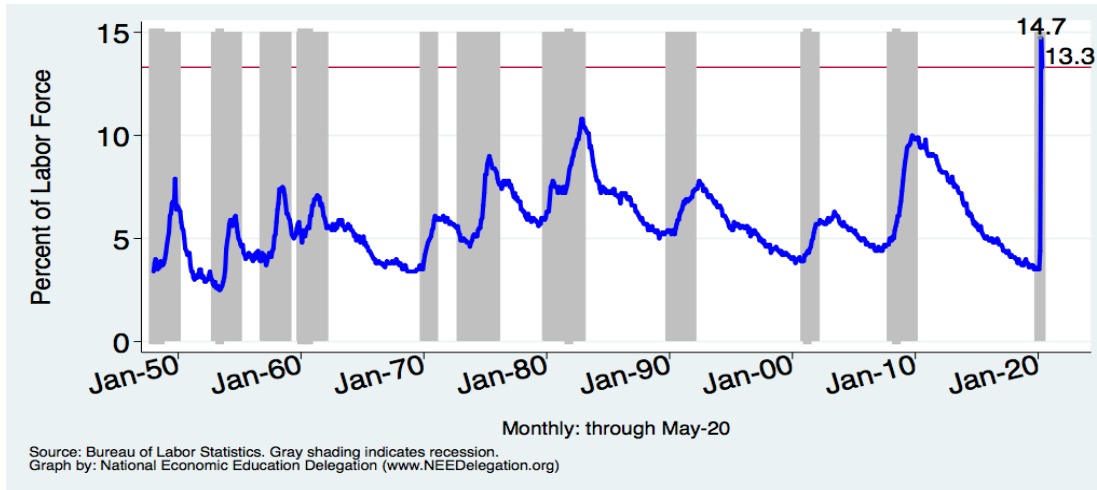


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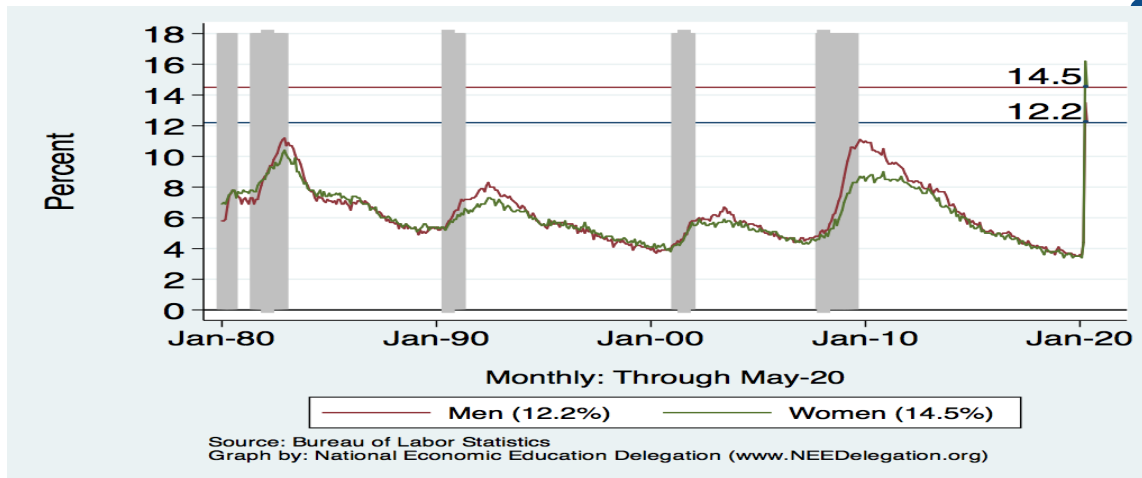
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Unemployment



