



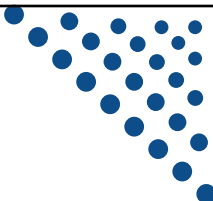
COVID-19: Economic Implications and Policy Response

October 19, 2020
 Rotary Club of Austin University Area
 Brian Dombeck
 Assistant Professor of Economics
 Lewis & Clark College | Portland, OR

 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 are intended to reflect the consensus of the economics profession.

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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



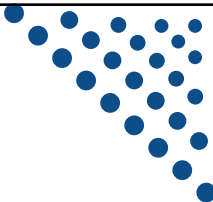
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Available NEED Topics Include:

- **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**




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Credits and Disclaimer

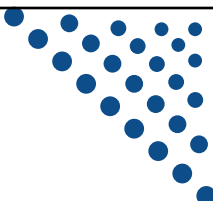
- **This slide deck was authored by:**
 - Brian Dombeck, Lewis & Clark College
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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Fishing Lessons

- **Schedules of Major Economic Releases**

- Economic Calendars at
 - o [Marketwatch](http://marketwatch.com/economy-politics/calendar) (marketwatch.com/economy-politics/calendar)
 - o [FRBNY](http://newyorkfed.org/research/calendars/nationalecon_cal) (newyorkfed.org/research/calendars/nationalecon_cal)

- **DIY Real Time Data:**

- [Track the Recovery](http://tracktherecovery.org): (tracktherecovery.org)
- [Federal Reserve Economic Database \(FRED\)](http://fred.stlouisfed.org): (fred.stlouisfed.org)

- **Data Visualization and Coverage**

- Some examples at Tableau



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Outline

- **What is the current state of “the economy”?**
- **What have been the effects of policy?**
- **What are the risks to recovery?**



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Where are we now?

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Spending is (was?) on the Rise

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

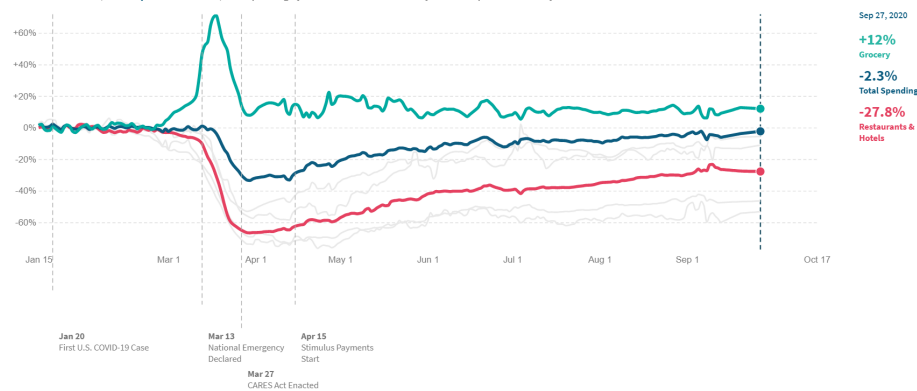
HARVARD

BROAD

BILL & MELINDA GATES

Percent Change in All Consumer Spending*

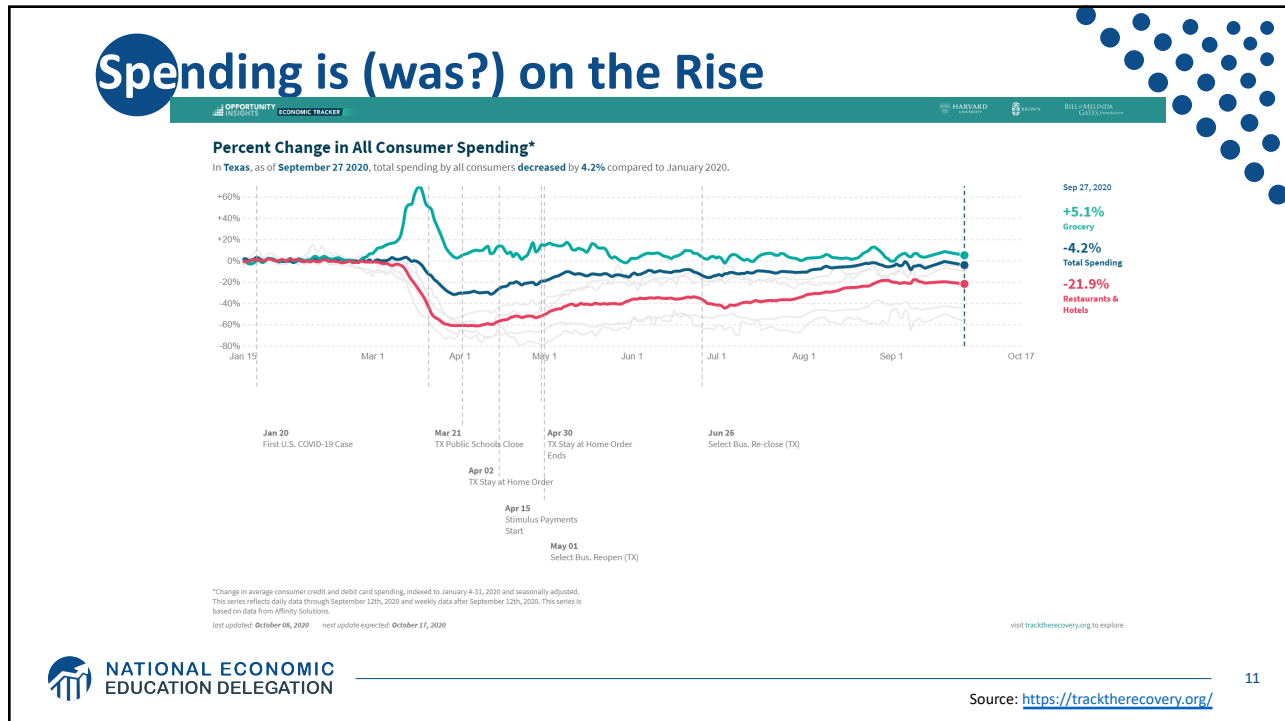
In the United States, as of September 27, 2020, total spending by all consumers decreased by 2.3% compared to January 2020.



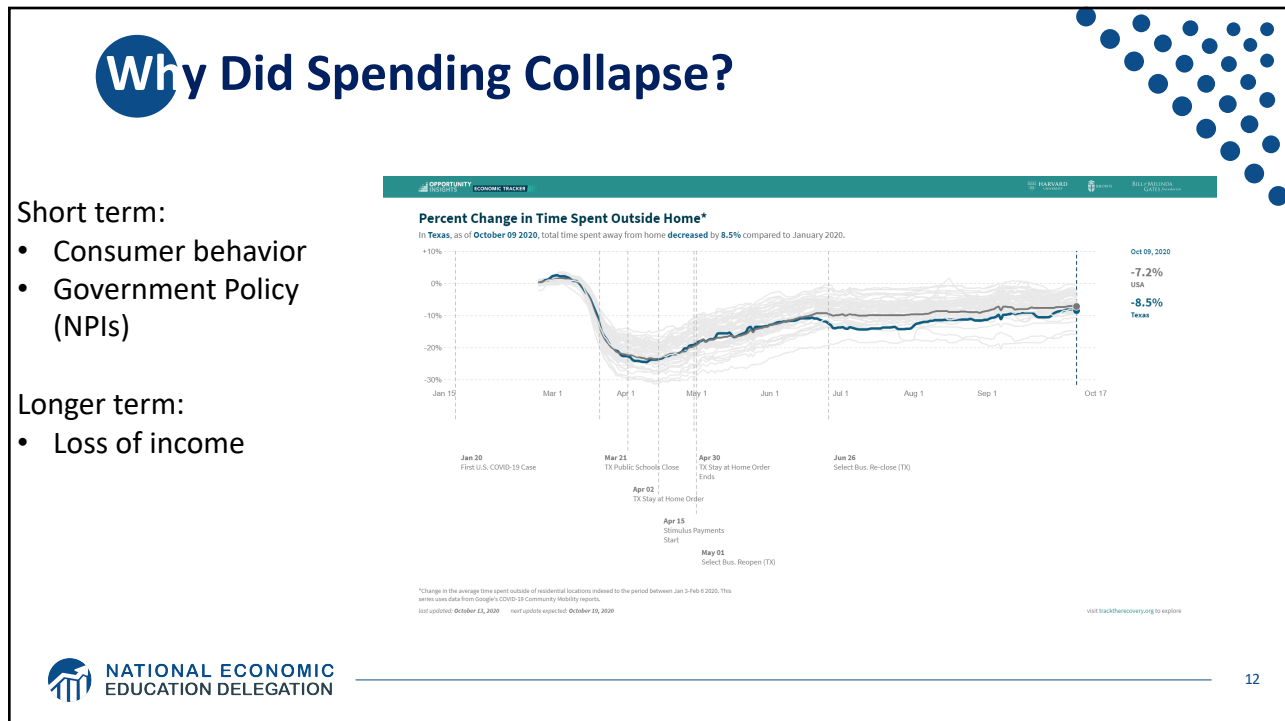
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visit tracktherecovery.org to explore

