

COVID-19: Economic Implications and Policy Response

September 24, 2020
Rotary Club of Orlando

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Who Are We?

- **Honorary Board: 47 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: 500+ 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:**
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 - Jon D. Haveman, NEED
 - Geoffrey Woglom, Amherst College (emeritus)
 - 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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Outline

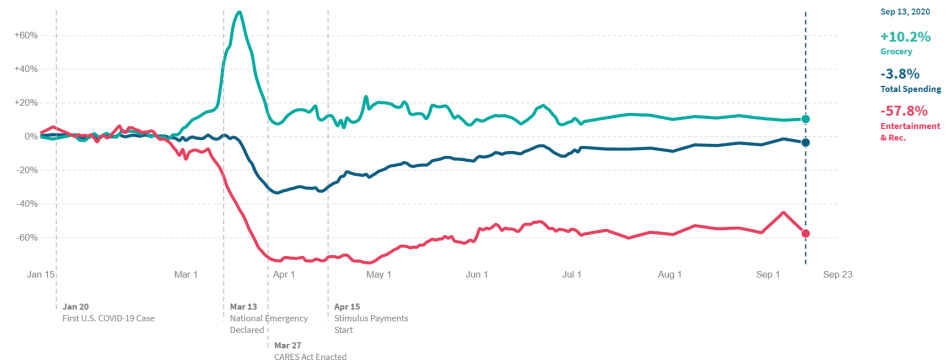
- What is the current state of “the economy”?
- What have been the effects of policy?
- What are the risks to recovery?

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Spending is (was?) on the Rise

Percent Change in All Consumer Spending*

In the United States, as of September 13 2020, total spending by all consumers decreased by 3.8% 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 July 30, 2020 and weekly data after July 30, 2020. This series is based on data from Affinity Solutions.

last updated: September 23, 2020 next update expected: September 29, 2020

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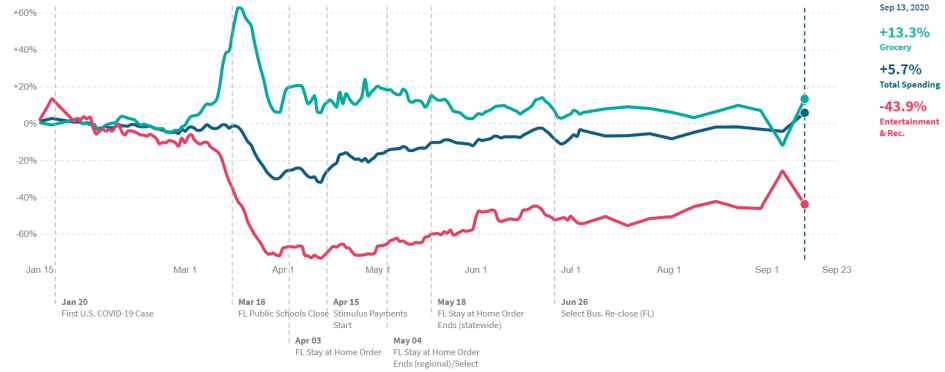
Spending is (was?) on the Rise

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

BILL MILLER GROUP

Percent Change in All Consumer Spending*

In Florida, as of September 13 2020, total spending by all consumers increased by 5.7% compared to January 2020.



