

COVID-19: Economic Implications and Policy Response

October 21, 2020
 Rotary Club of Lexington
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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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Meeting the four-way test



THE FOUR-WAY TEST

of the things we think, say or do

1. Is it the TRUTH?
2. Is it FAIR to all concerned?
3. Will it build GOODWILL and BETTER FRIENDSHIPS?
4. Will it be BENEFICIAL to all concerned?



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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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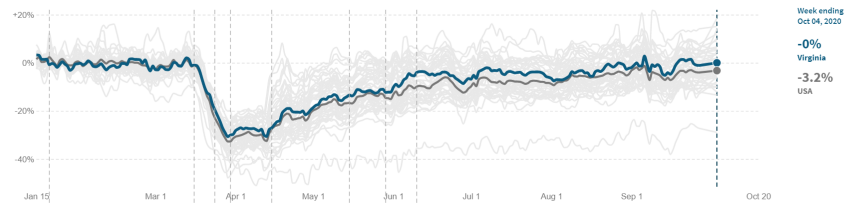
Spending Patterns Since First US Case

OPPORTUNITY RESOURCES ECONOMIC TRACKER

HARVARD UNIVERSITY BROADMAN GATES

Percent Change in All Consumer Spending*

In Virginia, as of October 04 2020, total spending by all consumers decreased by 0% compared to January 2020.



- Jan 20: First U.S. COVID-19 Case
- Mar 16: VA Public Schools Close
- Mar 24: All Non-Essential Bus. Close (VA)
- Mar 30: VA Stay at Home Order
- Apr 15: Stimulus Payments Start
- May 15: Select Bus. Reopen (VA) (regional)
- May 29: Select Bus. Reopen (VA) (statewide)
- Jun 10: VA Stay at Home Order Ends

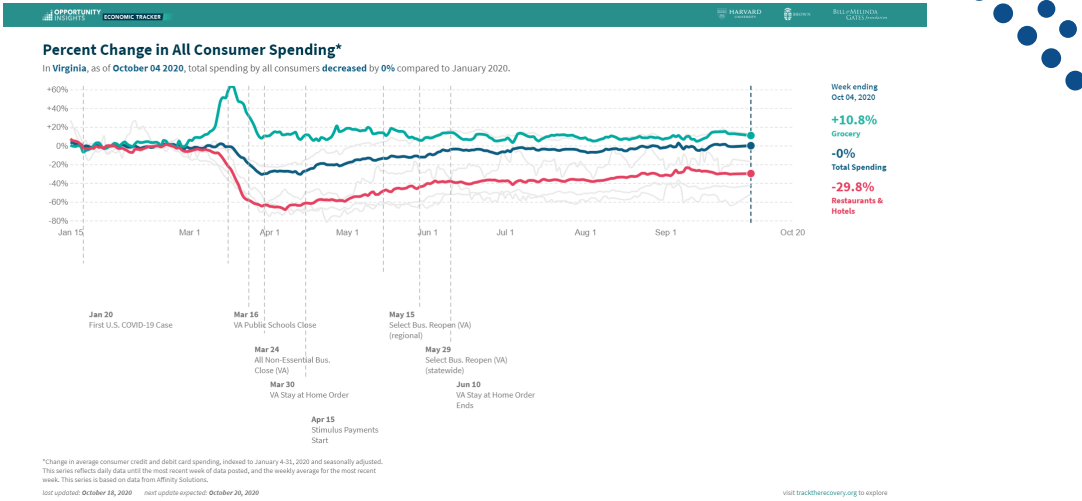
*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. This series reflects daily data until the most recent week of data posted, and the weekly average for the most recent week. This series is based on data from Affinity Solutions.

Last updated: October 18, 2020 next update expected: October 26, 2020

visit tracktherecovery.org to explore

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Spending Patterns Since First US Case



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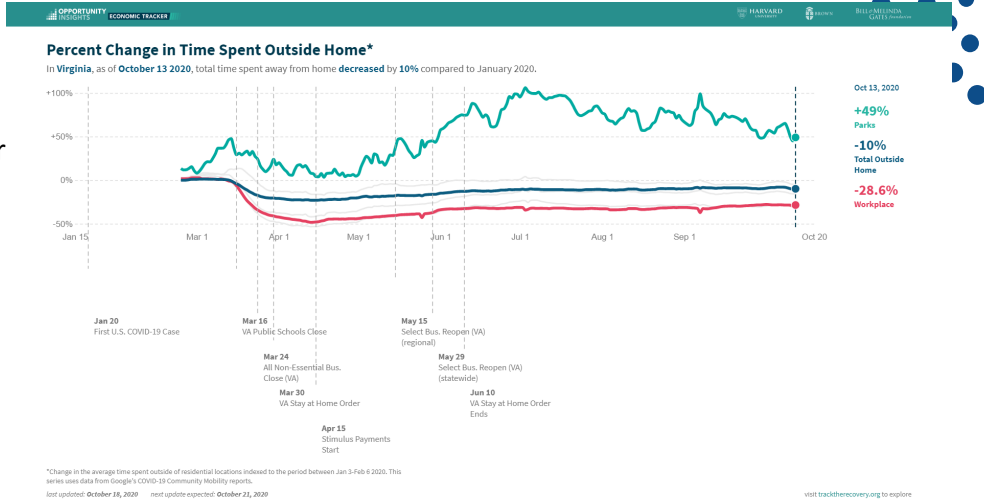
Why Did Spending Collapse?

