



The State of the Recovery and the Challenges Ahead

May 21, 2021
North Marin Breakfast Club
Geoffrey Woglom
Professor of Economics (Emeritus)
Amherst College

Who Are We?

- **Honorary Board: 54 members**

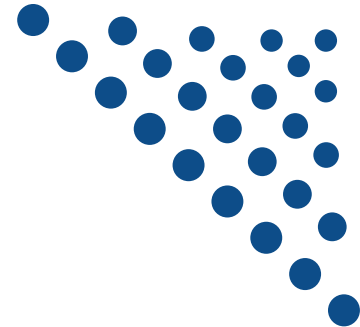
- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 1 Secretary of the Treasury: Yellen (D)
- 6 Chairs Council of Economic Advisers
 - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - Akerlof, Smith, Maskin

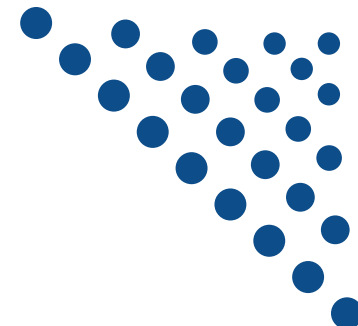
- **Delegates: 585+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development

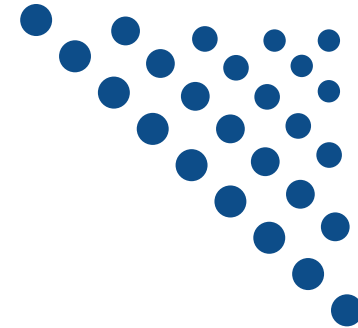




Available NEED Topics Include:

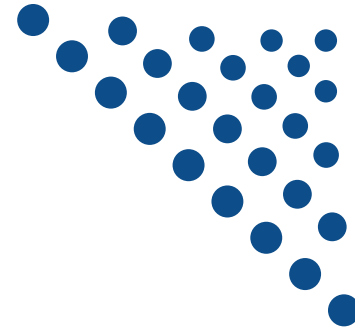
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **US Social Policy**
- **Trade and Globalization**
- **Trade Wars**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **2017 Tax Law**
- **Autonomous Vehicles**

Credits and Disclaimer



- **This slide deck was authored by:**
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- **This slide deck was reviewed by:**
 - Jon Haveman
- **Disclaimer**
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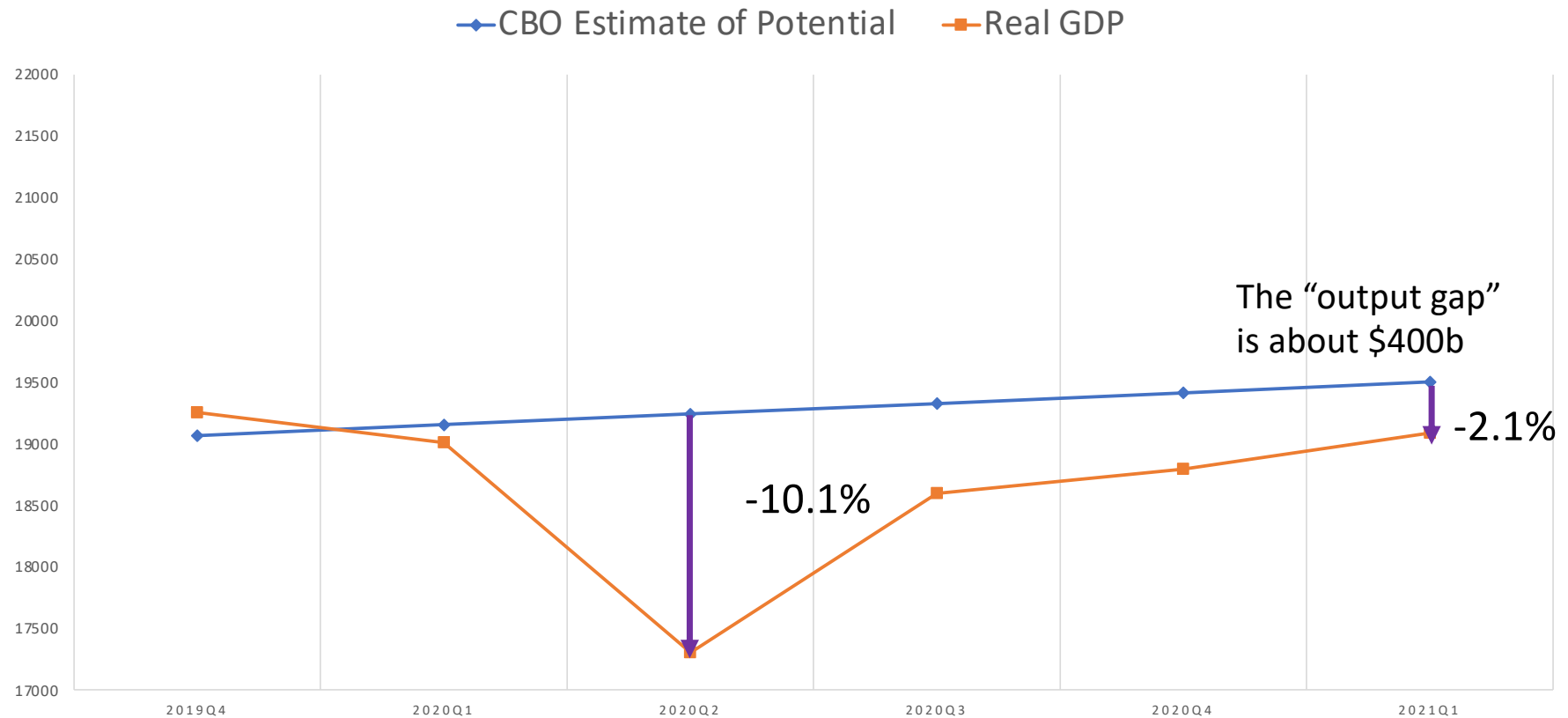
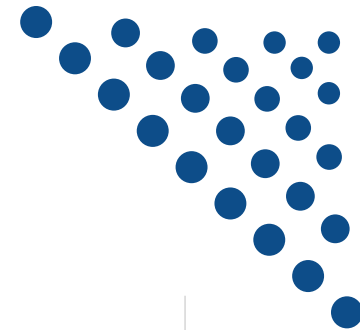
Outline



- **Where is the recovery now?**
- **How has policy affected the recovery?**
- **Challenges Ahead**
 - What is the cause of the apparent “labor shortage?”
 - Is there a risk of an increase in inflation?