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

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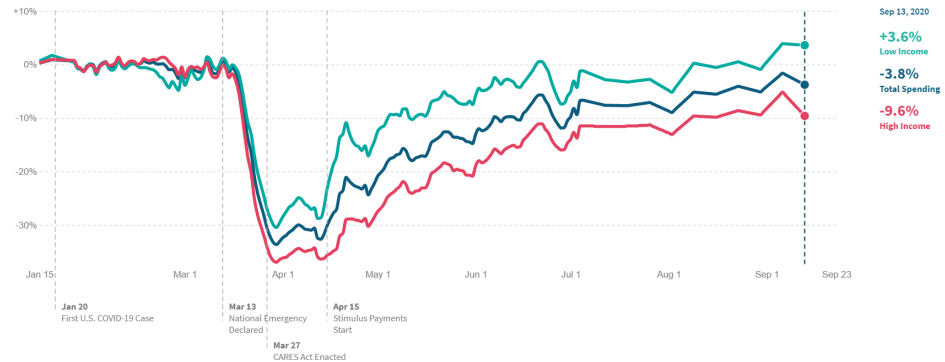
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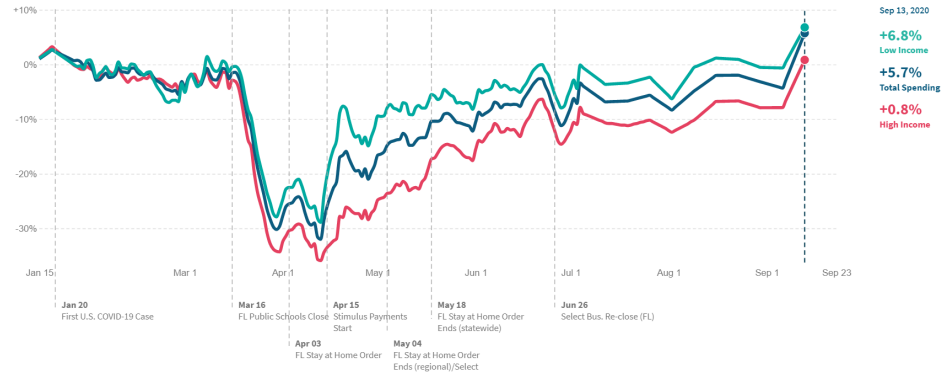
Source: <https://tracktherecovery.org/>

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Spending is (was?) on the Rise

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last updated: September 22, 2020 next update expected: September 29, 2020

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

Why Did Spending Collapse?

Short term:

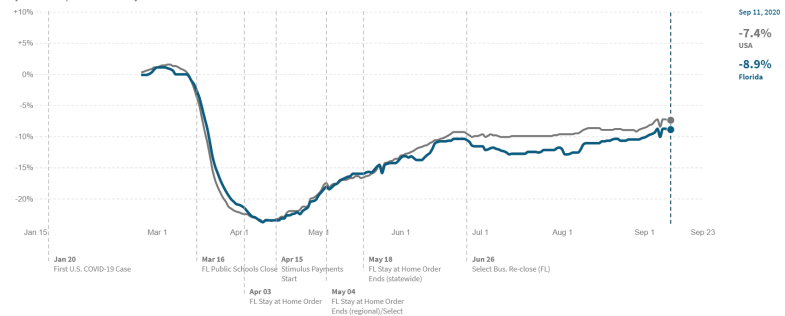
- Consumer behavior
- Government Policy (NPIs)

Longer term:

- Loss of income

Percent Change in Time Spent Outside Home*

In Florida, as of September 11 2020, total time spent away from home decreased by 8.9% compared to January 2020.



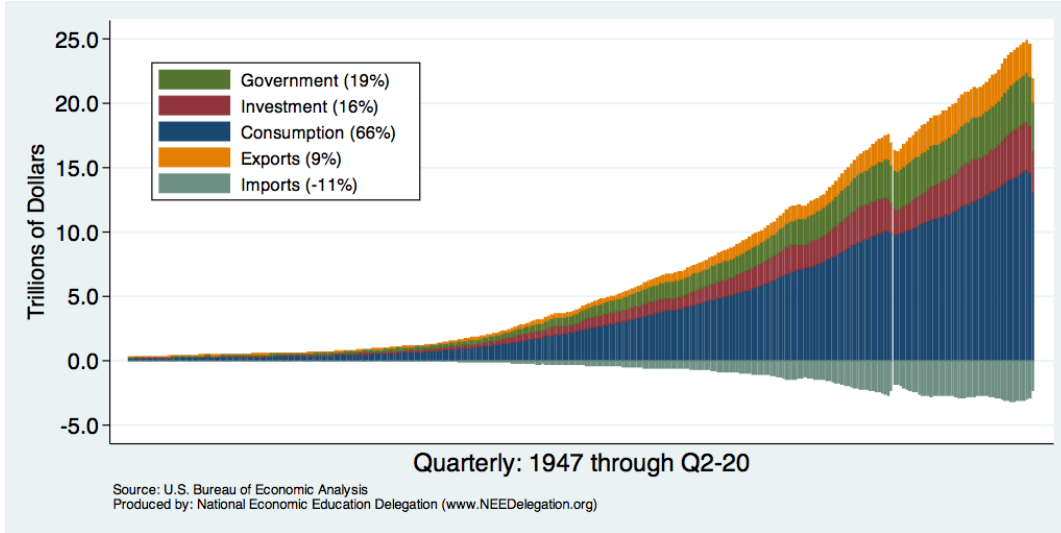
*Change in the average time spent outside of residential locations indexed to the period between Jan 3-Feb 9 2020. This series uses data from Google's COVID-19 Community Mobility reports.