Short term:

- Consumer behavior
- Government Policy (NPIs)

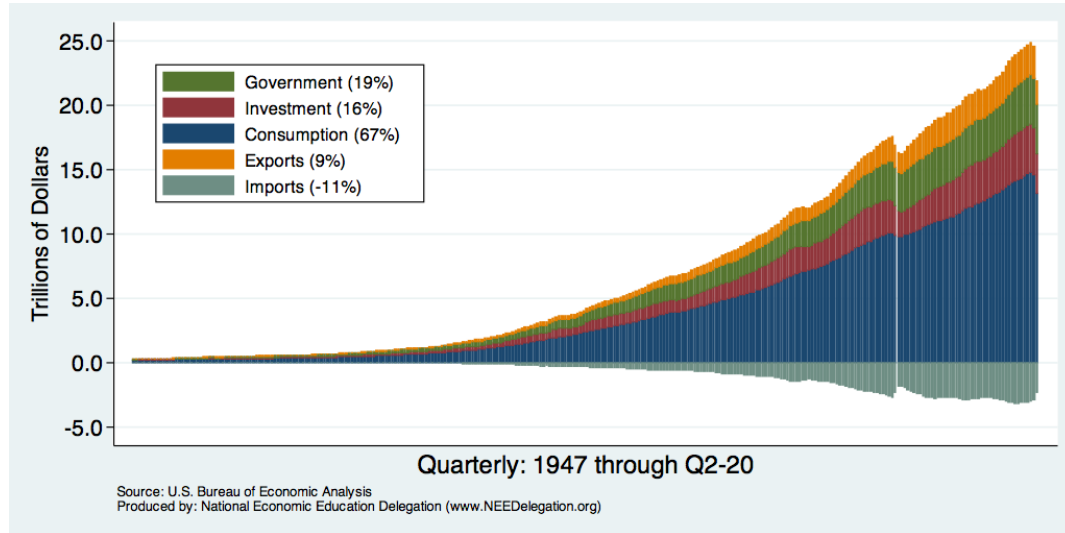
Longer term:

- Loss of income



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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%**

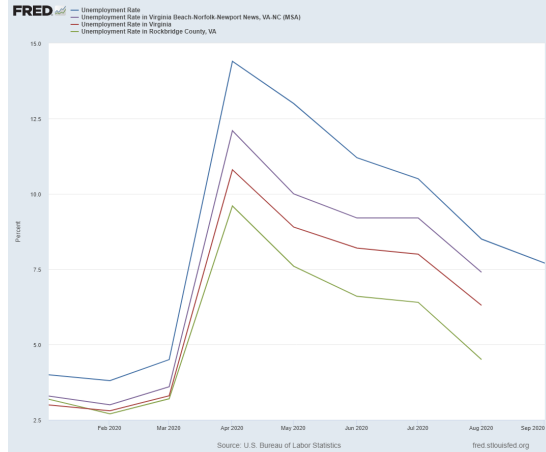
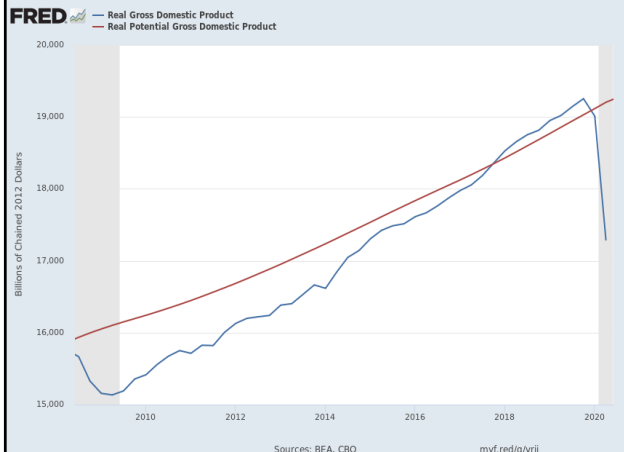


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Where are we?