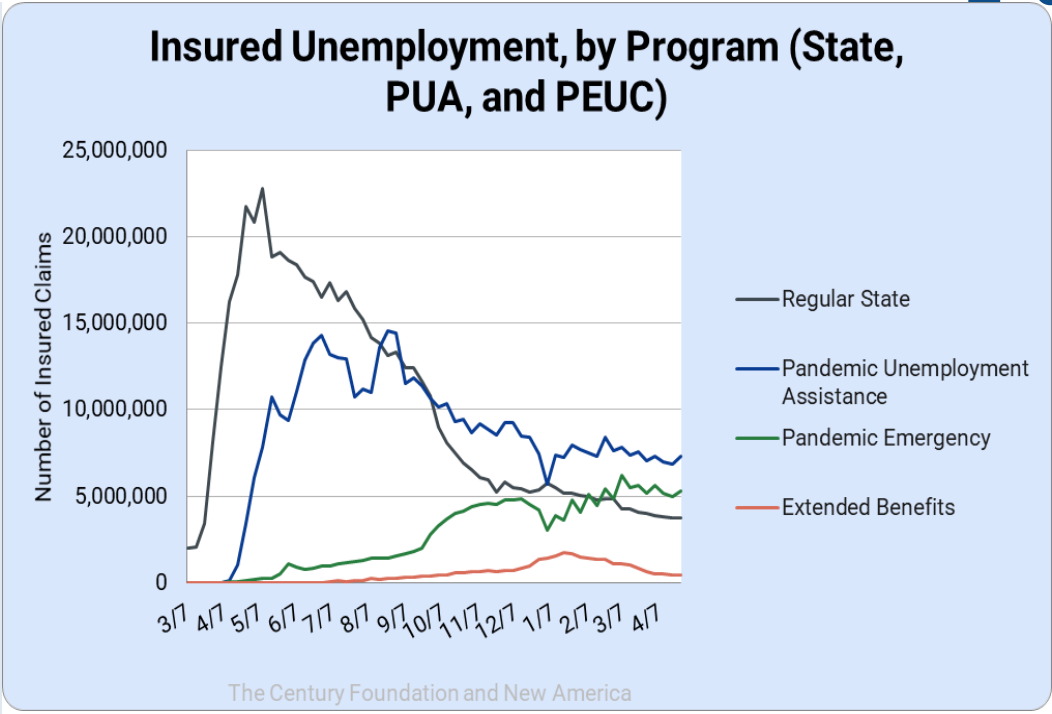
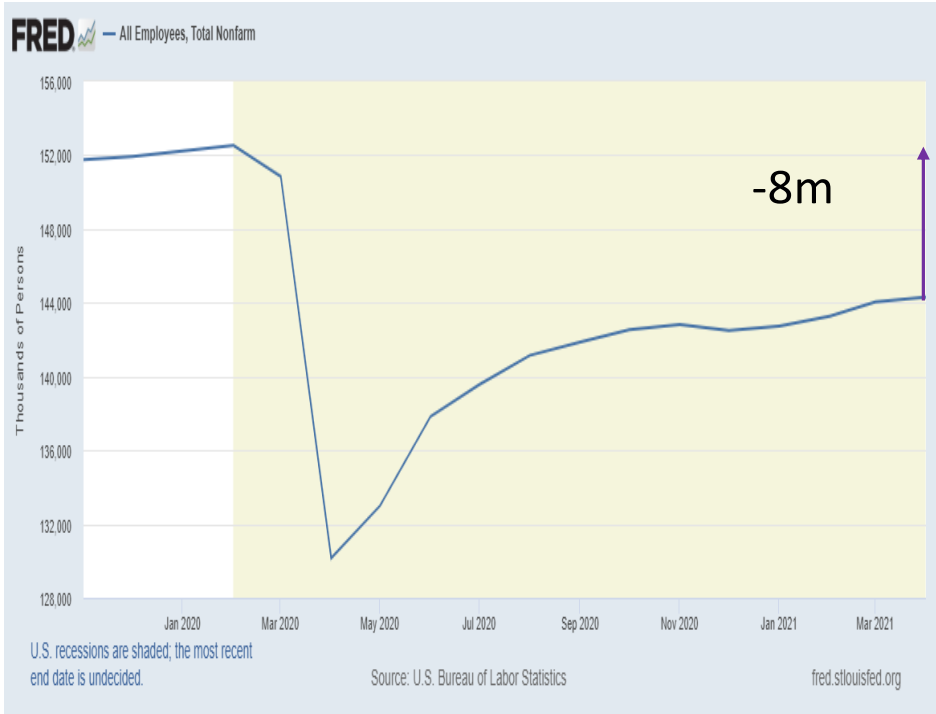
These challenges have been consuming the financial press since the April Jobs Report and CPI Report.

Real GDP and Potential during 2020



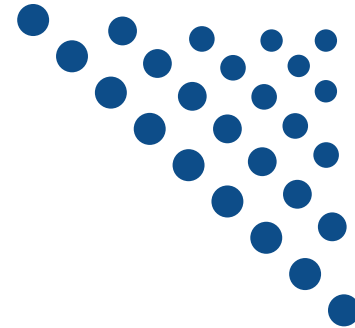


How about the Labor Market?



Initial Claims: 5/14, 444K. PUA Initial Claims: 95K

Aggregate Data Looks Encouraging



- Recovery has been *unexpectedly* rapid, albeit incomplete, but slowed starting in the second half of 2020.
- Why so rapid: There were no **short-run** macro problems at the start of the crisis.
- The only obstacle to a continued recovery:
 1. Resurgence of the virus.
 2. Economic damage due to prolonged job losses and business failures in specific sectors

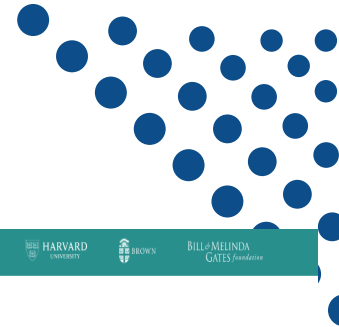
What Have Been Policy Effects



- **Monetary Policy 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 acted quickly, but inevitably made some mistakes.**
 - Stimulus Checks, \$268b
 - Expanded Unemployment, \$268b
 - Paycheck Protection Program, \$525b

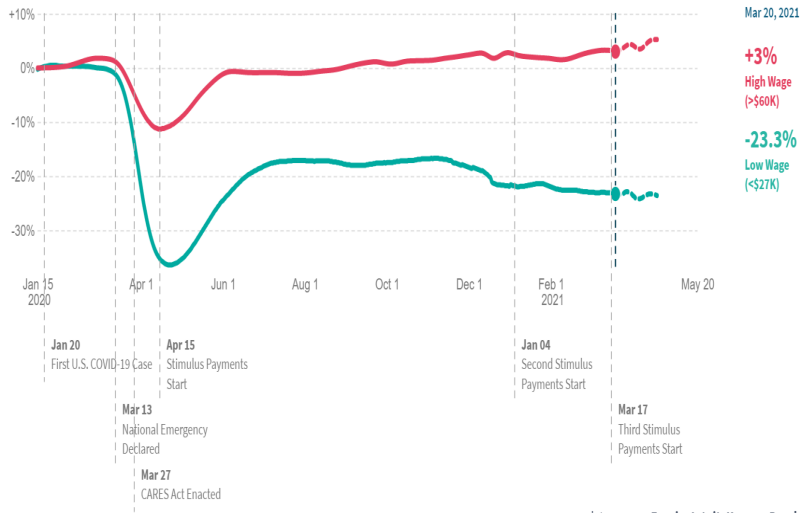
December and March Packages added another \$2.7tr.

K-Shaped Recovery



Percent Change in Employment*

In the United States, as of March 20 2021, employment rates among workers in the bottom wage quartile decreased by 23.3% compared to January 2020 (not seasonally adjusted).