last updated: September 14, 2020 next update expected: September 24, 2020

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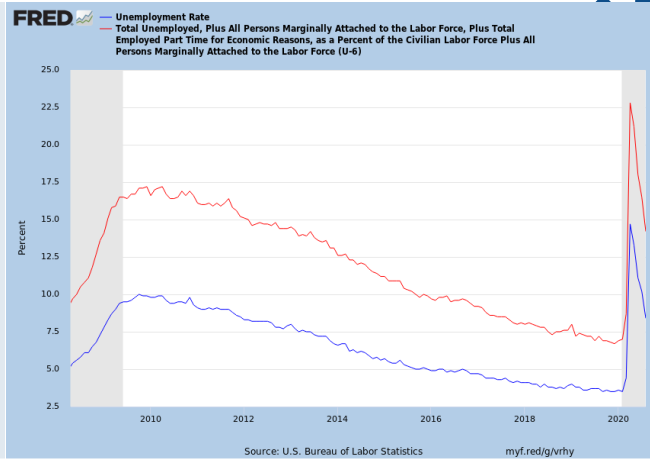
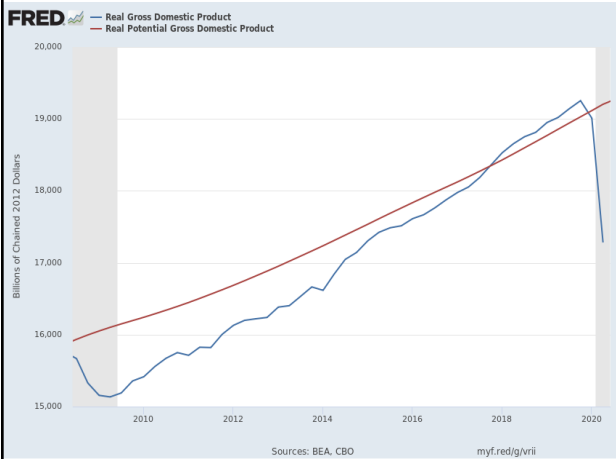


Why does spending matter?



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Where are we?



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Where are we?

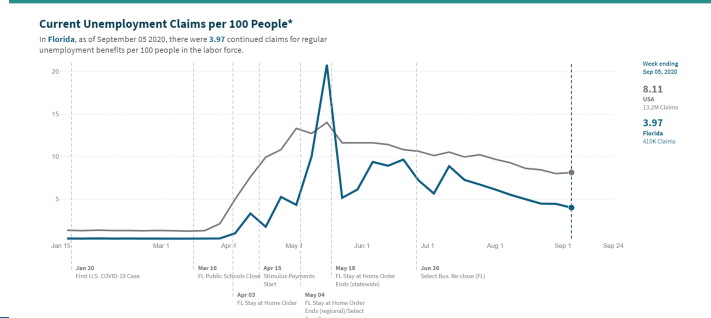
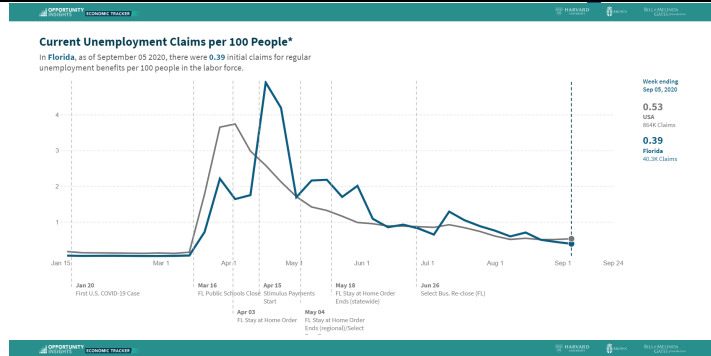
Initial Claims are newly *filed* UI claims