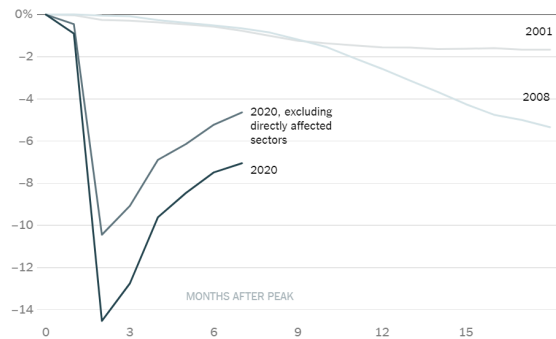


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Comparison to other recessions

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	-1
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

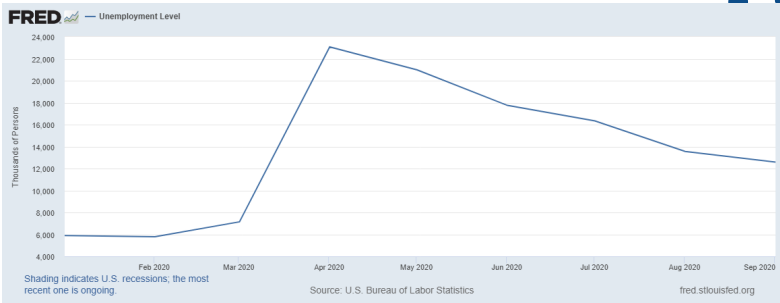
Source: Bureau of Labor Statistics - The New York Times

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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



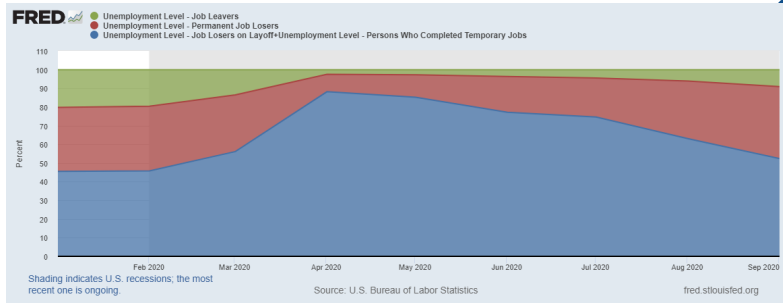
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Characterizing Unemployment

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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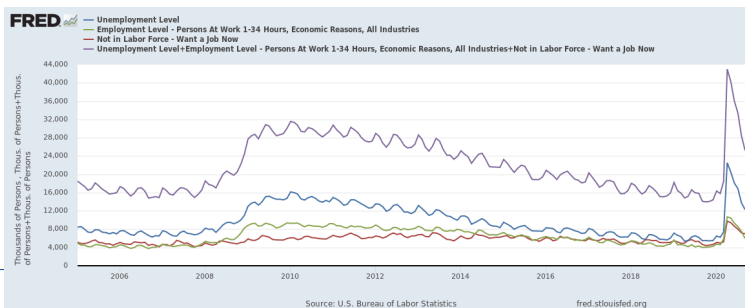
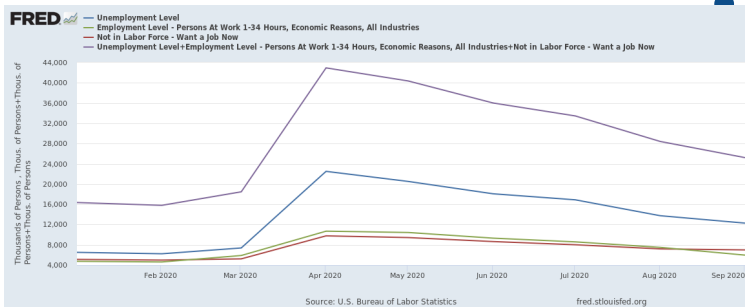
Characterizing Unemployment

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



So what's been done?

Monetary Policy – Federal Reserve

Primary objectives:

- Stabilize the economy
- Maintain liquidity of the system

Date	Policy Action
March 3	Federal Funds Rate
March 15	Federal Funds Rate Discount Window Lending Quantitative Easing Forward Guidance
March 17/18	Primary Dealer Credit Facility (PDCF) Commercial Paper Funding Facility (CPFF) Money Market Mutual Fund Facility (MMLF)
March 23	Primary Market Corporate Credit Facility (PMCCF) Secondary Market Corporate Credit Facility (SMCCF) Term Asset-Backed Securities Loan Facility (TALF)
April 9	Paycheck Protection Program Liquidity Facility (PPPLF) Main Street Business Lending Program Municipal Liquidity Facility

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Federal Funds Rate and Balance Sheet

FRED — Effective Federal Funds Rate (left)
— Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level (right)

Year	Effective Federal Funds Rate (%)	Total Assets (Millions of U.S. Dollars)
2006	~4.5	~1,000
2008 (Peak)	~5.5	~1,000
2010	~1.5	~2,000
2014	~1.0	~4,500
2018	~2.5	~4,500
2020 (Peak)	~0.25	~8,500

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

Source: Board of Governors of the Federal Reserve System (US)
fred.stlouisfed.org

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Monetary Policy – Current State and Impact

- **Fed Funds Rate at 0% → 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
- **Balance Sheet grew from \$4T to \$7T**
 - Large volume of liquidity + few quality savings vehicles → asset price bubbles
- **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 objectives:
- To do what is “best”

Phase I: H.R. 6074 3/6	Phase II: Family First 3/14	Phase IIIa: CARES 3/18	Phase III b 4/24
\$8 Billion	\$100 Billion	\$2.2 Trillion	\$484 Billion
R&D Public Health Medical Supplies Other	Paid Sick Leave Family Medical Leave Covid-19 Testing Unemployment Expansion	HHLD Payments Support for Small Firms Support for Medium Sized Firms Unemployment Insurance Aid to States	(More) Support for Small Firms COVID-19 Testing Hospitals

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Did \$1200 checks and \$600 PUC create buffer?