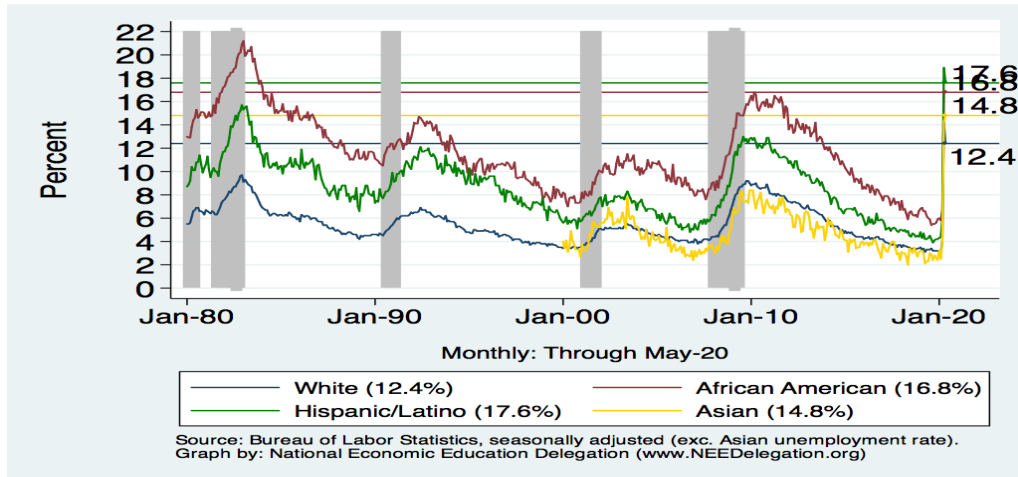
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Unemployment (Gender)



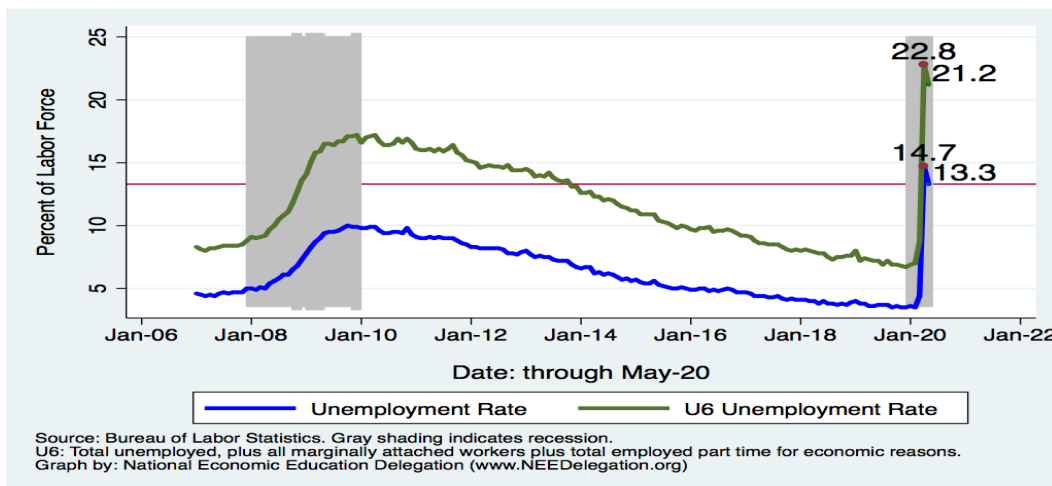
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Unemployment (Race)



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Unemployment: Alternative Measures



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ADP: Employment Intensity by Industry



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Source: Cajner, Crain, Dexter, Grigsby, Hamins-Puertolas, Hurst, Kurtz, and Yildirmaz

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Looking Forward: Federal Reserve Board Projections

- **Federal Reserve Board (median) projections GDP Growth:**
 - GDP growth for 2020: **-6.5%**
 - GDP growth for 2021: **5.0%**
 - GDP growth for 2022: **3.5%**
- **Federal Reserve Board (median) projections the unemployment rate:**
 - Unemployment rate end of 2020: **-9.3%**
 - Unemployment rate end of 2021: **6.5%**
 - Unemployment rate end of 2022: **5.5%**
- **Federal Reserve Board (median) projections the inflation rate:**
 - Expected inflation for 2020: **1.0%**
 - Expected inflation for 2021: **1.5%**
 - Expected inflation 2022: **1.7%**