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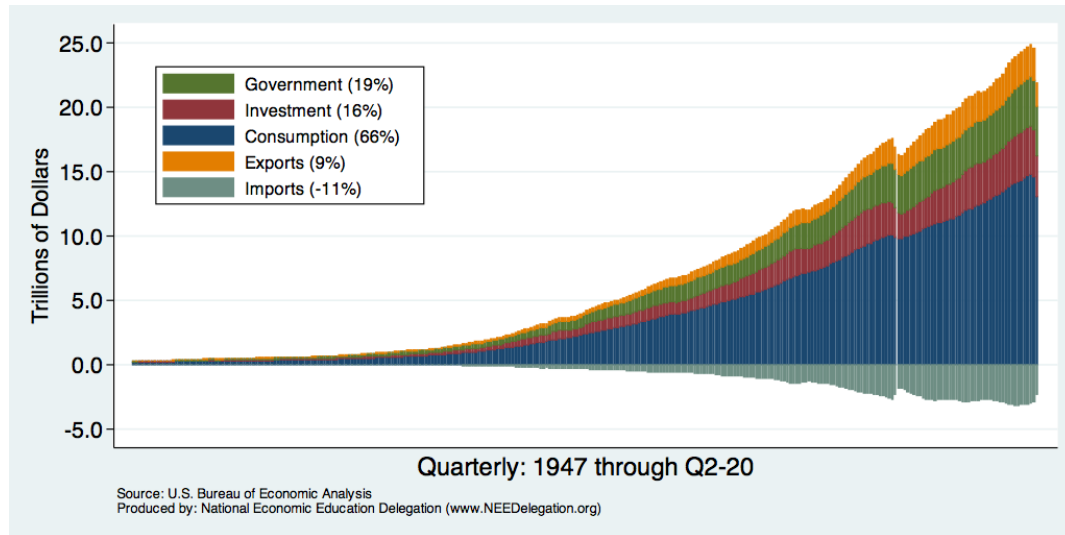


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Why does spending matter?



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Why does spending matter?

- **GDP Growth is a combination of the growth in its components:**
 - Consumption, Investment, Government, and Net Exports
 - It's a weighted average of these components
 - The larger the weight, the more impactful are changes
- **For example: Consumption vs Investment**
 - If consumption accounts for **66% \approx 2/3** of the economy then it takes an increase of \approx **1.5%** to cause GDP to grow by \approx **1%**
 - If investment accounts for **16% \approx 1/7** of the economy then it takes an increase of \approx **7%** to cause GDP to grow by \approx **1%**

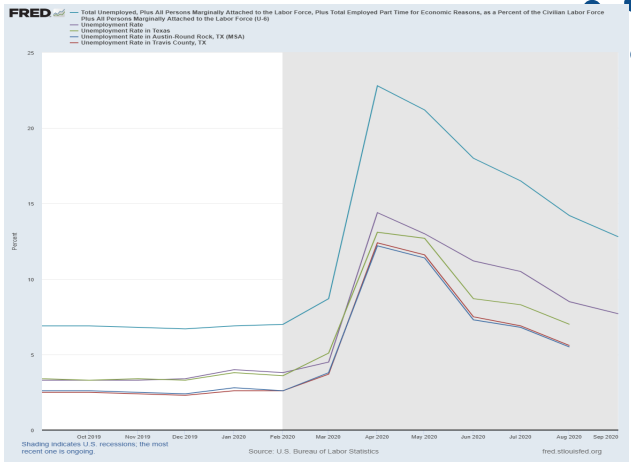
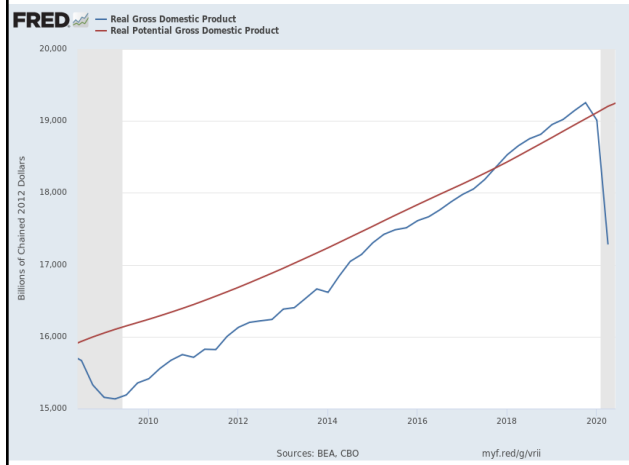


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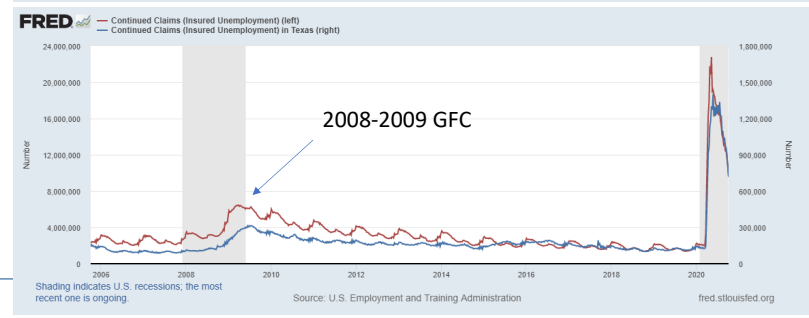
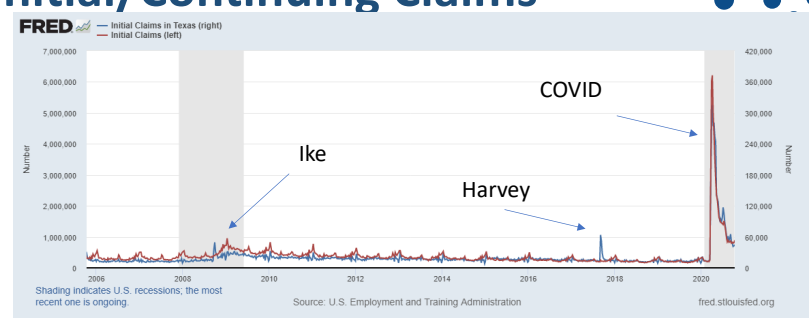
Where are we?



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Characterizing Initial/Continuing Claims

- Initial Claims are newly *filed* UI claims
- Continuing Claims are UI filers who have *previously filed* and continue to be unemployed
- *Gray shaded bars = recession

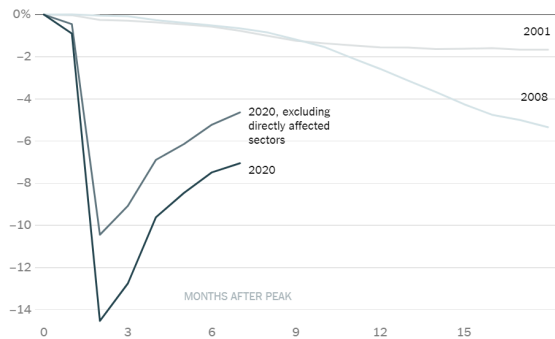


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Comparison to other recessions

Pandemic Job Losses Are Worse Than in Past Recessions

Even excluding directly affected sectors like hotels and restaurants.