Change in Median Checking Account Balance From January

Month	Unemployed (with U.I. benefits)	Employed
January	0%	0%
February	~20%	~15%
March	~15%	~10%
April	~80%	~25%
May	~100%	~40%
June	~110%	~20%
July	~120%	~30%
August	~45%	~10%

Key Takeaways:

- \$1200 checks + \$600 PUC allowed households to build cash buffer
- Expiration of \$600 PUC caused sharp decline in balances of unemployed relative to employed

Note: End of month balances. The analysis only includes the unemployed who received unemployment insurance benefits through direct deposit. Households with multiple checking accounts are added together. Source: JPMorgan Chase Institute

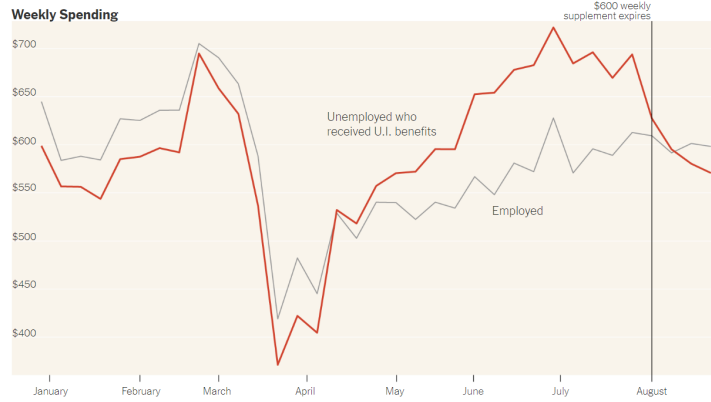
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Did \$1200 checks and \$600 PUC induce spending?

Key Takeaways:

1. \$1200 checks + \$600 PUC allowed all households to spend similar to pre-COVID level
2. Expiration of \$600 PUC caused sharp decline in spending for unemployed relative to employed



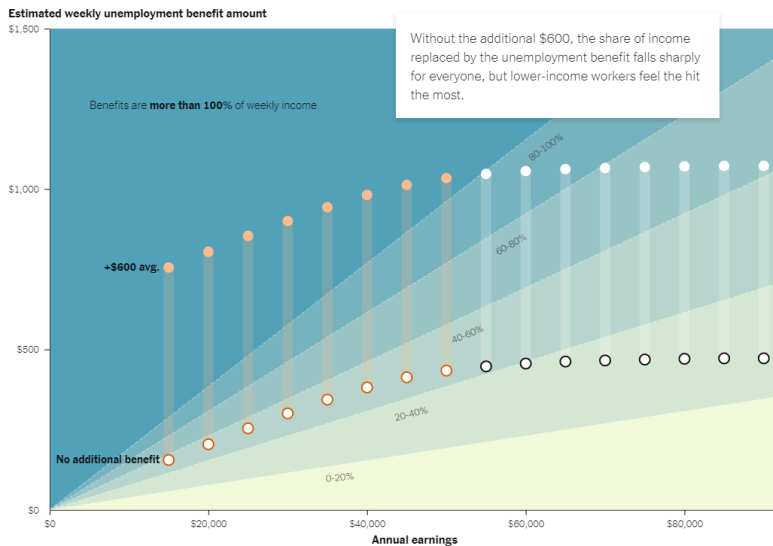
Source: Diana Farrell, Peter Ganong, Fiona Greig, Max Liebeskind, Pascal Noel, Daniel Sullivan, Joseph Vavra, JPMorgan Chase Institute

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How did \$600 PUC affect household income?

Key Takeaway:

Income replacement rates $\geq 100\%$ for workers with income $\leq \$55k/yr$

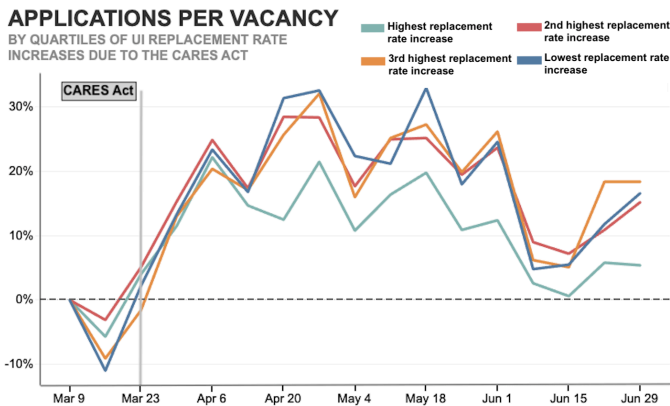


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Was there a disincentive effect from \$600?