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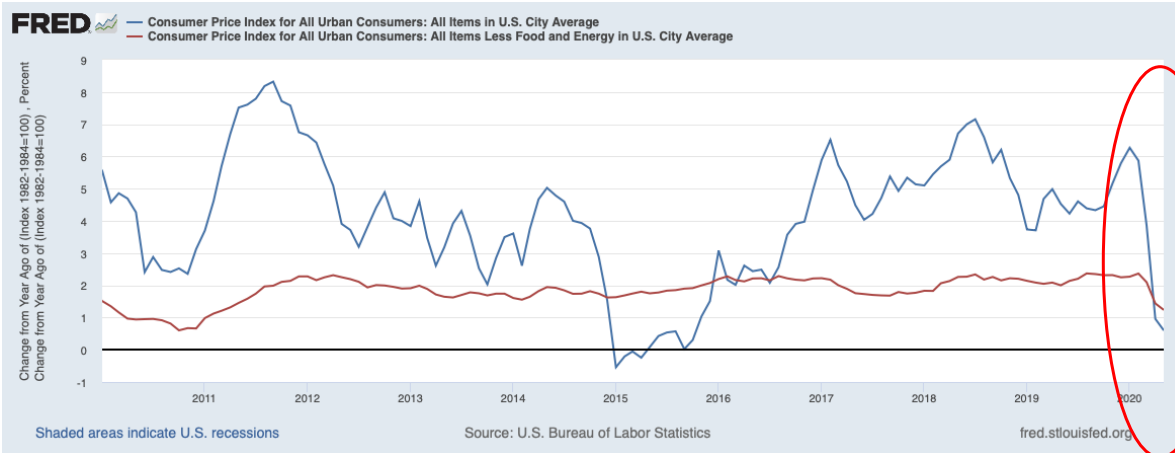
Looking Forward: Thought on the Fed's Projections

- The Fed thinks the recovery will be slow. This is why Fed Chair Powell stated that the “we are not even thinking about thinking about raising interest rates.” This was one of the reasons why financial markets fell so much on 6/11
- Federal Reserve Board (median) projections indicate that they think the GDP growth will only be negative this year and the growth will be relatively high in 2021.
- The Fed’s range for growth is wide – I think this represents the Fed’s uncertainty about the health implications.
- While unemployment is expected to decline below 10 percent,, 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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Inflation



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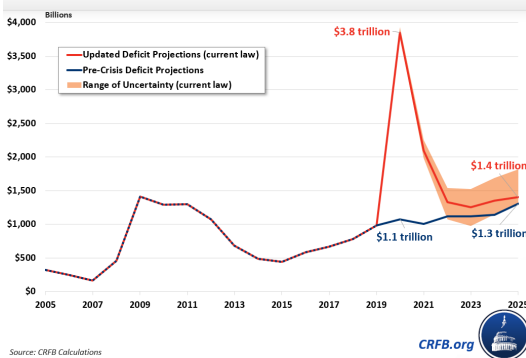
Looking Forward: Thoughts on Fiscal Policy

- Next round of fiscal policy likely to be implemented early to mid July depending on the economic conditions:
- PPP funds will run out in late June. Will the economy have recovered enough to suggest small business will not need support?
- Will the next round of fiscal policy include additional payments for households?
- What will be done for state and local governments?
- Unemployment benefits will begin to run out by the end of July? Will there be support for the additional \$600 per week.
- Will the next round of fiscal policy involve a return to work bonus. How could it be structured?

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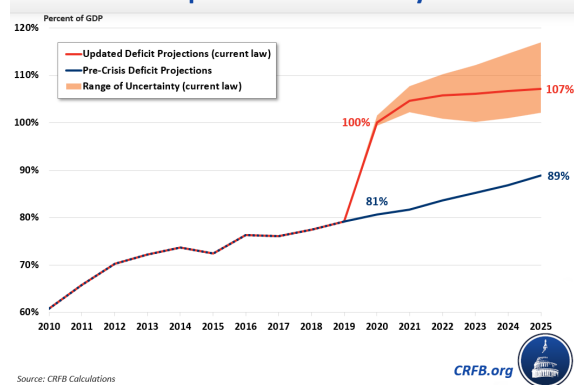
Looking Forward: Federal Budget Implications