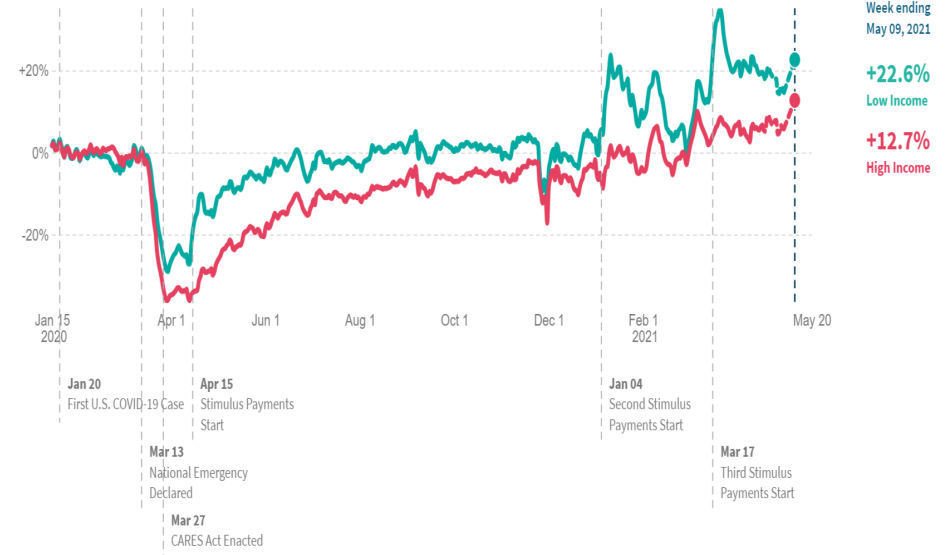
data source: Earnin, Intuit, Kronos, Paychex

*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.

last updated: May 19, 2021 next update expected: May 28, 2021

Percent Change in All Consumer Spending*

In the United States, as of May 09 2021, total spending by low-income consumers increased by 22.6% compared to January 2020.

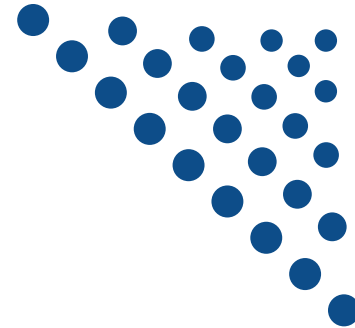


data source: Affinity

*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.

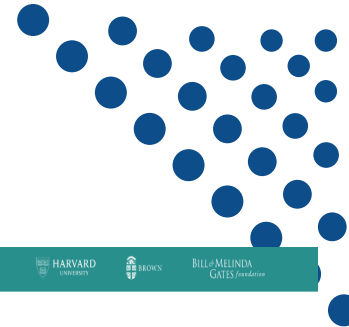
last updated: May 19, 2021 next update expected: May 26, 2021

Key Questions Raised by Previous Slide



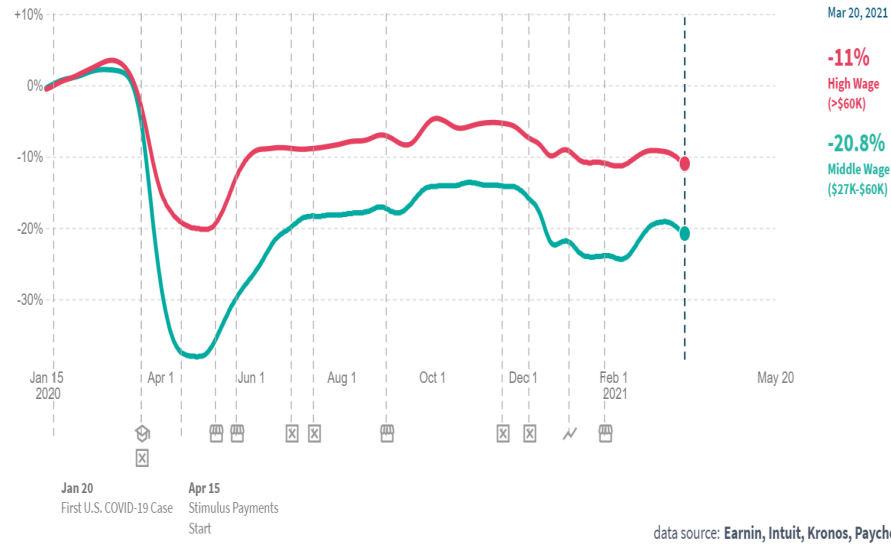
- **Why were low-income households able to maintain spending better than high-income households, in spite of higher unemployment?**
- **What is the difference in spending patterns of high- and low-income households and how did the pandemic affect these spending patterns?**

Conditions Closer to Home



Percent Change in Employment*

In Marin, as of **March 20 2021**, employment rates among workers in the middle wage quartiles **decreased** by **20.8%** compared to January 2020 (not seasonally adjusted).

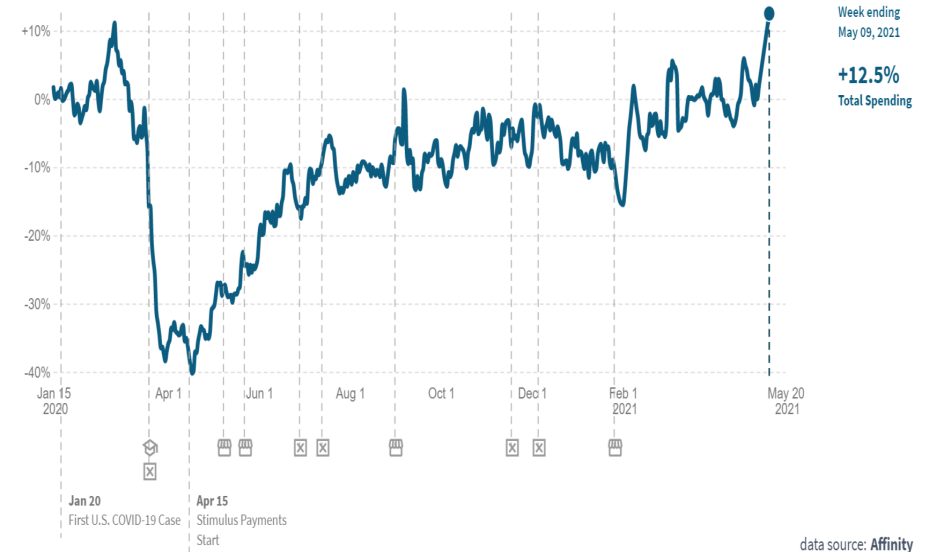


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last updated: **May 19, 2021** next update expected: **May 28, 2021**

Percent Change in All Consumer Spending*

In Marin, as of **May 09 2021**, total spending by all consumers **increased** by **12.5%** 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.

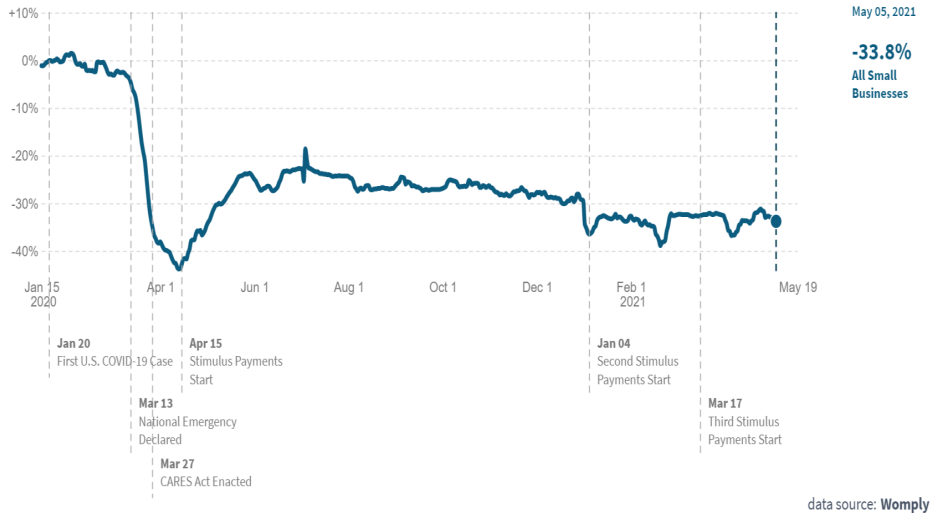
last updated: **May 19, 2021** next update expected: **May 26, 2021**