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*

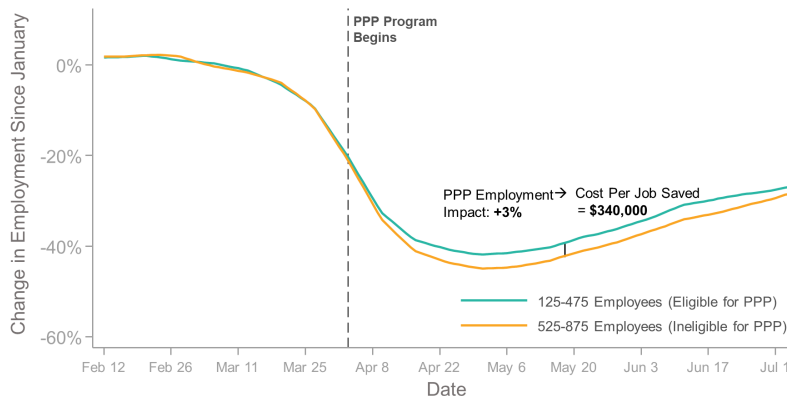


Source: Glassdoor (2020), and author's calculations. EconoFact econofact.org

Did PPP Mitigate Job Losses?

Key Takeaway:

PPP had a relatively small impact on small business payroll (but it did help!)

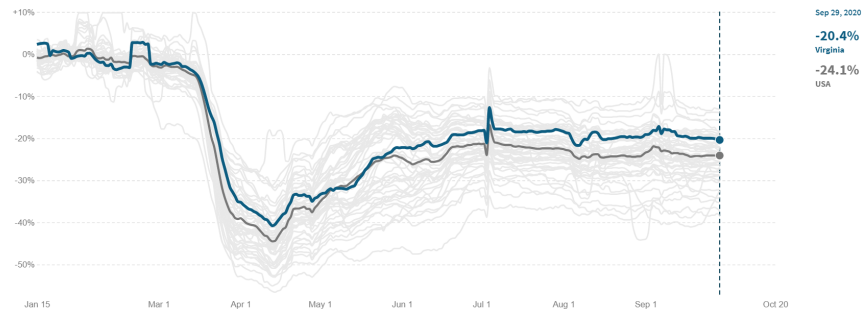


Characterizing Business Closures

OPPORTUNITY REGISTRY ECONOMIC TRACKER HARVARD BUSINESS SCHOOL BOSTON COLLEGE

Percent Change in Number of Small Businesses Open*

In Virginia, as of September 29 2020, the number of small businesses open decreased by 20.4% 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: October 09, 2020 next update expected: October 23, 2020

visit tracktherecovery.org to explore

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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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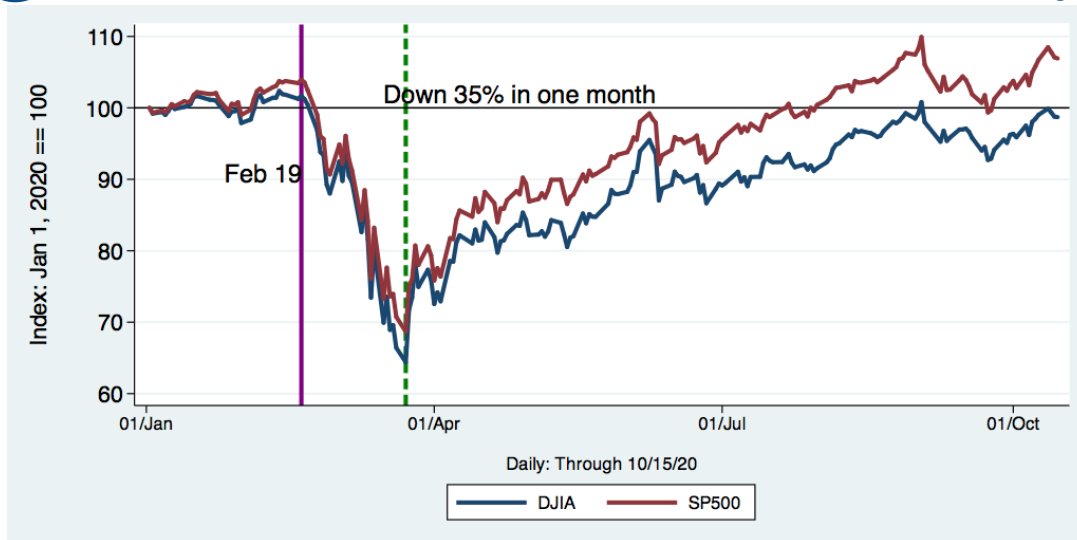
Risk Assessment