Continuing Claims are UI filers who have *previously filed* and continue to be unemployed

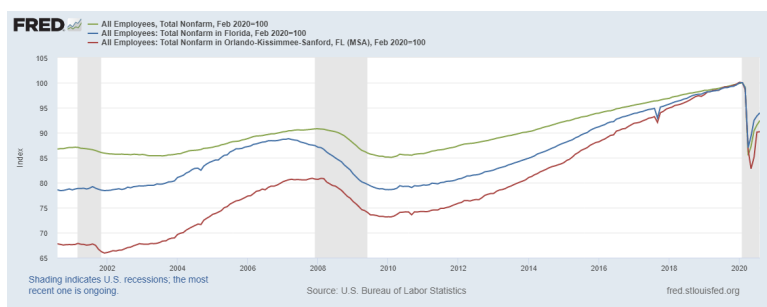
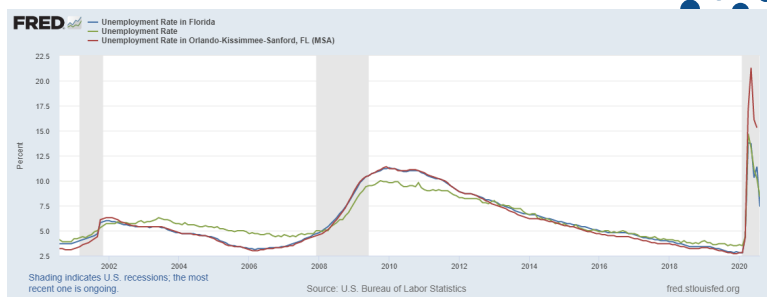
Update 9/24

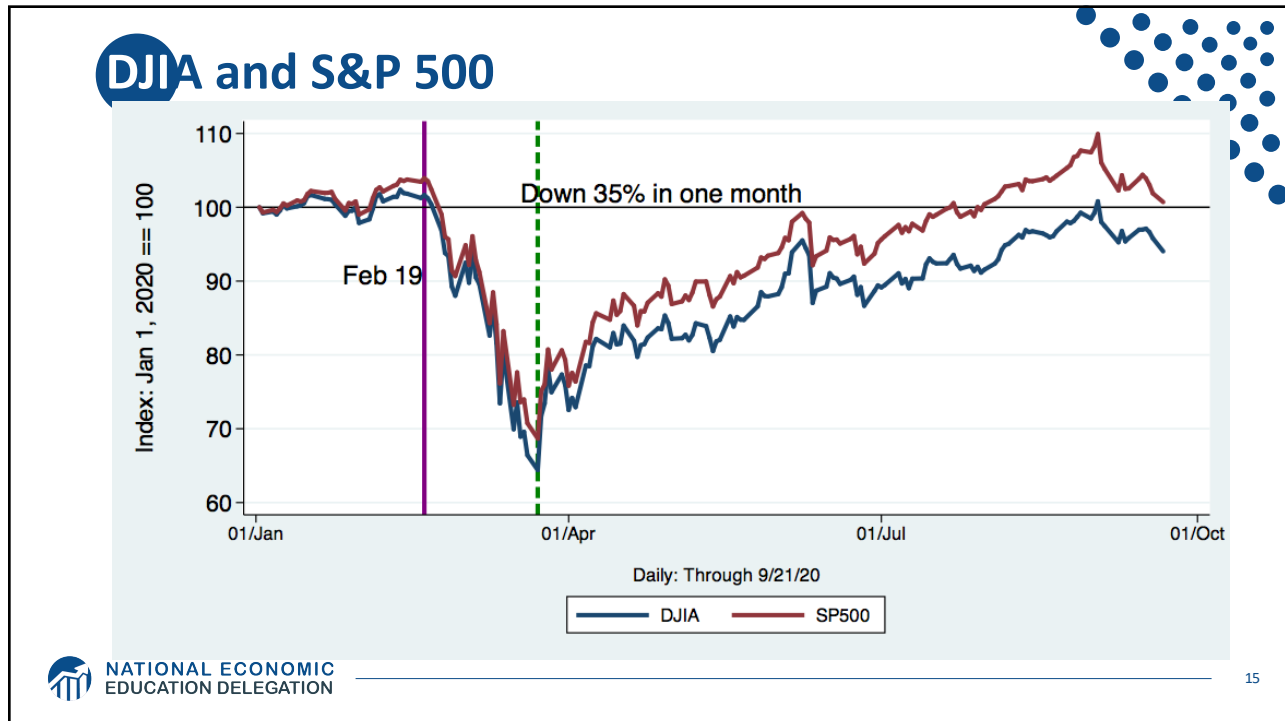
US: IC at 870k (+4k); CC at 12.58M (-167k)