Hard-Hit Sector: Small Business



Percent Change in Number of Small Businesses Open*

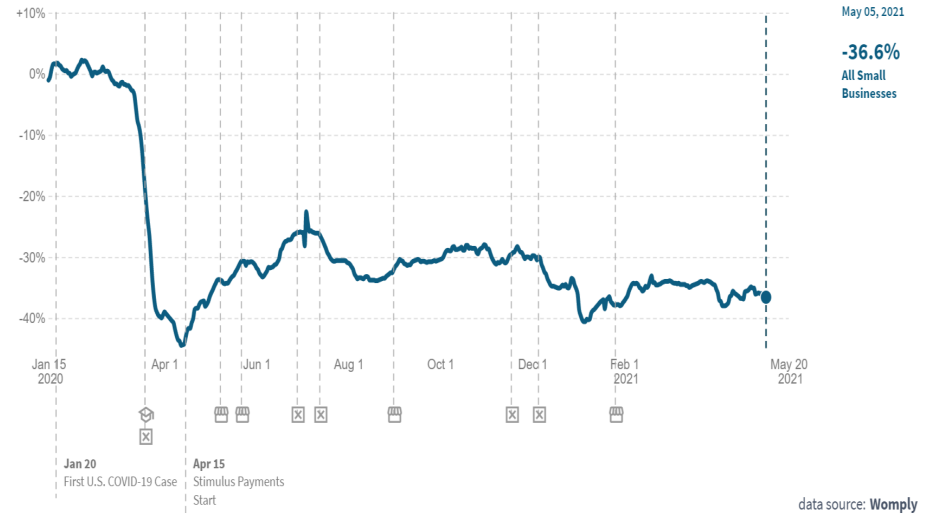
In the United States, as of May 05 2021, the number of small businesses open decreased by 33.8% compared to January 2020.



*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.
last updated: May 14, 2021 next update expected: May 21, 2021

Percent Change in Number of Small Businesses Open*

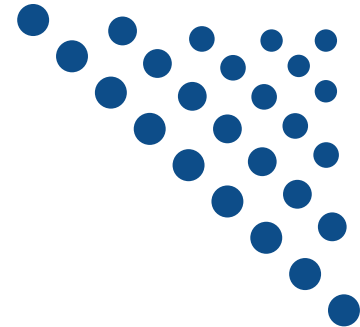
In California, as of May 05 2021, the number of small businesses open decreased by 36.6% compared to January 2020.



*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.
last updated: May 14, 2021 next update expected: May 21, 2021

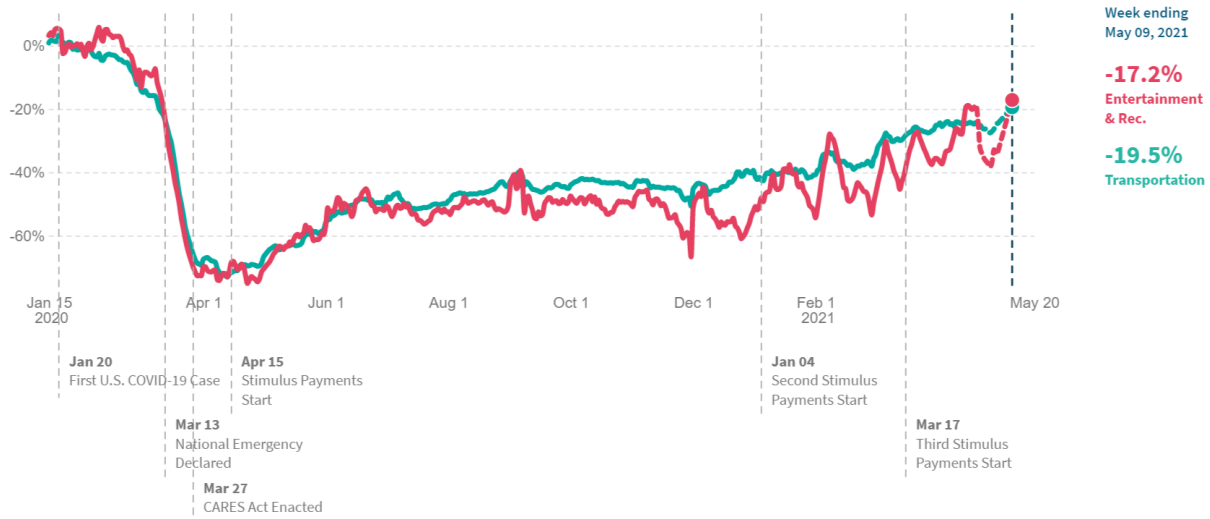
40% of all jobs are at small firms

Other Hard-Hit Sectors



Percent Change in All Consumer Spending*

In the United States, as of May 09 2021, transportation spending by all consumers decreased by 19.5% compared to January 2020.



data source: Affinity

*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: May 19, 2021 next update expected: May 26, 2021

Explaining the Recovery so Far



- **Unprecedented Fiscal *Rescue* Efforts Saved Hard Hit People and Sectors**

- Stimulus checks and expanded unemployment benefits helped the poor to maintain spending.
- PPP, in spite of shortcomings saved, many small firms
- Grants to airlines and state and local governments; loans to larger corporations

- **Inevitably, two big problems**

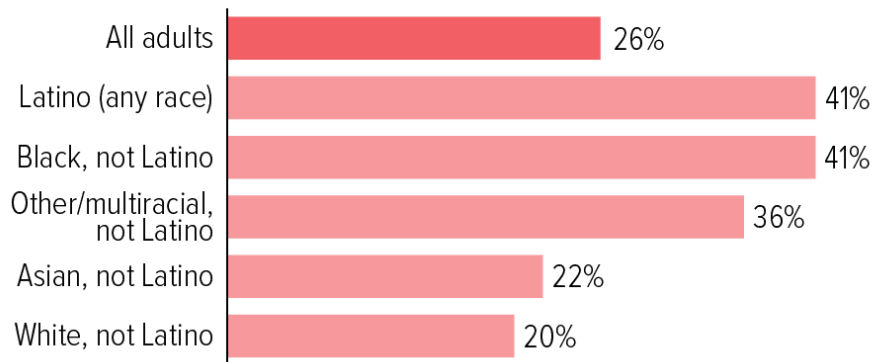
1. Not everyone in need got help.
2. Some aid went to individuals and entities that did not need it.