1. Continuation 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?)



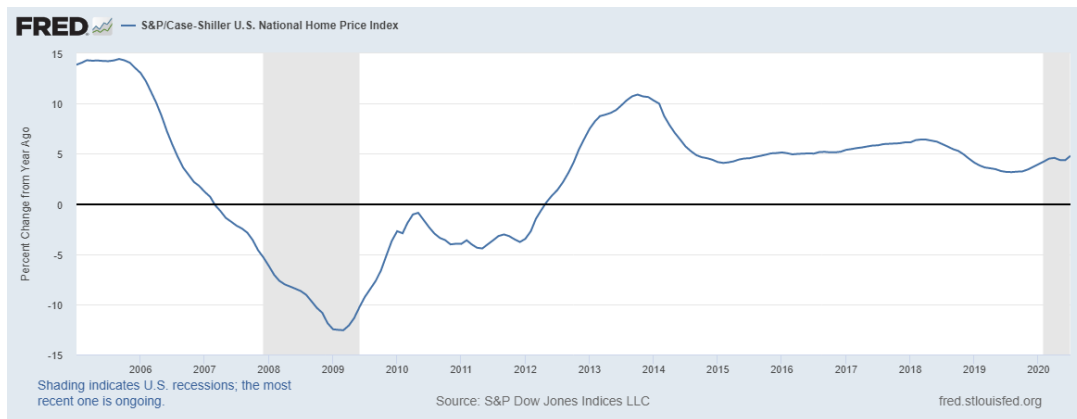
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Recovery in the Stock Market



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Housing Prices Continue to Outpace Inflation

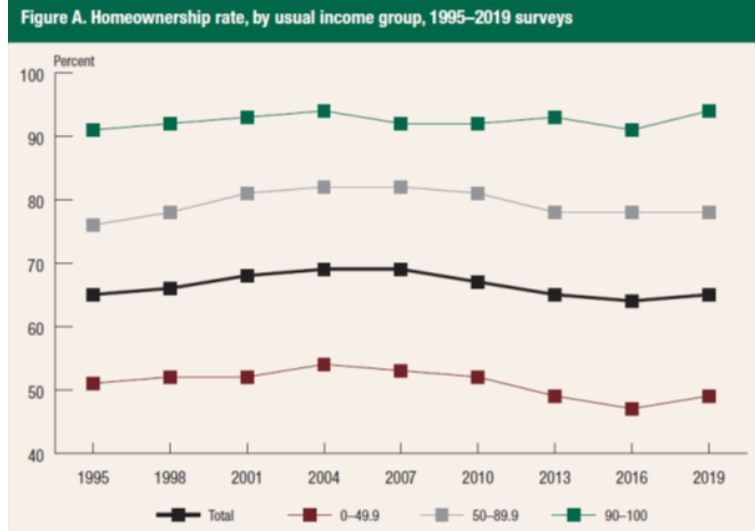


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Recovery/recession for whom?

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



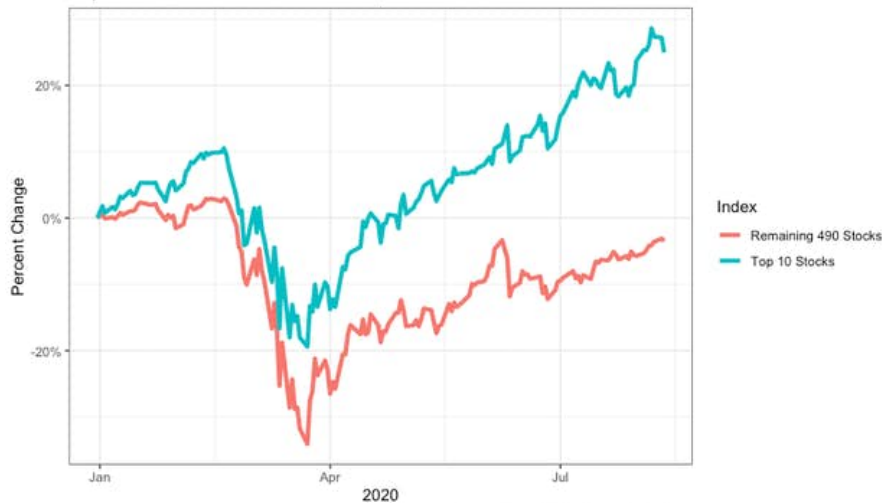
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Recovery/recession for whom?

Top 10 S&P Stocks:

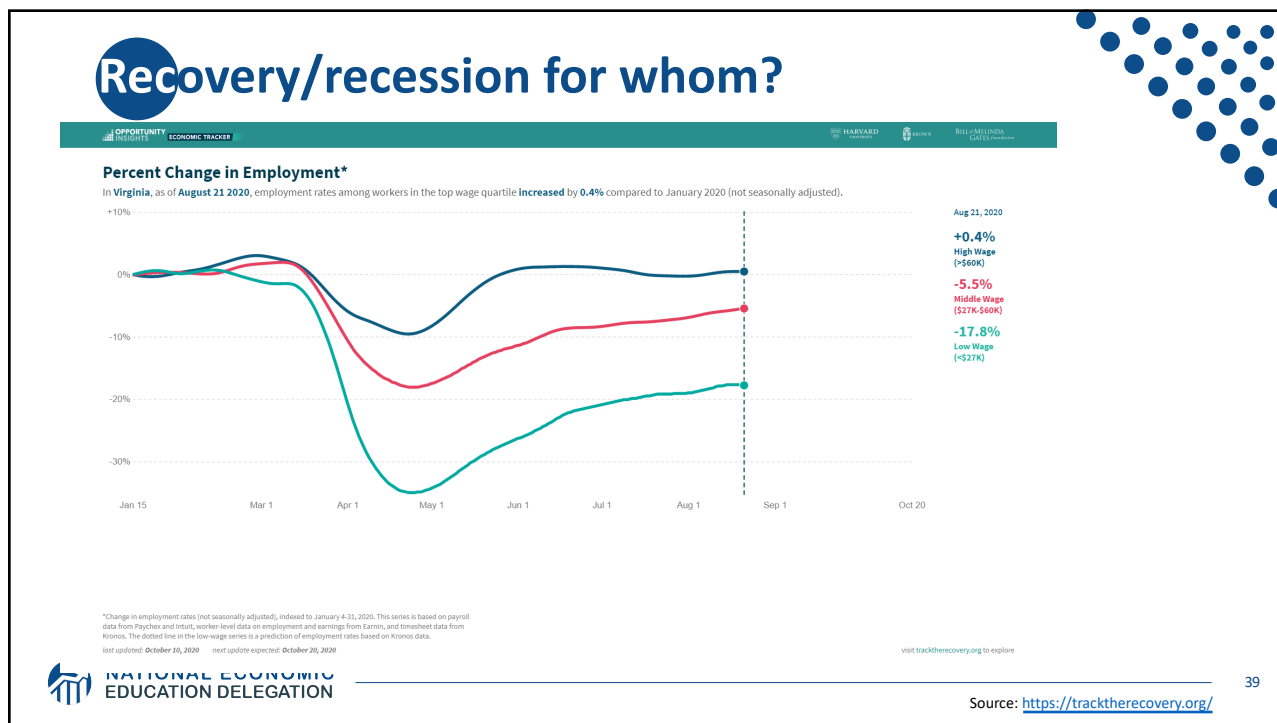
1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

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

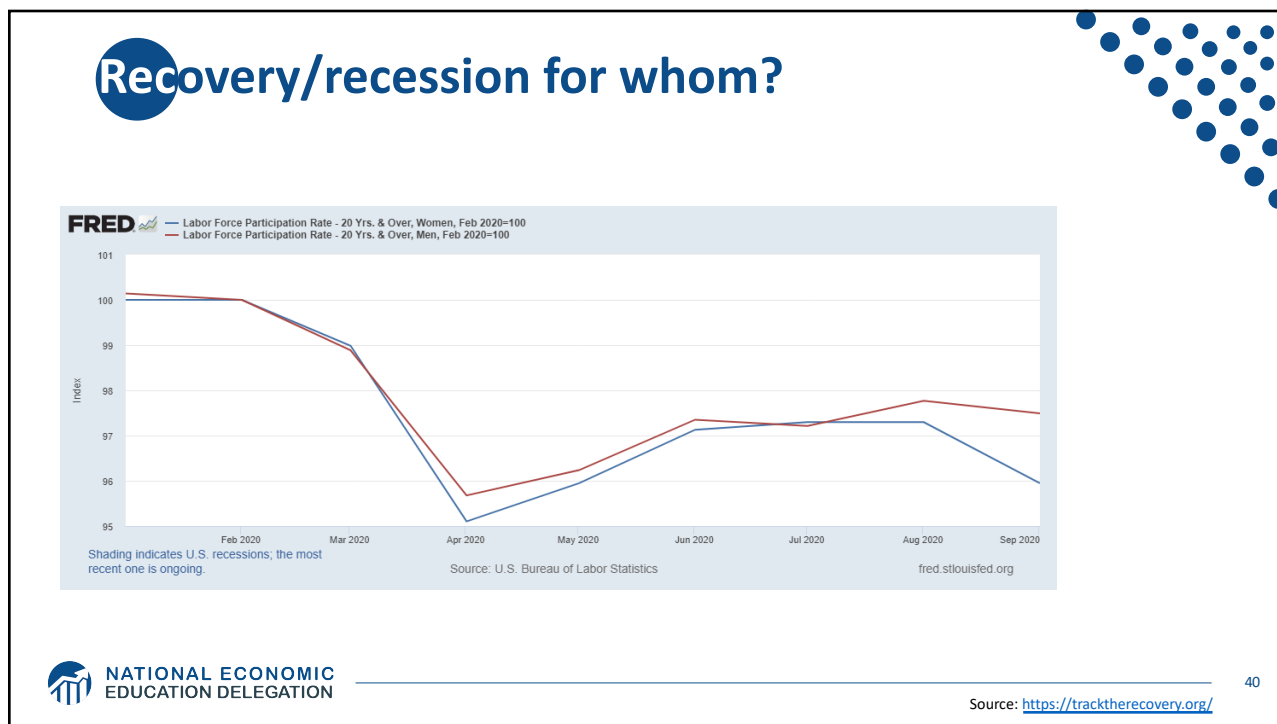


Source: TrendPlaybook.com, Bloomberg

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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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Let's chat!