FL: IC at 35.8k (-1.4k); CC at 314k (-100k)

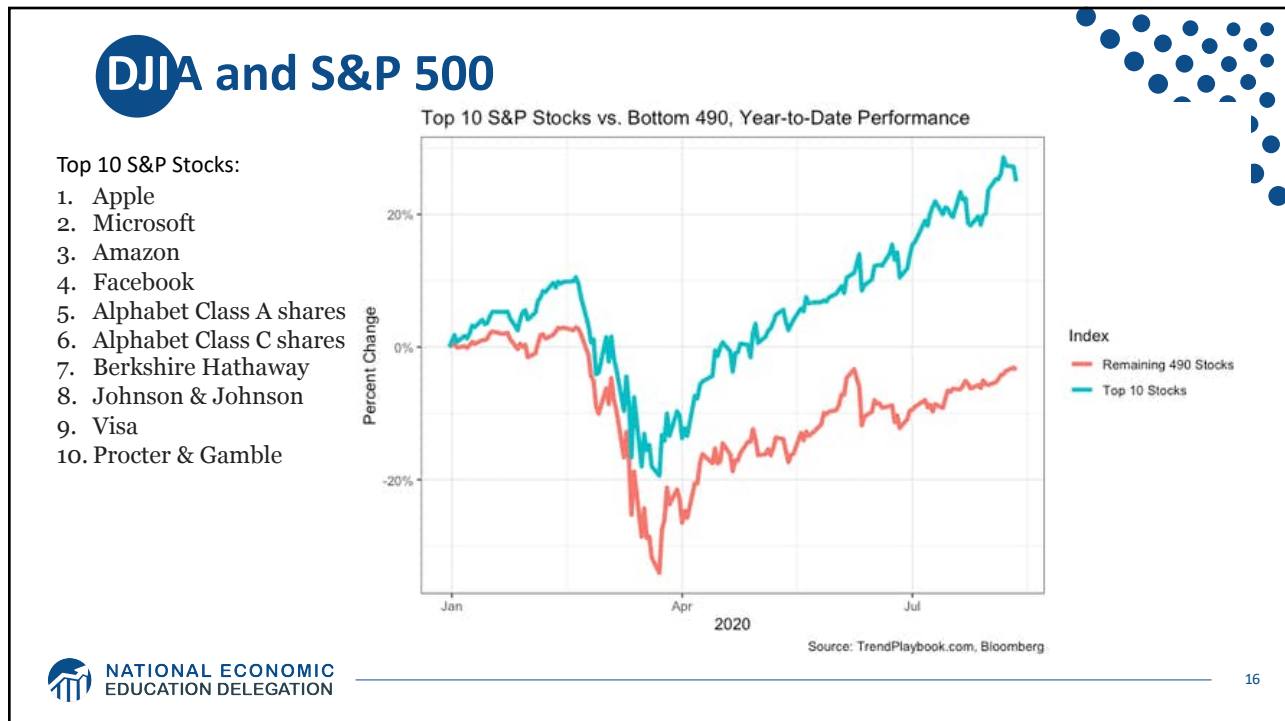


Where are we?