Many People Are Still Really Hurting



1 in 4 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



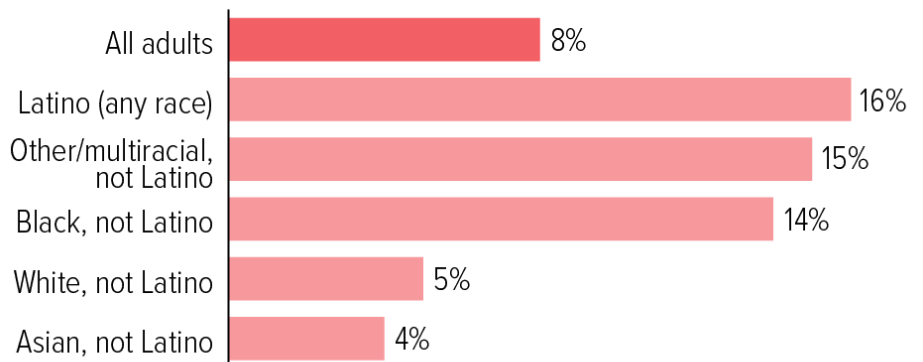
Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

Source: CBPP analysis of Census Bureau Household Pulse Survey tables for April 14-26, 2021

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Households of Color Likelier to Experience Food Insufficiency During Pandemic

Share of adults saying that their household sometimes or often did not have enough to eat in the last 7 days

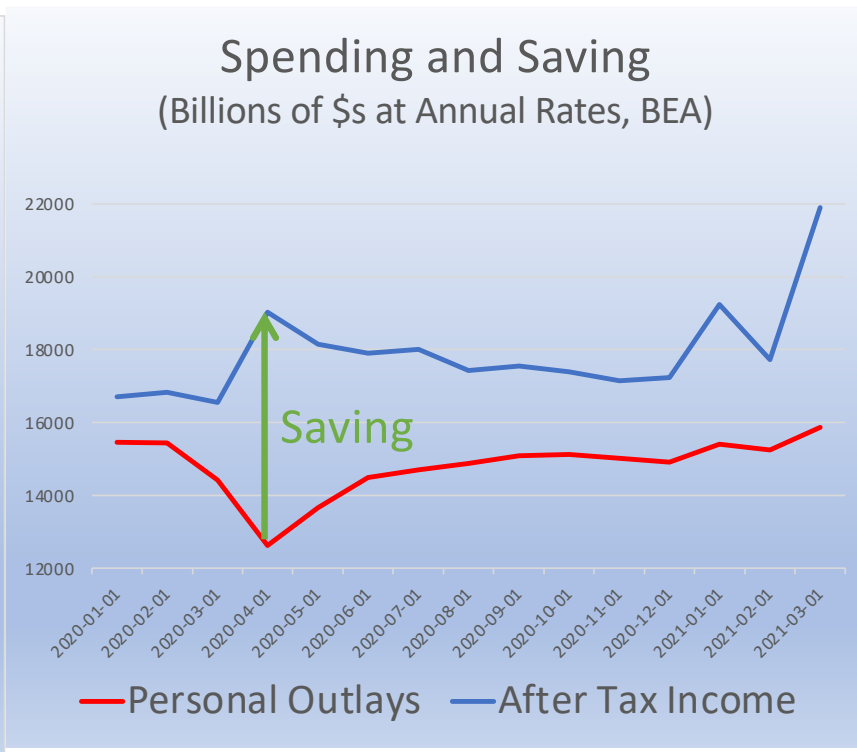
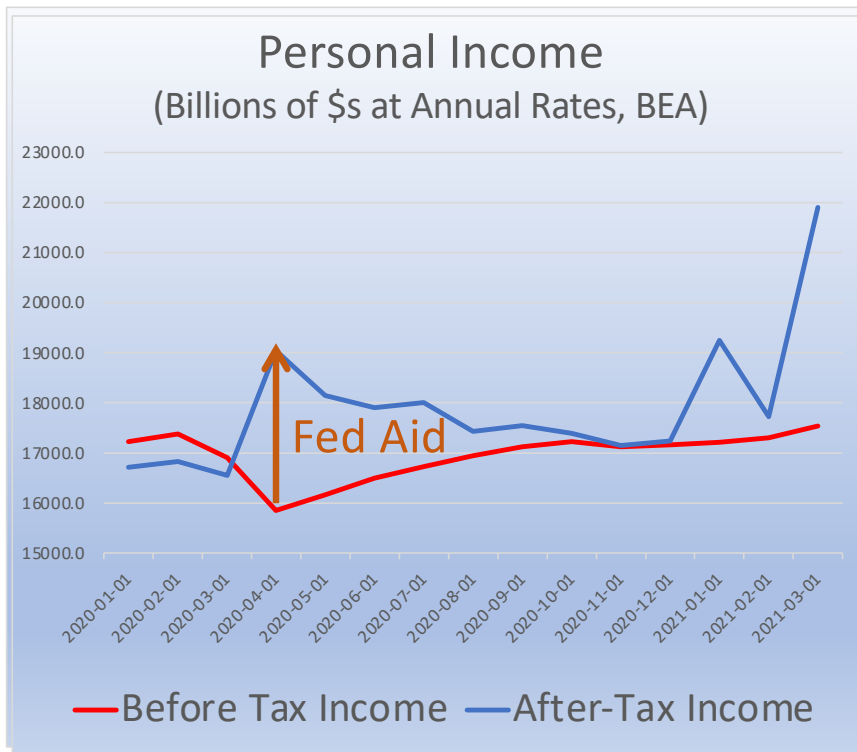


Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages are based on reporting distributions and do not include the populations that did not respond to the question.

Source: CBPP analysis of Census Bureau Household Pulse Survey tables for April 14-26, 2021

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Consequence of Fiscal Stimulus So Far



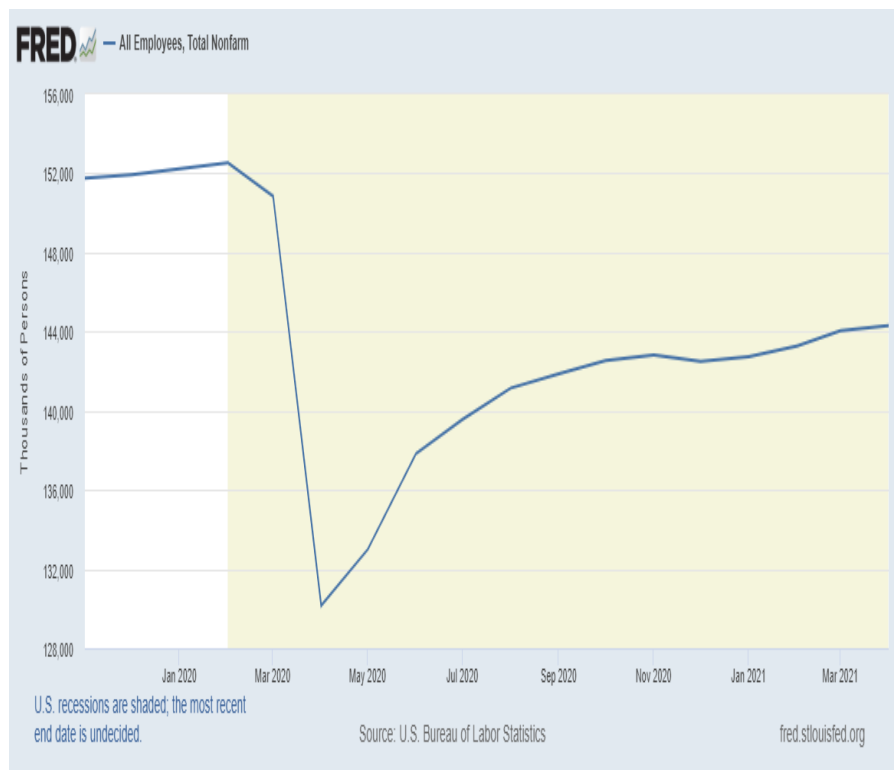
“Extra” Saving ~\$2.2 trillion

Lessons from the Previous Slide



- **Cares Act in March 2020 prevented the initial collapse in spending due to COVID restrictions from getting worse due to job losses.**
- **It allowed many, but not all, of the poor to maintain spending (and to stay in their rented houses).**
- **The sharp increase in total savings, however, suggests that much of the aid went to households who did not need it to maintain spending.**
- **Key Question: As the economy reopens, what will high-income households do with “extra” savings?**

But What about the Lousy Jobs Report?