Directly affected sectors include air transport; leisure and hospitality; and education - Source: Bureau of Labor Statistics - The New York Times

How the Job Losses Compare

Many types of employers not directly affected by the pandemic have cut jobs at rates similar to those seen in other deep recessions.

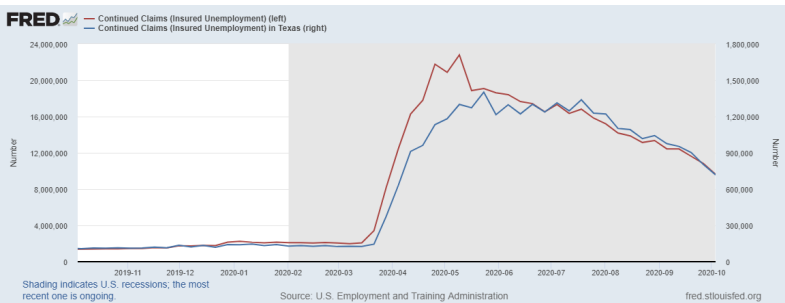
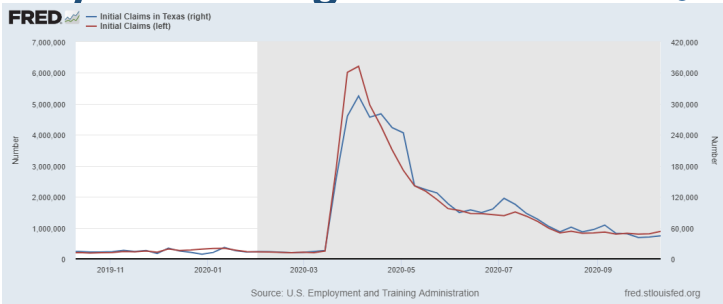
Industry	Covid Recession (2020)	Great Recession (2008-2009)
Temporary help services	-16	-31
Printing and related activities	-12	-15
Advertising and related services	-10	-11
Heavy and civil engineering construction	-8	-16
Automobile dealers	-7	-18
Membership associations and organizations	-5	0
Truck transportation	-5	-11
Publishing industries, except internet	-5	-11
Management of companies and enterprises	-4	0
Real estate	-3	-5
Computer systems design and related services	-3	0
Offices of physicians	-3	2
Telecommunications	-3	-6
Accounting and bookkeeping	-2	-6

Source: Bureau of Labor Statistics - The New York Times

Characterizing Initial/Continuing Claims

- Initial Claims are newly filed UI claims
- Continuing Claims are UI filers who have previously filed and continue to be unemployed
- Does not include filing under new PUA or PEUC from CARES Act ("lower bound")

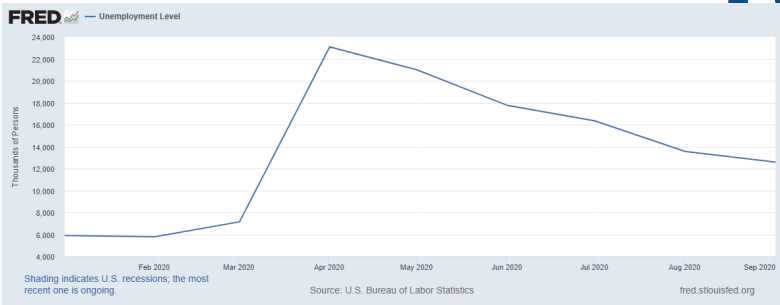
Note:
US numbers (red, left axis)
TX numbers (blue, right axis)



Characterizing Unemployment

Important Definitions:

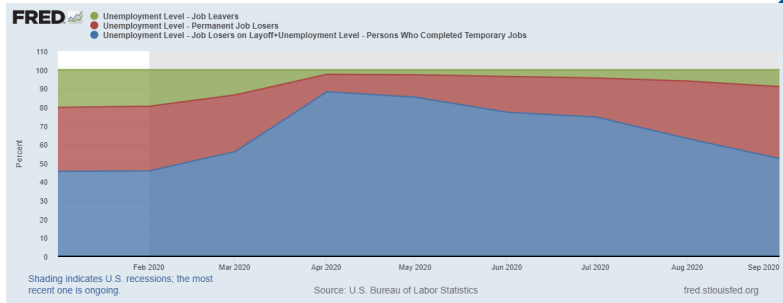
- A person is **employed** if they worked for pay or were temporarily absent in the last week
- A person is **unemployed** if they were (1) not employed, (2) were available for work, and (3) actively sought work in the previous 4-weeks
- A person is **not in the labor force** if they are neither employed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



Characterizing Unemployment

Survey respondents are asked to indicate the “reason for unemployment”:

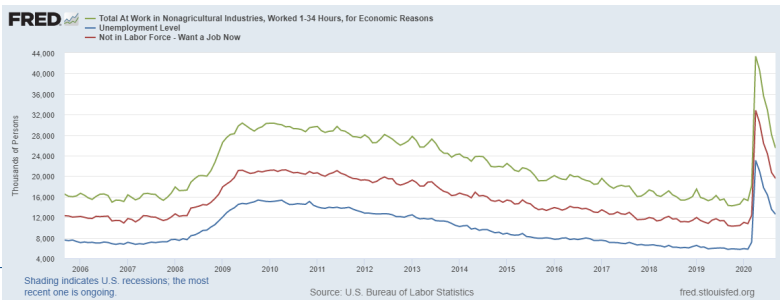
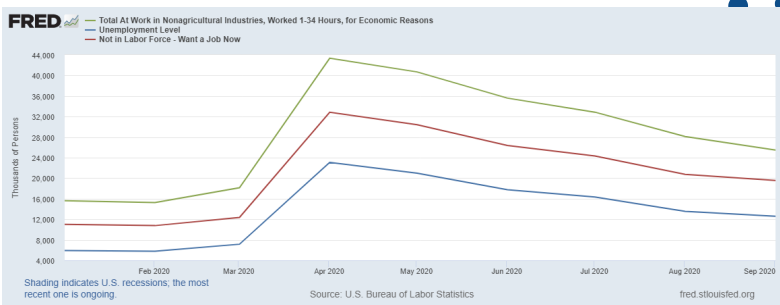
1. On temporary layoff or completed temp jobs (blue)
2. Involuntary and permanent job loss (red)
3. Quits, reentrants, and new entrants (green)



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)



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So what's been done?

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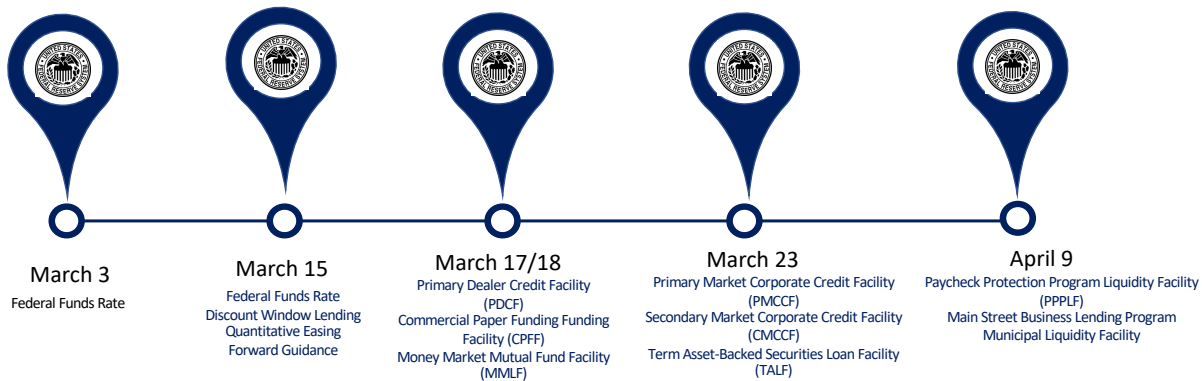
Monetary Policy – Federal Reserve