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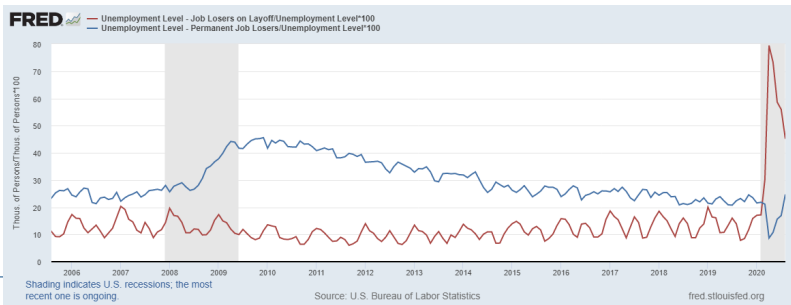
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The Good News (Sort of)

- 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: economic disruptions due to prolonged job losses and business failures

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Characterizing Unemployment

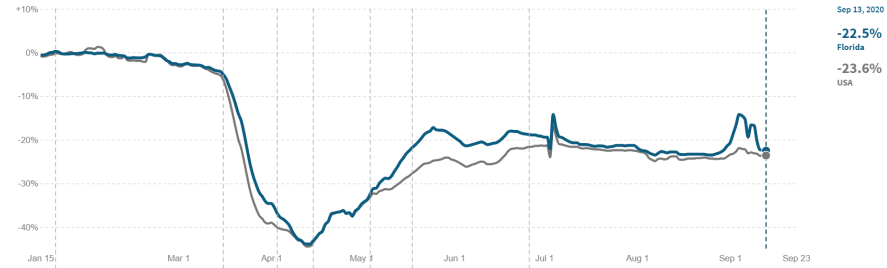


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Characterizing Business Closures

Percent Change in Number of Small Businesses Open*

In Florida, as of September 13 2020, the number of small businesses open decreased by **22.5%** 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 Bimble.
 last updated: September 21, 2020 next update expected: September 25, 2020

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Fiscal and Monetary Policy

- The Federal Reserve acted quickly and effectively to prevent a financial market meltdown and keep credit flowing. *But the Fed lends and does not spend.*
- Fiscal policy acted quickly, but has not acted since April

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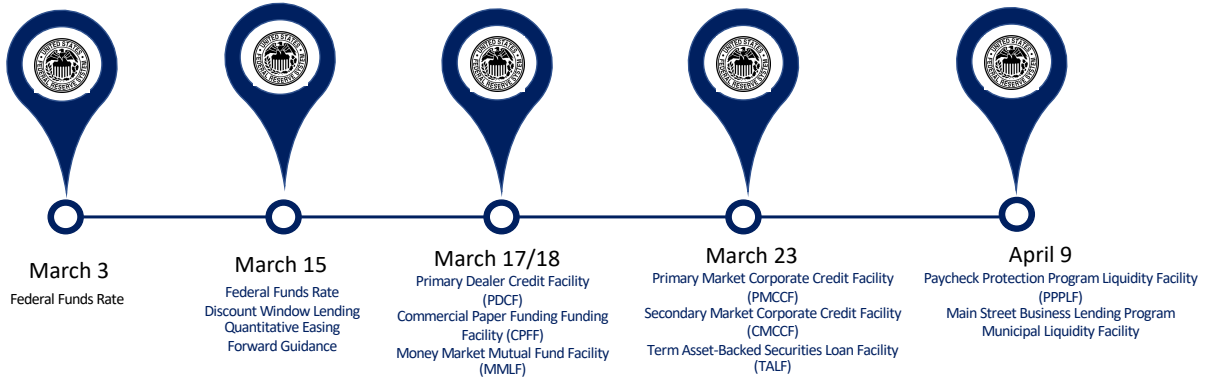
Monetary Policy – Federal Reserve