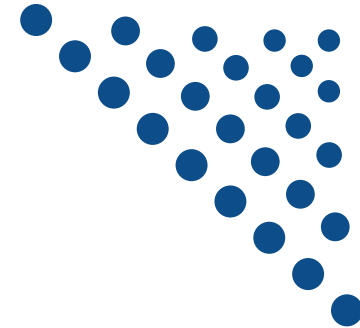


What a Difference a Month Makes

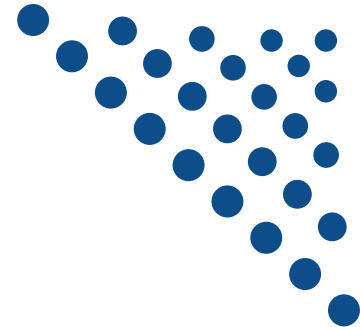
March: “Light at the end of the tunnel,” 770K new jobs added

April: Clunk, 266k new jobs, fewer than were added in Feb of 2020

Explanations



- 1. Noisy Data**
- 2. Demand was great in March, but slowed in April; e.g., retail sales in March rose 10.7%, but were flat in April.**
- 3. Mismatches of jobs and workers.**
 - Supply bottlenecks in many industries
 - Given the length of the recession it takes time to rematch workers and firms
- 4. Workers' reluctance to take available jobs, i.e., labor shortage**
 - More than 50% of workers are unvaccinated.
 - Many schools have not reopened and parents need to provide child care.
 - Expanded unemployment insurance discouraged workers from taking jobs



Expanded Unemployment Benefit

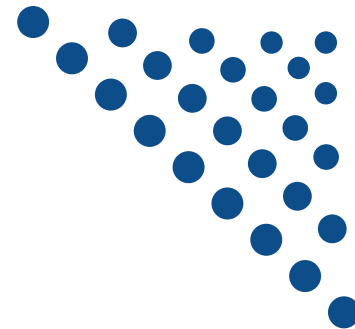
- Cares Act added an extra \$600 a week to the regular state unemployment, but ended in July
- American Rescue Plan reinstated an extra \$300 a week benefit to expire in September. (First, \$10,600 of UI nontaxable)

Unemployment Insurance Benefits				
Income Quartile:	Weekly Earnings	Regular Benefits	Expanded (\$300)	
25%	\$445	\$231 (52%)	\$531 (119%)	
50%	\$668	\$346 (50%)	\$646 (97%)	
75%	\$1,207	\$456 (38%)	\$756 (63%)	

P. Ganong, P. Noel, and J. Varva, "US Unemployment Insurance Replacement Rates During the Pandemic, Working Paper 202-62, BFI Institute

- As of 5/18, 21 States are foregoing the extra \$300 benefit for their unemployed workers.

What about Inflation: Two Views



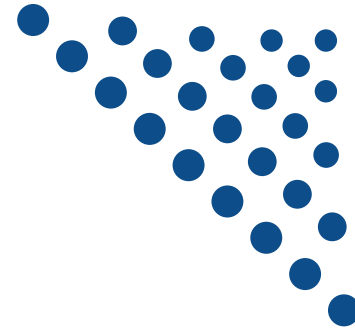
Treasury Secretary Jane Yellen, 3/14:

To get a sustained high inflation like we had in the 1970s, I absolutely don't expect that. We have had very **well anchored inflationary expectations**, and a Federal Reserve that's learned how to manage inflation.

Former Treasury Secretary Larry Summers, 3/26:

It may be that a way will be found to bring it under control. But as I look at \$3 trillion of stimulus, \$2 trillion of savings overhang, ..., rates expected by the Federal Reserve to be at zero for three years even in a booming economy, ..., and much new fiscal stimulus to come — I'm worried.

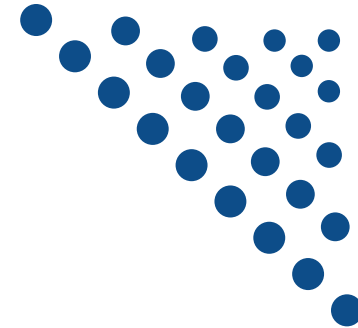
How Does the Fed “Manage” Inflation?



- **The Fed has a “dual mandate”**
 - Price stability (2% inflation)
 - Maximum employment consistent with price stability.
- **When the Fed fears a rise in inflation, they raise interest rates to lower total spending.**
- **When the Fed fears rising unemployment, they cut interest rates to increase total spending.**

At the moment, the Fed appears to be more concerned about its employment objective than in the past.

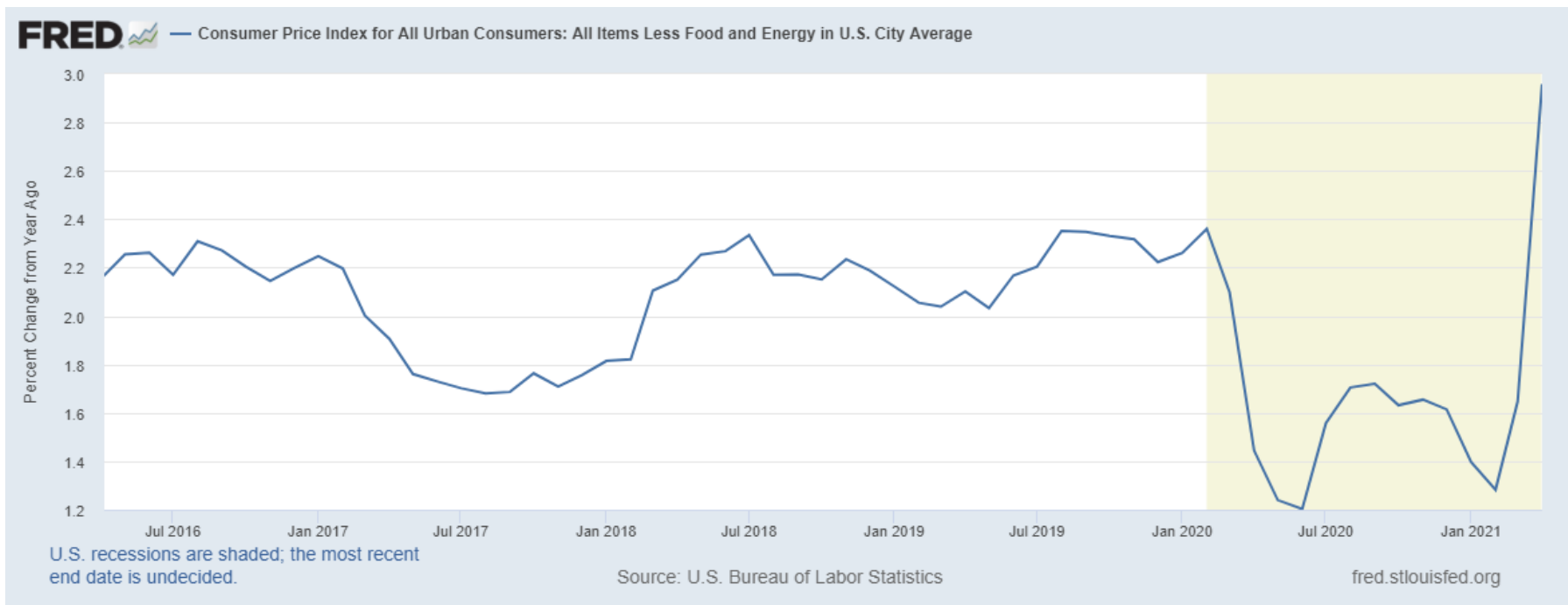
FOMC Policy Statement 4/28/2021



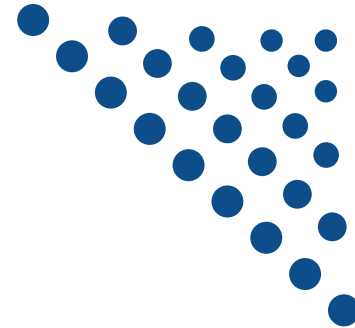
The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.