- **Primary objective(s):**
 - Stabilize the economy
 - Maintain liquidity of the system

- **Actions in four forms:**
 - Traditional interest rate stimulus
 - Inject cash into the system
 - Shore up existing debt and structures
 - Forward guidance

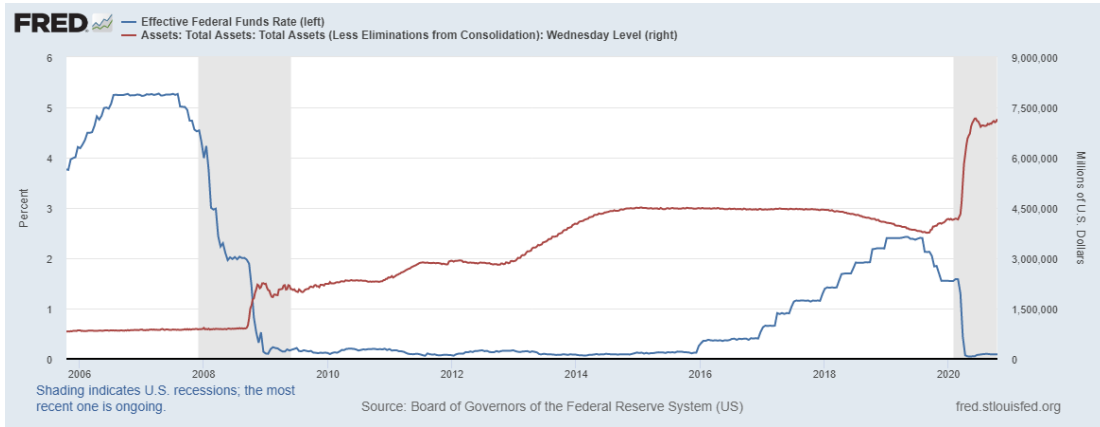
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Federal Reserve Timeline



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Federal Funds Rate and Balance Sheet



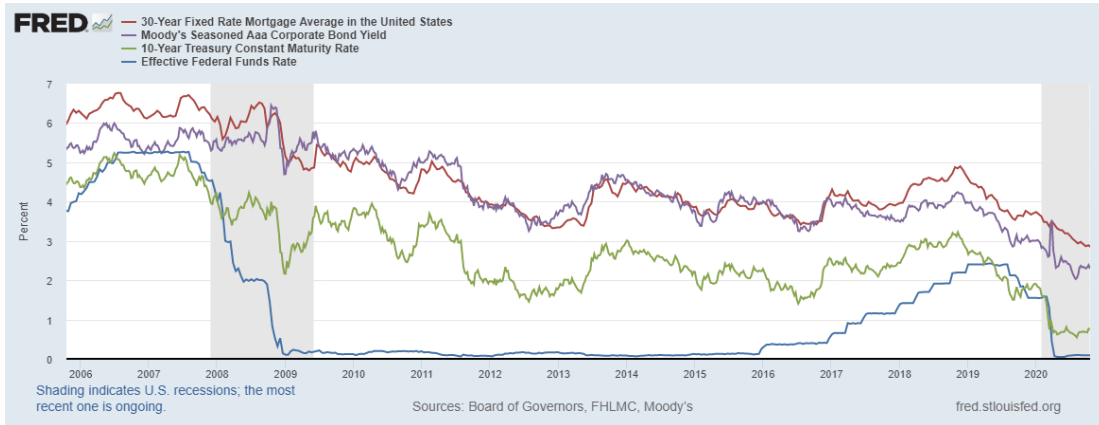
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Monetary Policy – Current State and Impact

- Fed Funds Rate at ZLB → newly issued debt very cheap
 - Good for borrowers: mortgages, corporate paper, Treasuries
 - Not so good for savers: must accept more risk to get similar rewards as before

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Impact on Borrowing Rates



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Monetary Policy – Current State and Impact

- **Fed Funds Rate at ZLB → newly issued debt very cheap**
 - Good for borrowers: mortgages, corporate paper, Treasuries
 - Not so good for savers: must accept more risk to get similar rewards as before
- **Fed Balance Sheet grew from \$4T to \$7T to counter pandemic recession**
 - Large volume of liquidity + few quality savings vehicles → asset price bubbles
- **Fed Forward Guidance: Keep FFR at ZLB until PCE inflation “at least 2%”**
 - High inflation + low nominal rates → negative real returns
 - Difficult period for fixed-income households



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Fiscal and Monetary Policy Responses

- **The Federal Reserve acted quickly to prevent a financial market meltdown and keep credit flowing.**
 - But the Fed lends and does not spend.



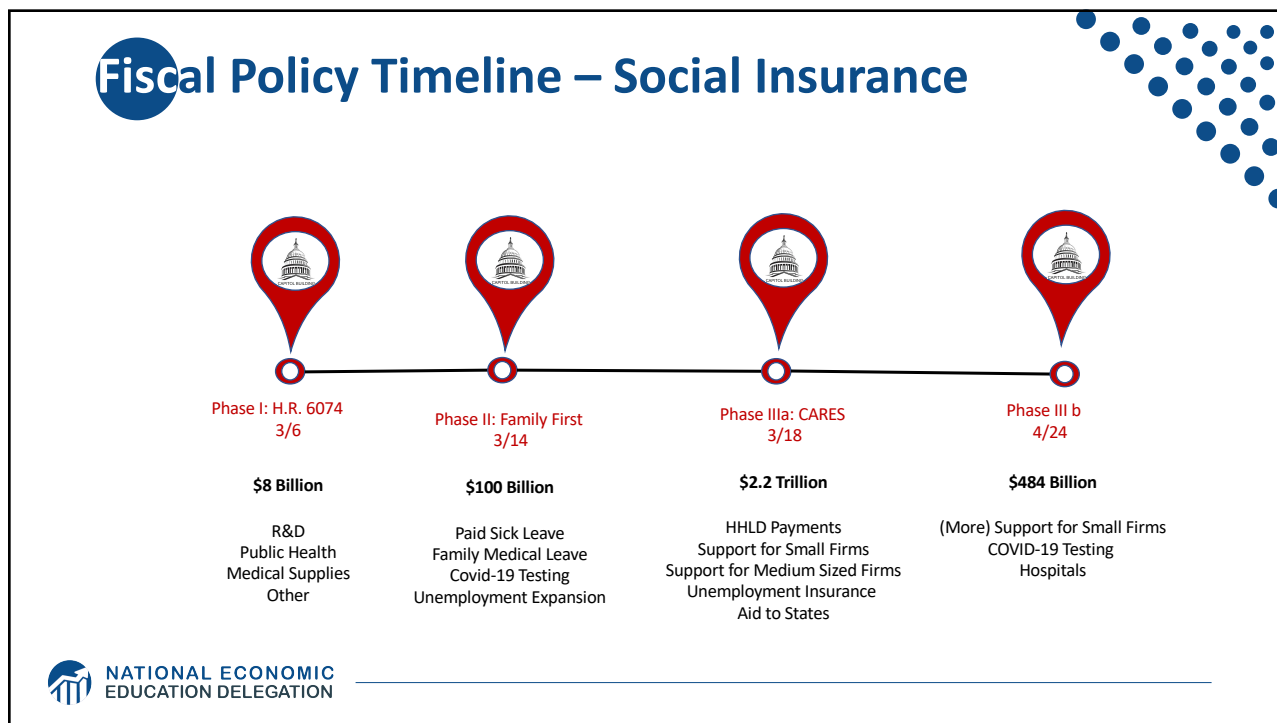
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Fiscal Policy – Congress and the White House