www.NEEDelegation.org

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Become a Friend of NEED: www.NEEDelegation.org/friend.php

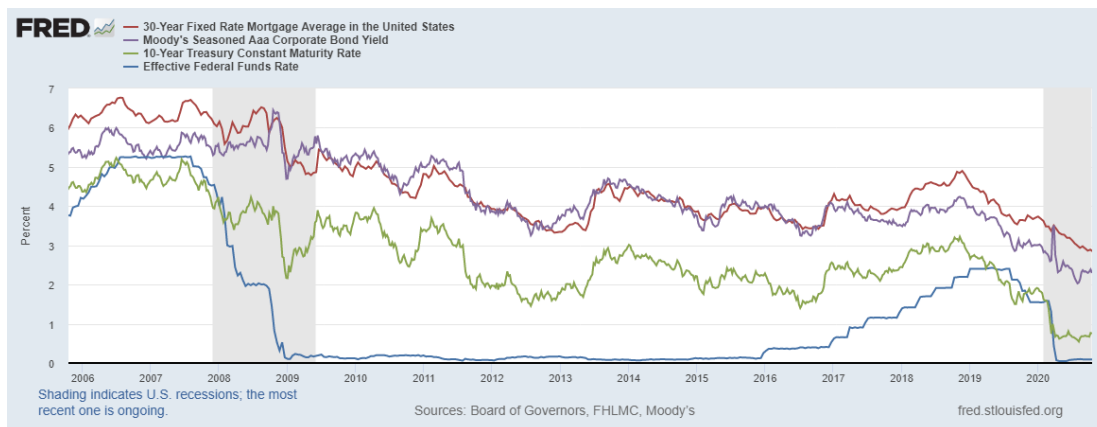


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Impact on Borrowing Rates

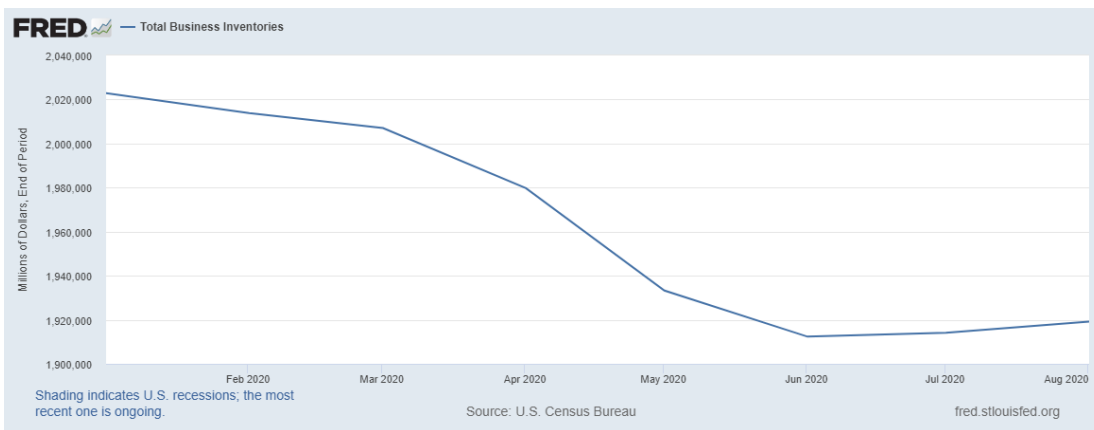


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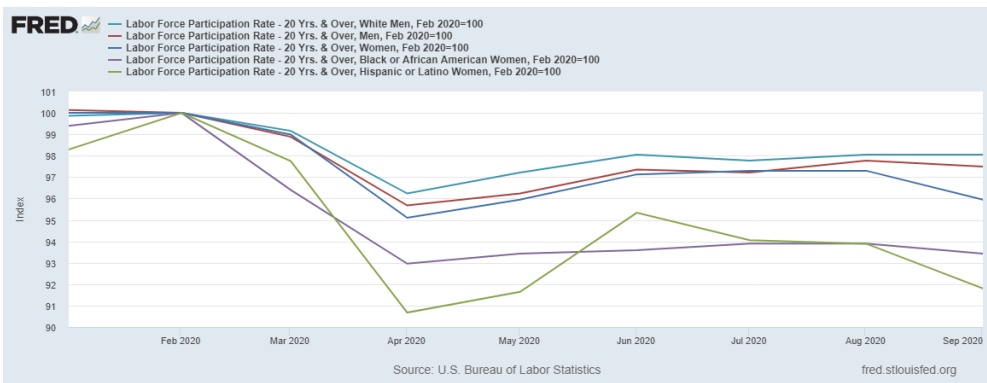
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Business Inventory



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Recovery/recession for whom?



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