Pretty “Dovish”: 1) Employment objective comes first; 2) Tolerate some higher inflation.

But Hasn't Inflation Already Been Too High?



Yikes, Inflation Is Already Out of Control

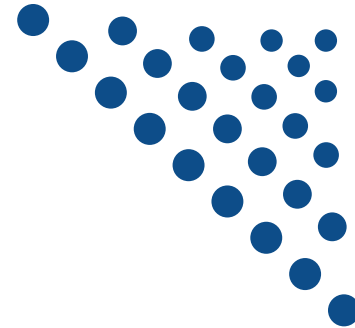


Phil Gramm & Rick Scott, *WSJ*, May 19,

“Biden’s Plans Are Already Hurting the Recovery: As anti-production policies take hold, supply and worker shortages appear and inflation looms”

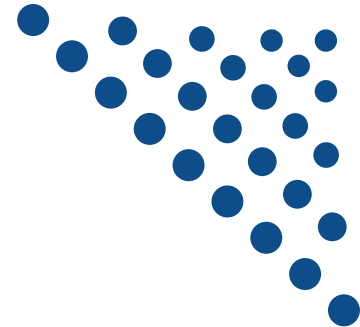
The core inflation rate, excluding food and energy, on an annual basis rose in April by 11%, a rate not exceeded since June of 1982. While the price increases are significant, broad and accelerating, are they the temporary effects of demand recovering from the pandemic shutdown more quickly than production, or is there evidence that this is the return of the inflation that plagued us for a generation and we paid such a high price to escape 40 years ago?

Don't Panic Yet



- **April's increase in prices was high, but one month does not an inflation make.**
- **Also, the year-over-year increase of 3% reflects "base effects."**
 - The CPI in April of 2020 fell relative to March. So, some of that 3 % is a "catchup."
 - Inflation measured over the last 13 months is only 2.4% at an annual rate.
- **More importantly, was the April increase "significant, broad and accelerating?"**

The Details of April's CPI Report



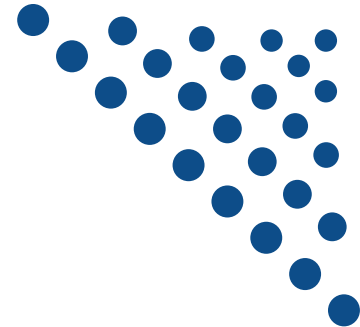
	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Apr. 2021
	Oct. 2020	Nov. 2020	Dec. 2020	Jan. 2021	Feb. 2021	Mar. 2021	Apr. 2021	
All items less food and energy.....	0.1	0.2	0.0	0.0	0.1	0.3	0.9	3.0
Commodities less food and energy commodities.....	0.0	0.0	0.1	0.1	-0.2	0.1	2.0	4.4
New vehicles.....	0.3	0.0	0.4	-0.5	0.0	0.0	0.5	2.0
Used cars and trucks.....	0.9	-1.4	-0.9	-0.9	-0.9	0.5	10.0	21.0
Apparel.....	-0.9	0.7	0.9	2.2	-0.7	-0.3	0.3	1.9
Medical care commodities ¹	-0.7	-0.4	-0.2	-0.1	-0.7	0.1	0.6	-1.7
Services less energy services.....	0.1	0.2	0.0	0.0	0.2	0.4	0.5	2.5
Shelter.....	0.1	0.1	0.1	0.1	0.2	0.3	0.4	2.1
Transportation services.....	0.2	1.3	-0.6	-0.3	-0.1	1.8	2.9	5.6
Medical care services.....	-0.3	-0.1	-0.1	0.5	0.5	0.1	0.0	2.2

Fed's View (FOMC Minutes released 5/19)



Participants also noted that the expected surge in demand as the economy reopens further, along with some transitory supply chain bottlenecks, would contribute to ... price inflation temporarily running somewhat above 2 percent.

A number of participants remarked that supply chain bottlenecks and input shortages may not be resolved quickly and, if so, these factors could put upward pressure on prices beyond this year. ...many participants commented that various measures of longer-term inflation expectations remained **well anchored**...



An Aside: Fed Releases Move Markets!

S&P 10-Year U.S. Treasury Note Futures Total Return INDEX

Index

320.58 ↓ 0.27% -0.87 Today

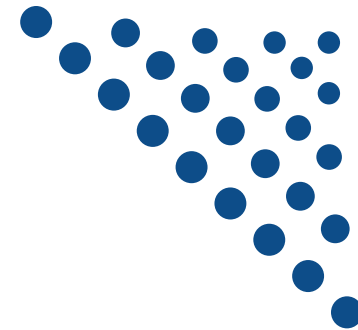
May 19, 3:37:19 PM UTC-4 · INDEXSP · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX



Guess what time the Fed released the minutes of its 4/28 meeting?

Here's Why:



A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases

“Adjusting the pace of asset purchases” means higher long-term interest rates.



What about Inflation in the Future?