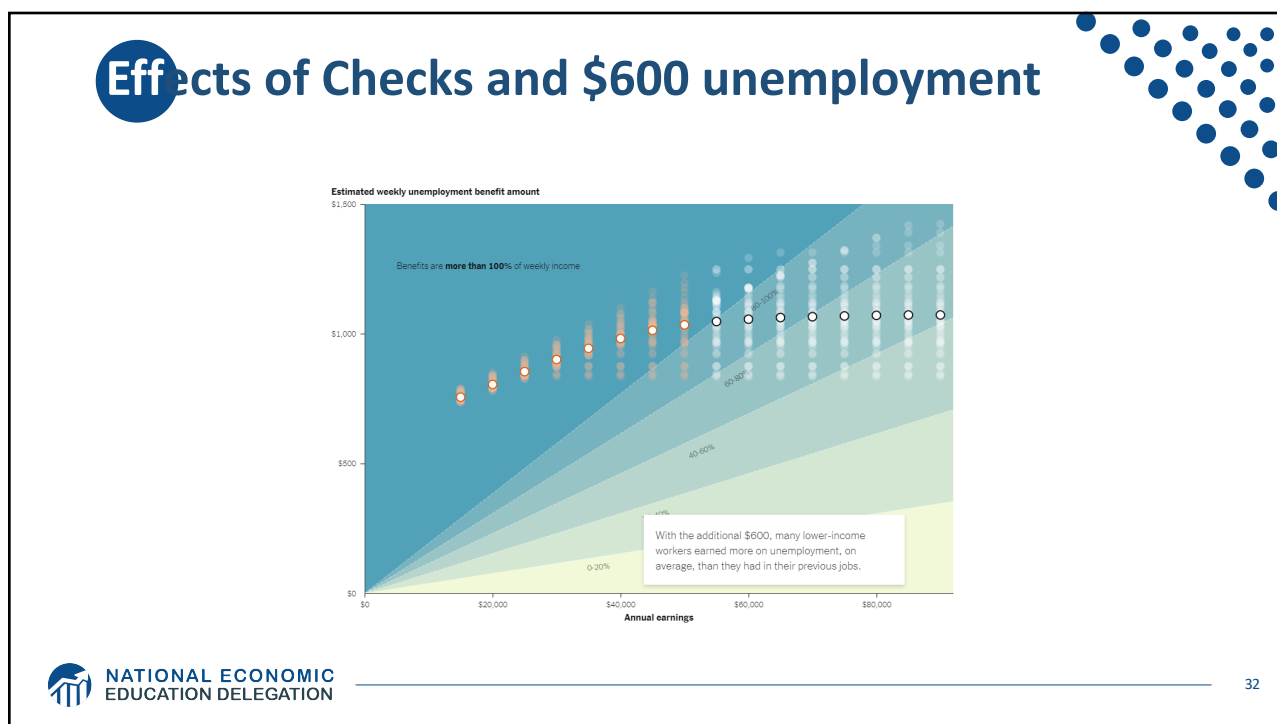
- **Primary objective(s):**
 - My take: “To do what is best”
- **Actions in two forms:**
 - Automatic stabilizers (e.g. progressive income taxes and safety net programs)
 - Discretionary fiscal policy (e.g. CARES or ARRA)



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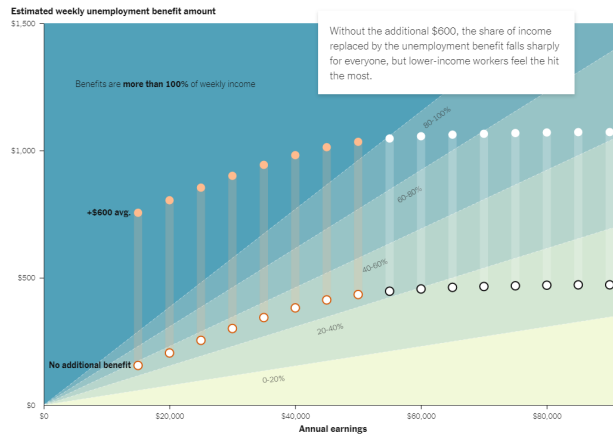


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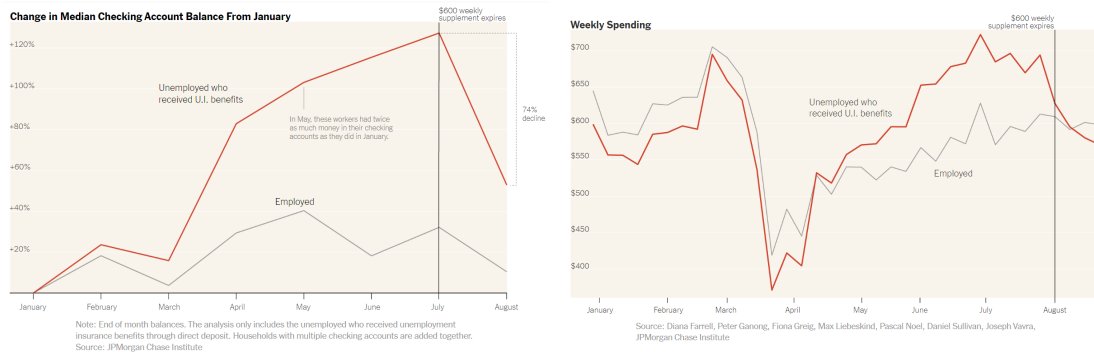
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Effects of Checks and \$600 unemployment