- **Two primary objectives**
 - 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



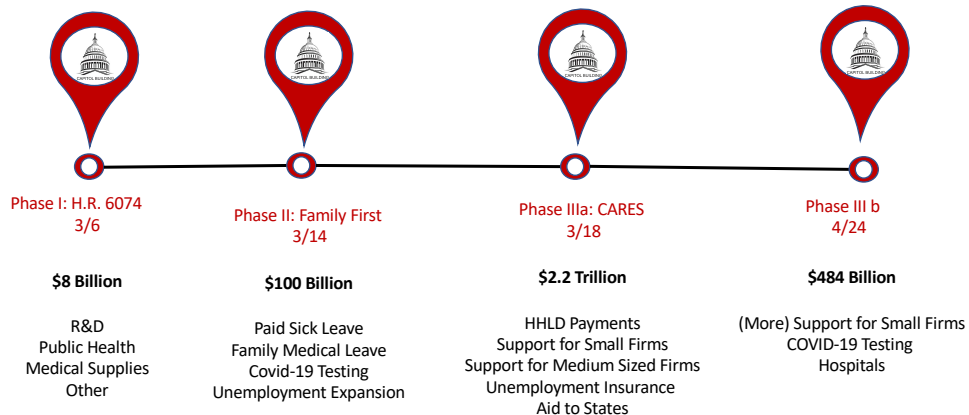
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Monetary Policy – Current State and Impact

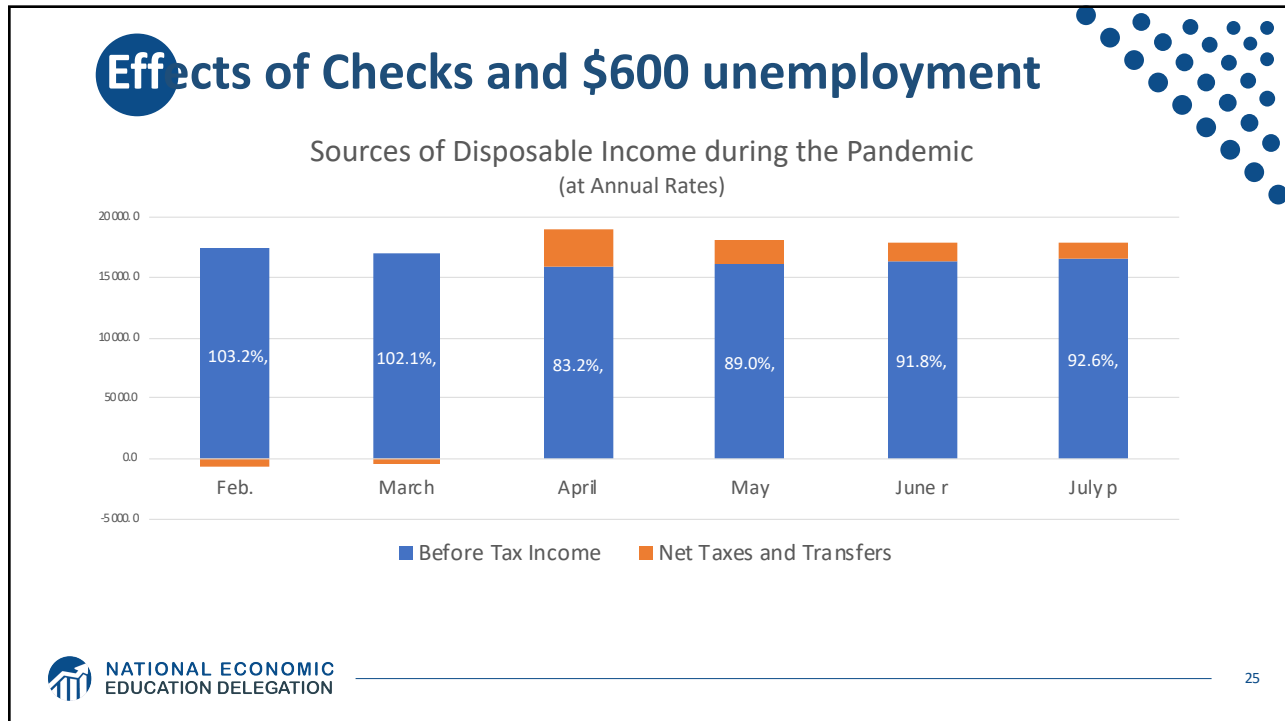
- **Fed Funds Rate at ZLB → newly issued debt very cheap**
 - Good for borrowers: mortgages, corporate paper, Treasuries
 - Not so good for savers: must accept more risk to get similar rewards as before
- **Fed Forward Guidance: Keep FFR at ZLB until PCE inflation “at least 2%”**
 - High inflation +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