Federal Deficit Will Reach Record Levels



Deficit may be nearly 20% of GDP

Debt Will Equal Size of Economy This Year

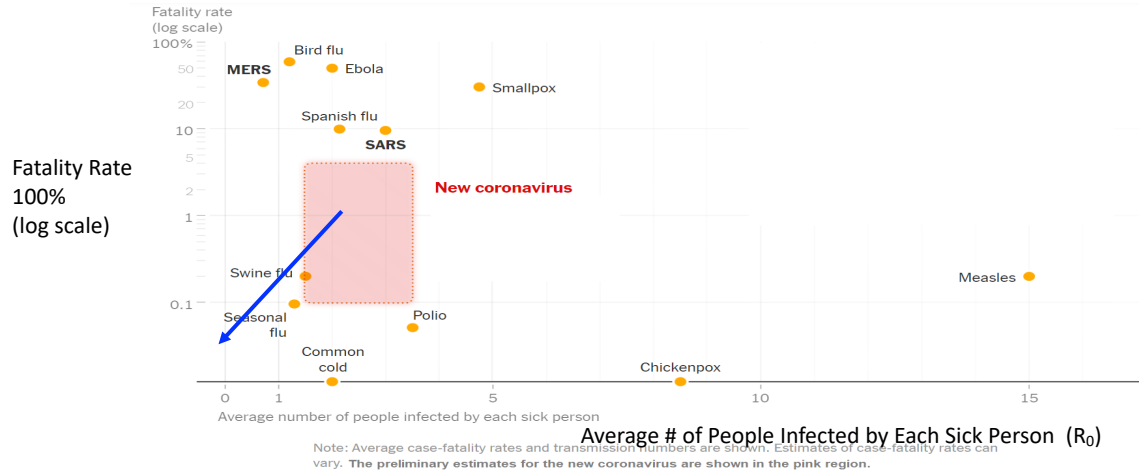


Debt will likely equal GDP this year

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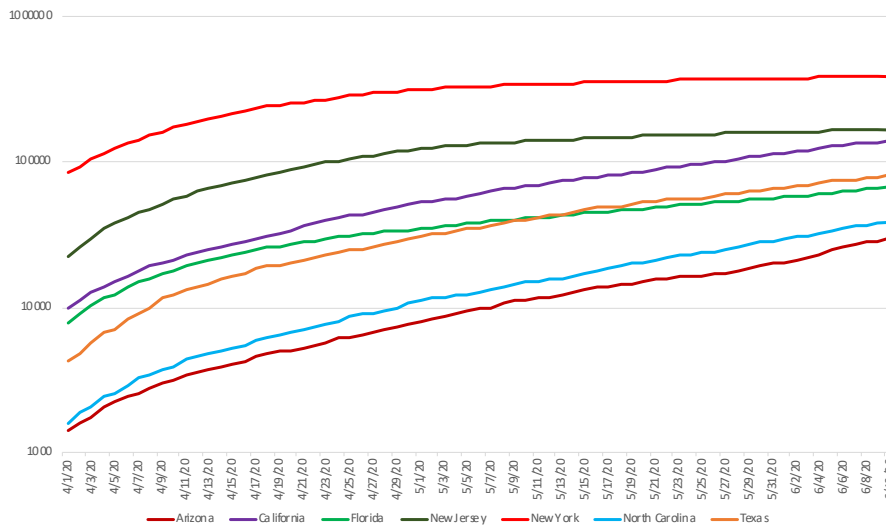
In the End It Really Depends on the Health Risks.

Comparison of COVID-19: Fatality and R0



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Confirmed Cases: Selective States



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Conclusion

- P. Krugman, “Right now the economy is in the equivalent of a medically induced coma...” (*NYTimes*, 4/16).
- COVID-19 is health crisis that has macroeconomic implications.
- GDP will likely contract between 5.0 and 6.0 percent this year.
- Positive growth may return in 2021 as long as there are preventative medicines and treatments.
- No easy answers – trade-offs are between bad outcomes.
- How do we plan for the next pandemic?
- Find the silver lining.