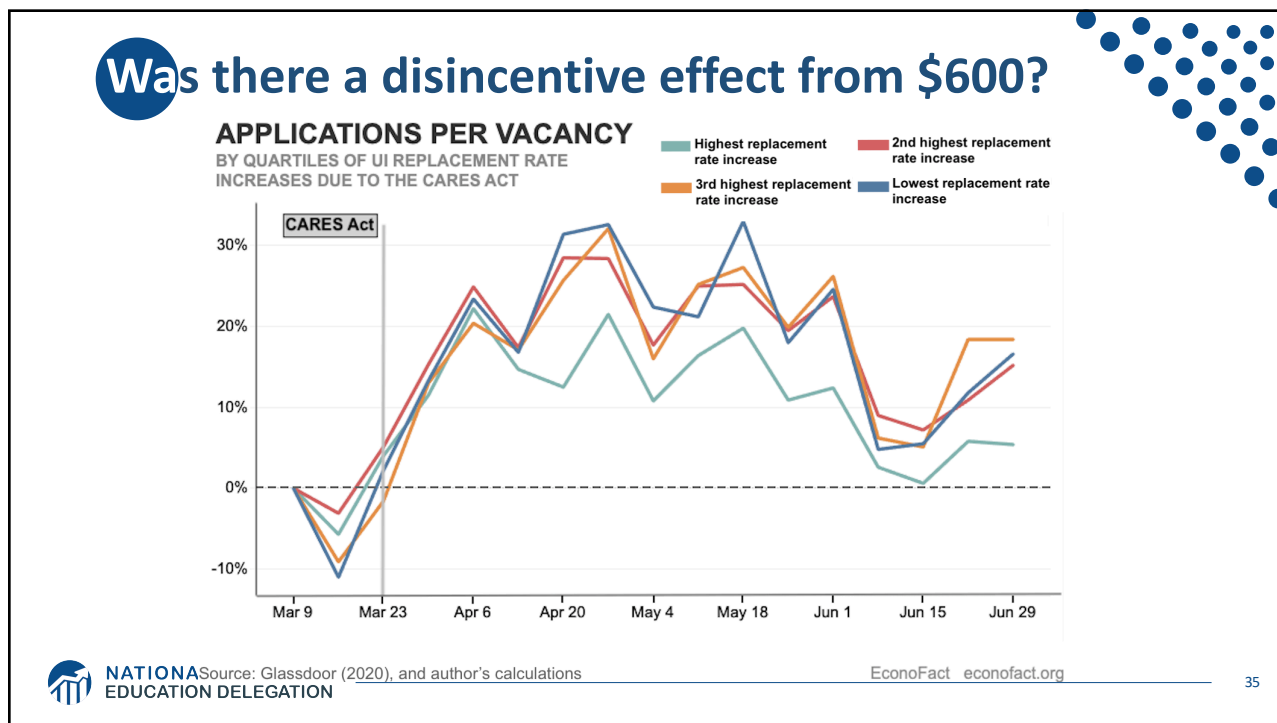


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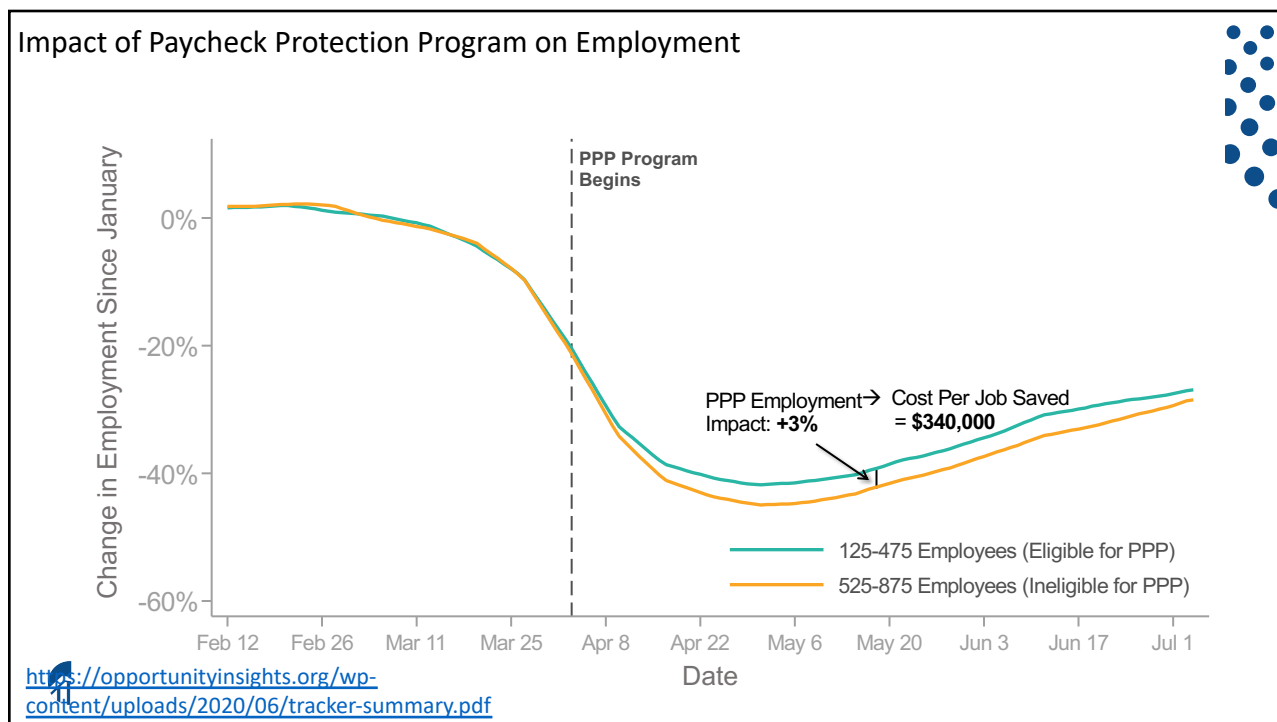
Effects of Checks and \$600 unemployment



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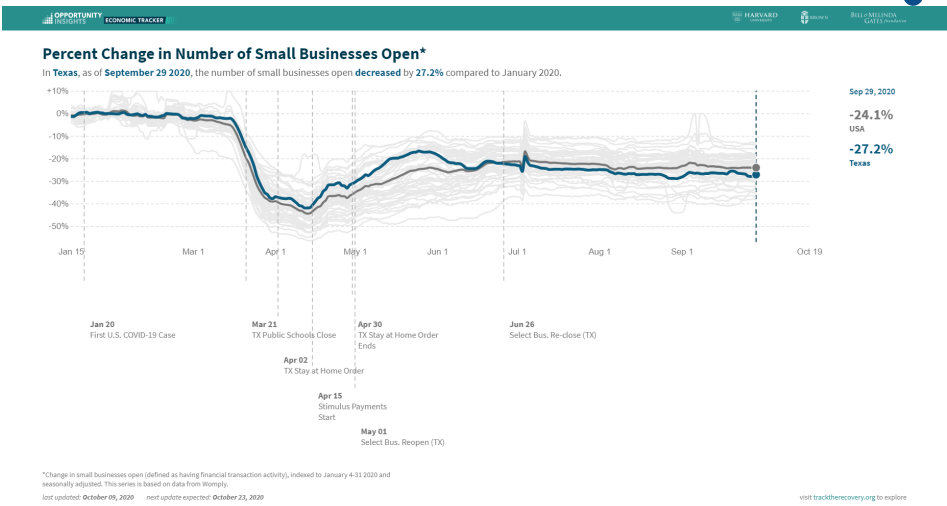


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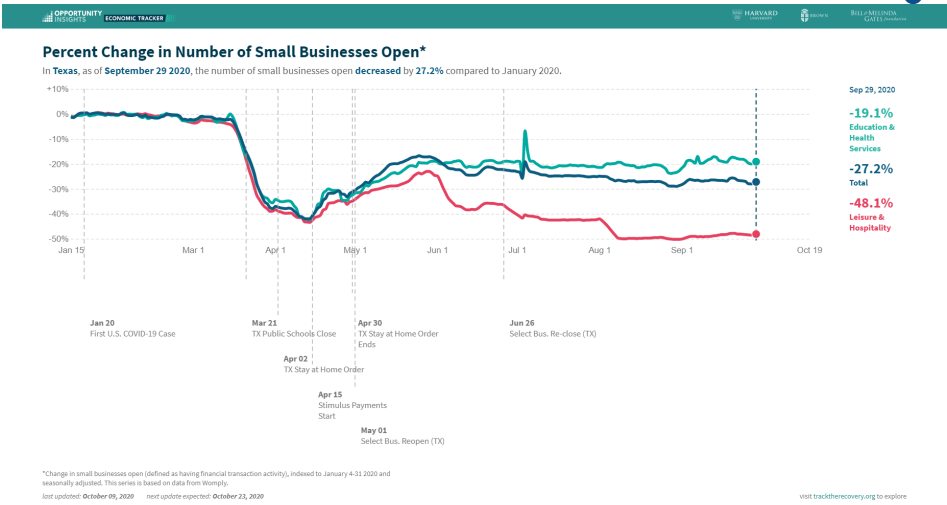
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Characterizing Business Closures



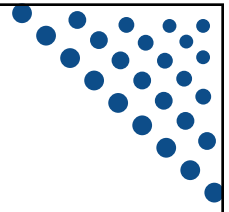
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Characterizing Business Closures



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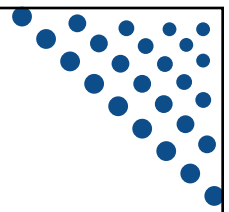
Fiscal and Monetary Policy Responses



- **Fiscal policy acted quickly to provide support for individuals and businesses**
 - But has not acted since April

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What are the risks to recovery?



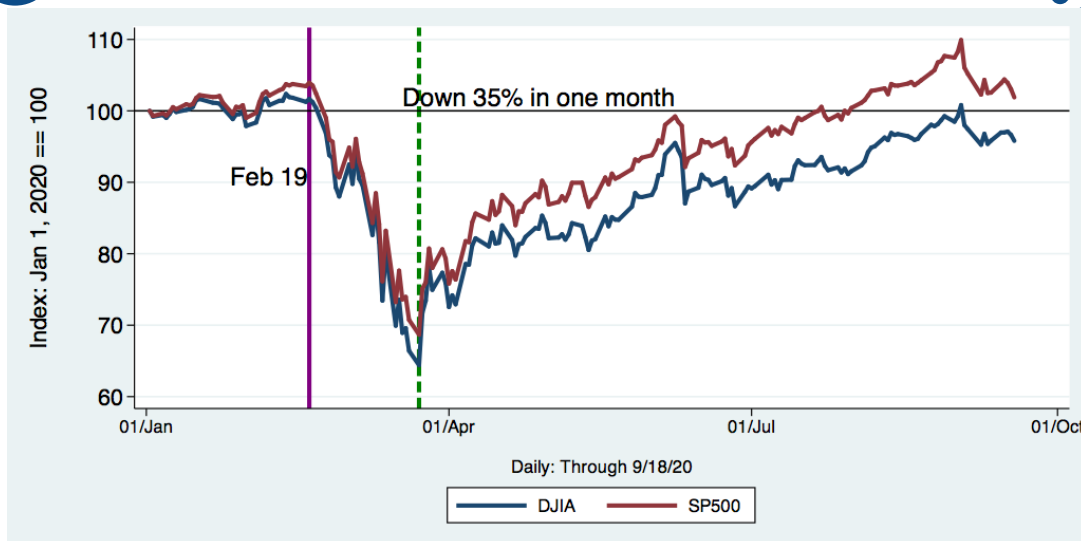
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Risk Assessment

1. Resurgence of the virus (remember 1918?)
2. Lack of additional fiscal support to prevent debt default, evictions, and business failures (remember 1929?)
3. Damage to State and Local Budgets leading to cuts in job and discretionary spending (remember 2009?)
4. Unequal recovery (remember 2010-2020?)