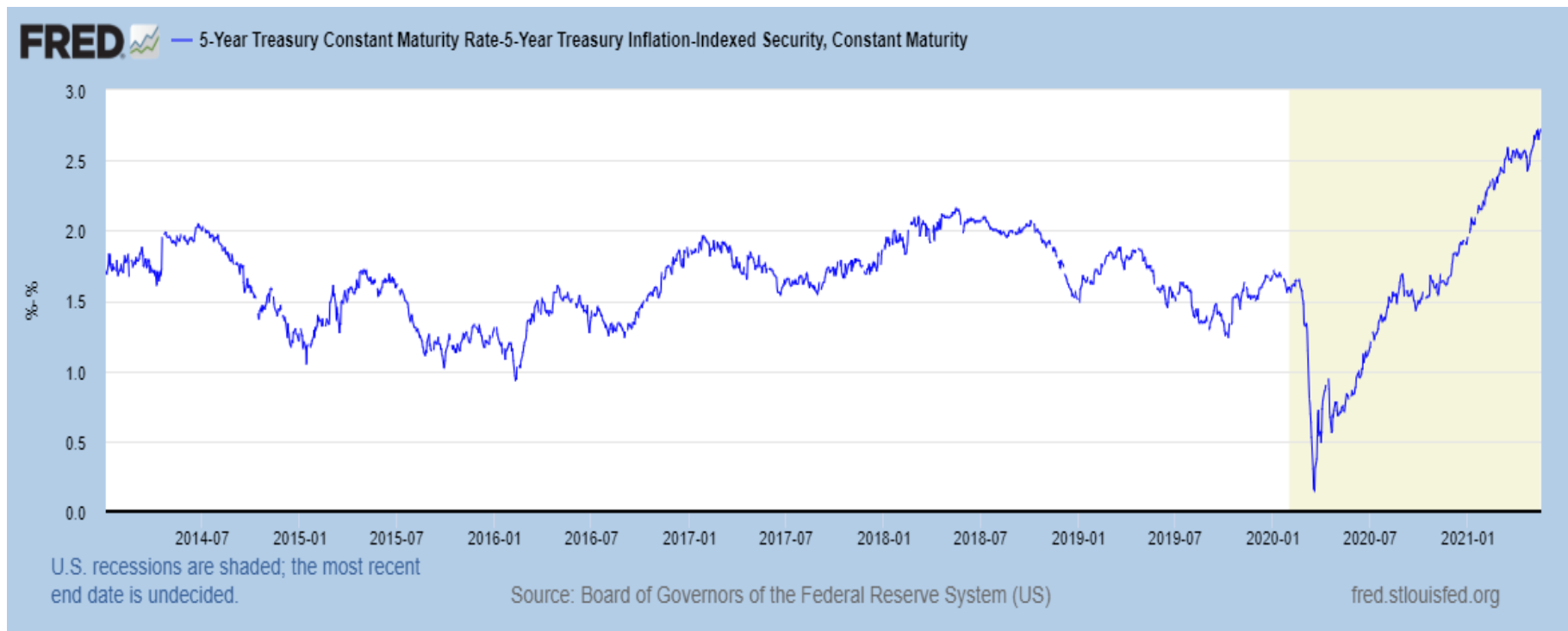


- Fiscal Stimulus raises total spending, and there has been over \$5 trillion.
- More is proposed: American Jobs Plan and American Family Plan \$4 trillion over 8 years, financed with tax increases spread over 15 years.
- Don't forget the “excess” saving of \$2.2 trillion.

Perspective:

- The America Economy is \$22 trillion, and the “output gap” is around \$400 billion.
- Obama stimulus was less than 6% of GDP

Are Inflationary Expectations Really “Anchored?”



• Is the Inflation Dragon stirring?



So, What's the Problem?



If the Fed sees an uptick in inflation, can't they raise interest rates?

- **Economic Problems**

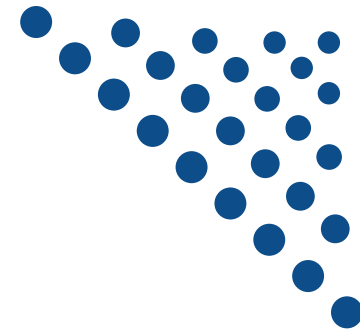
1. Aggregate demand has tremendous inertia, it could take many months for a rise in interest rates to slow demand. Particularly, given the Fed's new stance on tolerating inflation.
2. Significant danger of "overshooting." What would a substantial rise in interest rates do to stock prices, financial stability, Federal deficit?

- **Political Economic Problem**

1. Would the Fed raise rates with the 2022 elections pending?
2. A substantial rise in rates would make our deficit and debt problems much, much worse.

Thank you!

What Do You Think?



www.NEEDelegation.org

Geoffrey Woglom

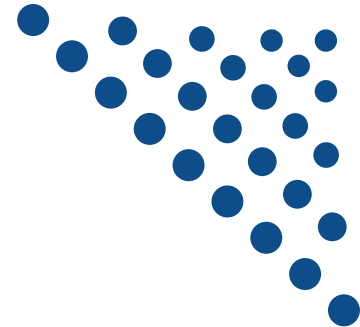
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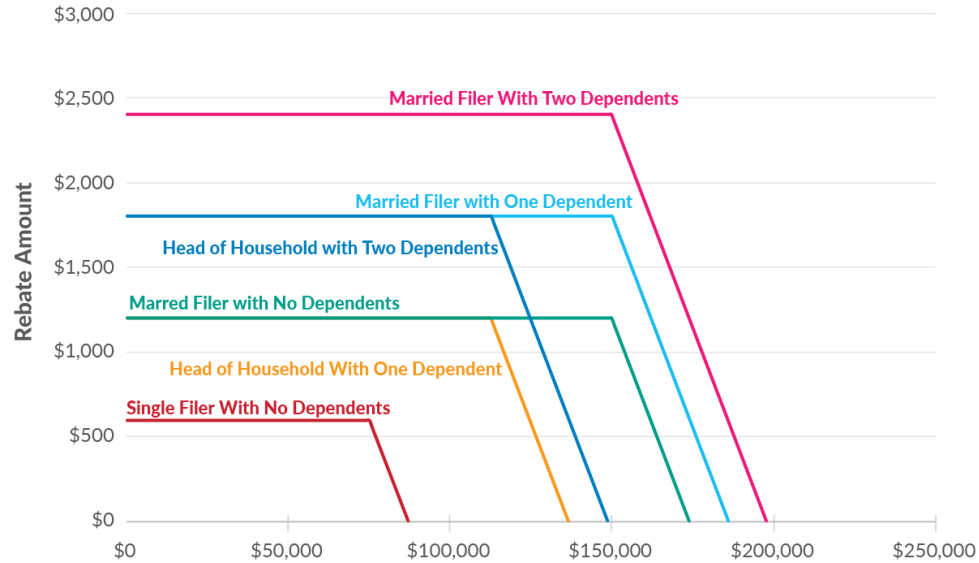
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The Problem with Stimulus Checks



Relief Rebates in the New Coronavirus Relief Package, Dec. 2020

Individual Economic Relief Rebate by Filing Status



Source: Consolidated Appropriations Act, 2021.

TAX FOUNDATION

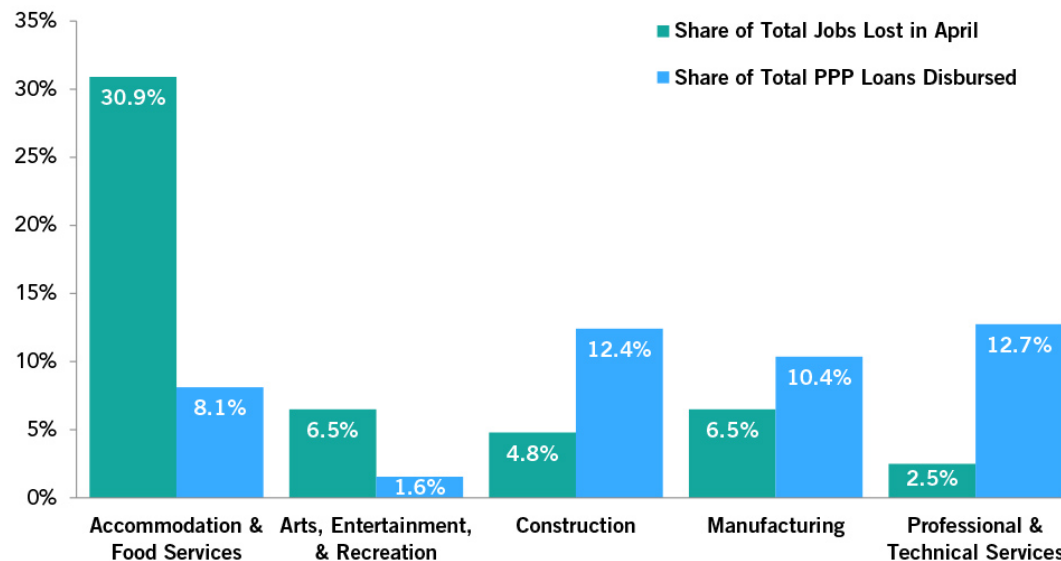
@TaxFoundation

PPP, Not so Good: Didn't Go to the Right Firms



The distribution of PPP loans has not matched levels of unemployment

SHARE OF JOBS LOST AND LOANS DISBURSED (% OF TOTAL)



In addition, first round loans went disproportionately to predominantly white Congressional Districts
Bloomberg, 7/30

Could a new PPP be better administered?

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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