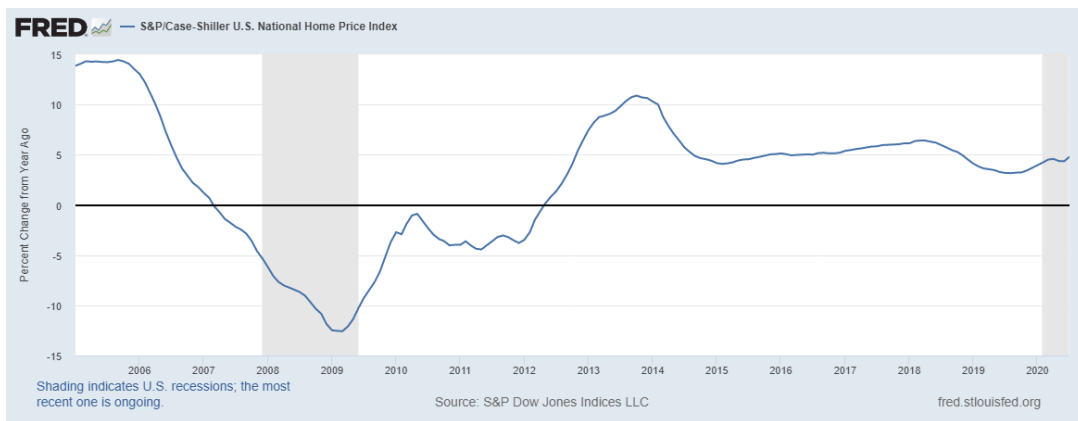
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Recovery in the Stock Market



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Housing Prices Continue to Outpace Inflation

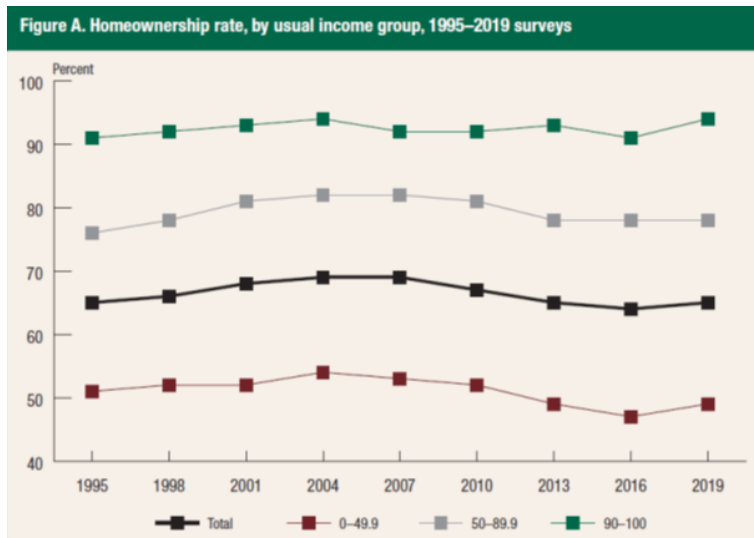


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Recovery/recession for whom?

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



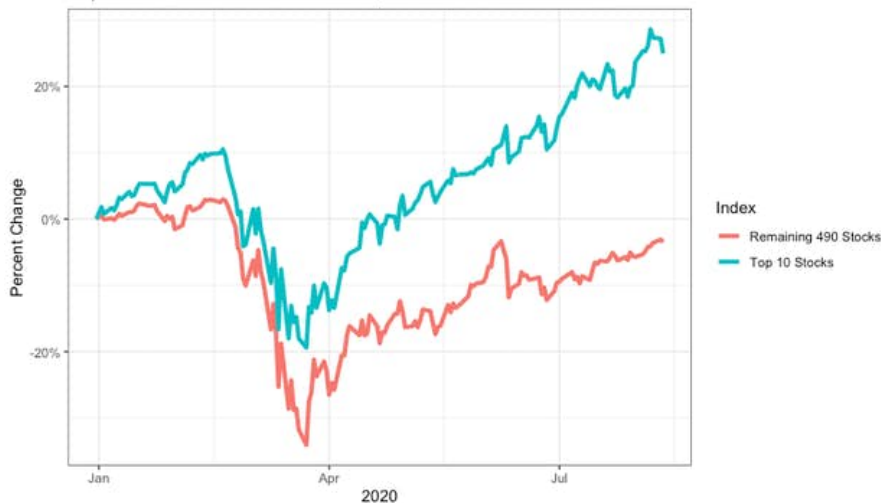
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Recovery/recession for whom?

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

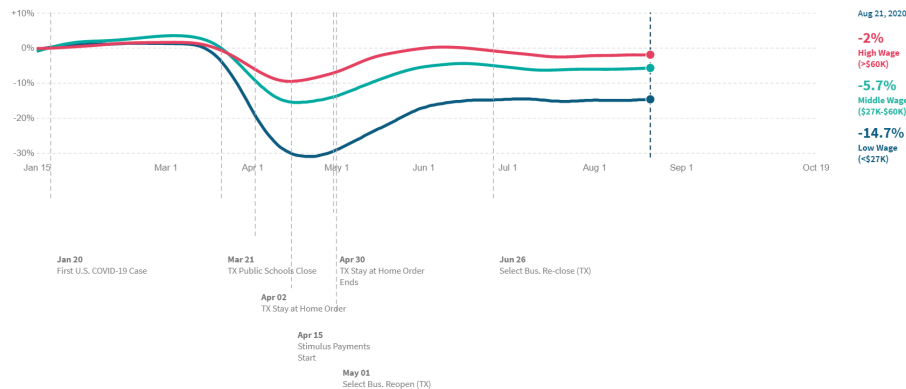


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Recovery/recession for whom?

Percent Change in Employment*

In Texas, as of August 21, 2020, employment rates among workers in the bottom wage quartile decreased by 14.7% compared to January 2020 (not seasonally adjusted).



*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 Earm, and timesheet data from Kronos. The dotted line in the low-wage series is a prediction of employment rates based on Kronos data.

last updated: October 16, 2020 next update expected: October 26, 2020

visit tracktherecovery.org to explore



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

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Recovery/recession for whom?

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

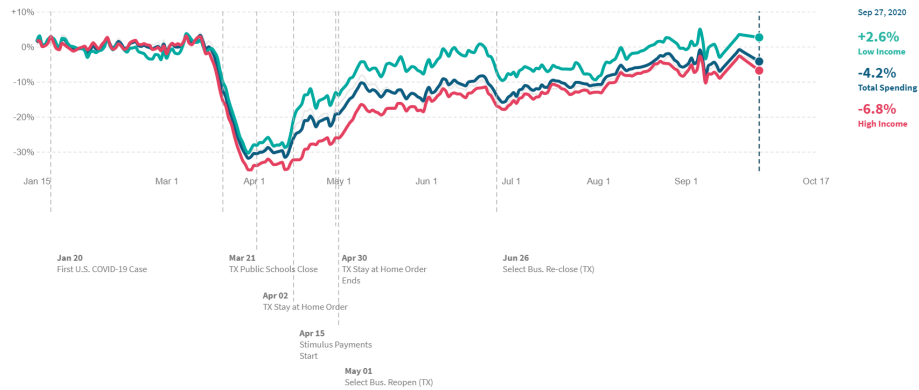
THE HARVARD

MIT

BILL MESSNER LATES

Percent Change in All Consumer Spending*

In Texas, as of September 27 2020, total spending by all consumers decreased by 4.2% compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. This series reflects daily data through September 12th, 2020 and weekly data after September 12th, 2020. This series is based on data from Affinity Solutions.

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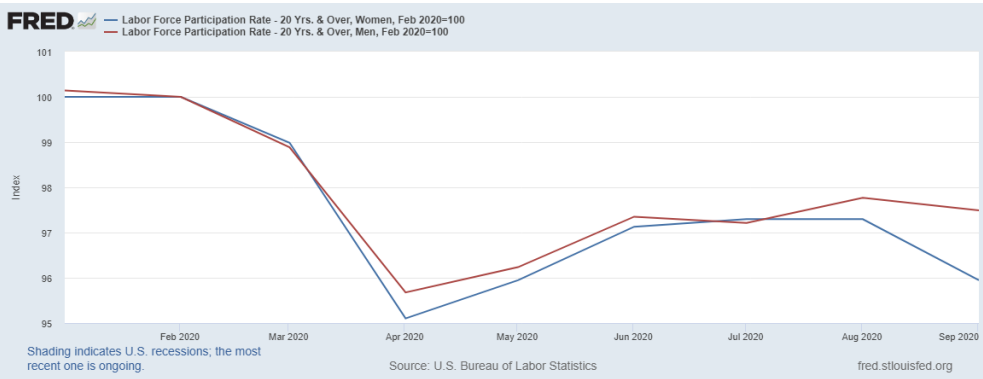


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Source: <https://tracktherecovery.org/>

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Recovery/recession for whom?



Shading indicates U.S. recessions; the most recent one is ongoing.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

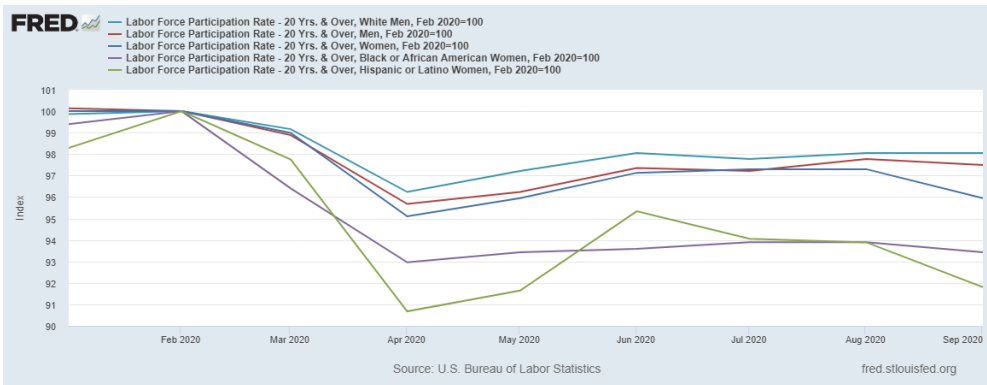


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Source: <https://tracktherecovery.org/>

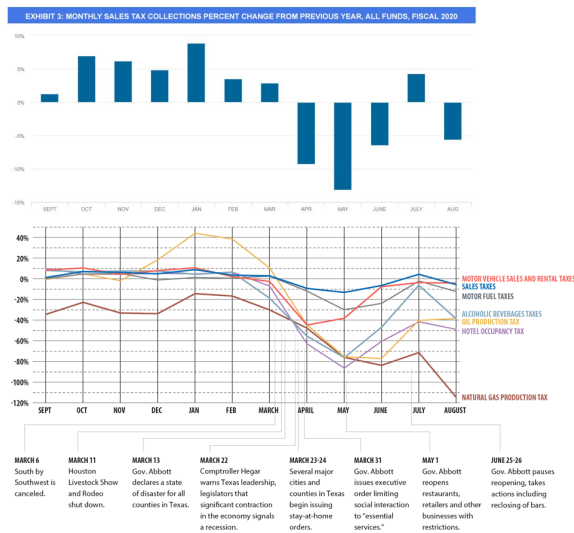
48

Recovery/recession for whom?

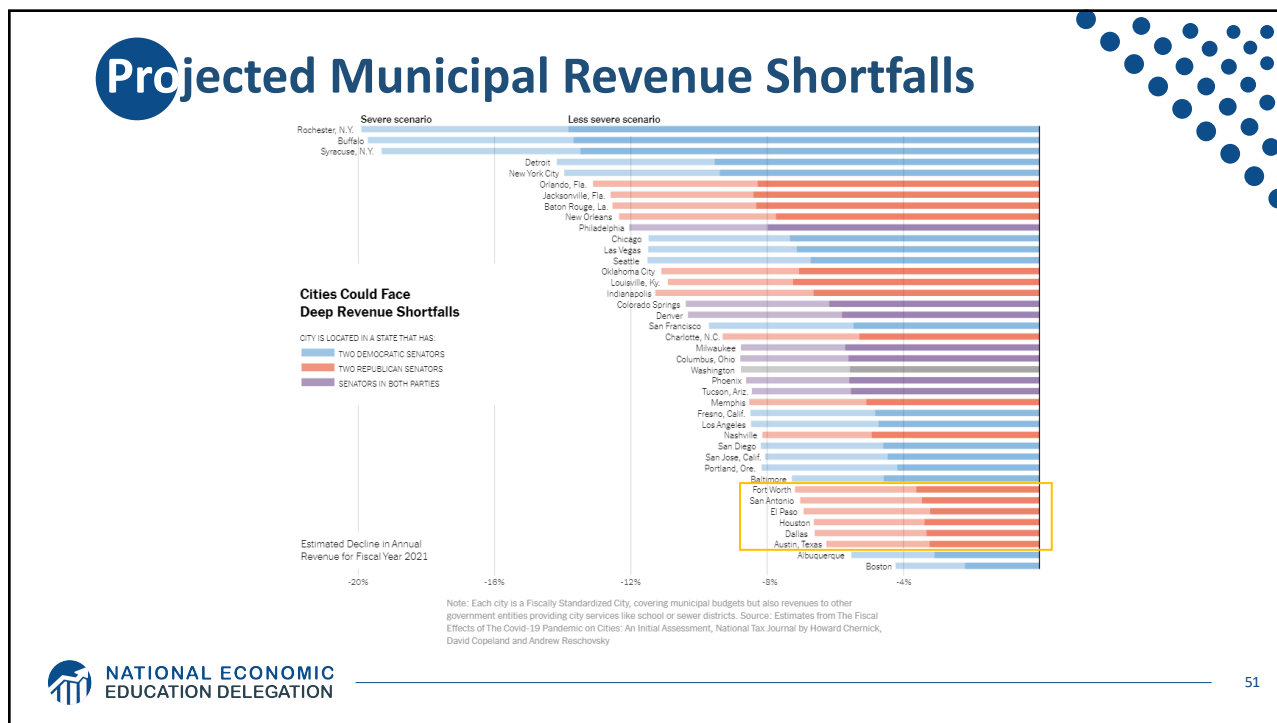


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State and Local Budgets



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Is there *any* good news?

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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
- **Other countries have shown economic recovery is possible**
 - But the virus has to be brought under control first



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Thank you!

Any Questions?

www.NEEDelegation.org

Brian Dombeck

bdombeck@lclark.edu

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Fishing Lessons

- **Schedules of Major Economic Releases**

- Economic Calendars at
 - o [Marketwatch](http://marketwatch.com/economy-politics/calendar) (marketwatch.com/economy-politics/calendar)
 - o [FRBNY](http://newyorkfed.org/research/calendars/nationalecon_cal) (newyorkfed.org/research/calendars/nationalecon_cal)

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- **Data Visualization and Coverage**

- Some examples at [Tableau](http://tableau.com)