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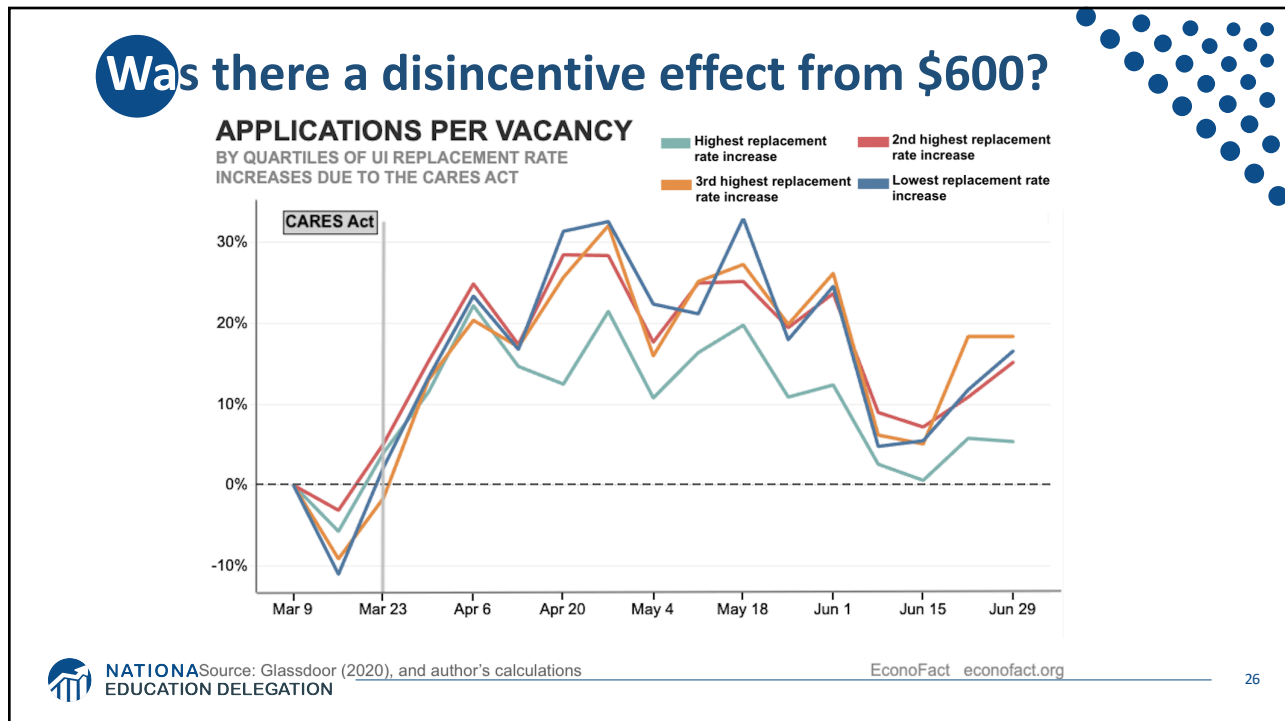
Fiscal Policy Timeline – Social Insurance



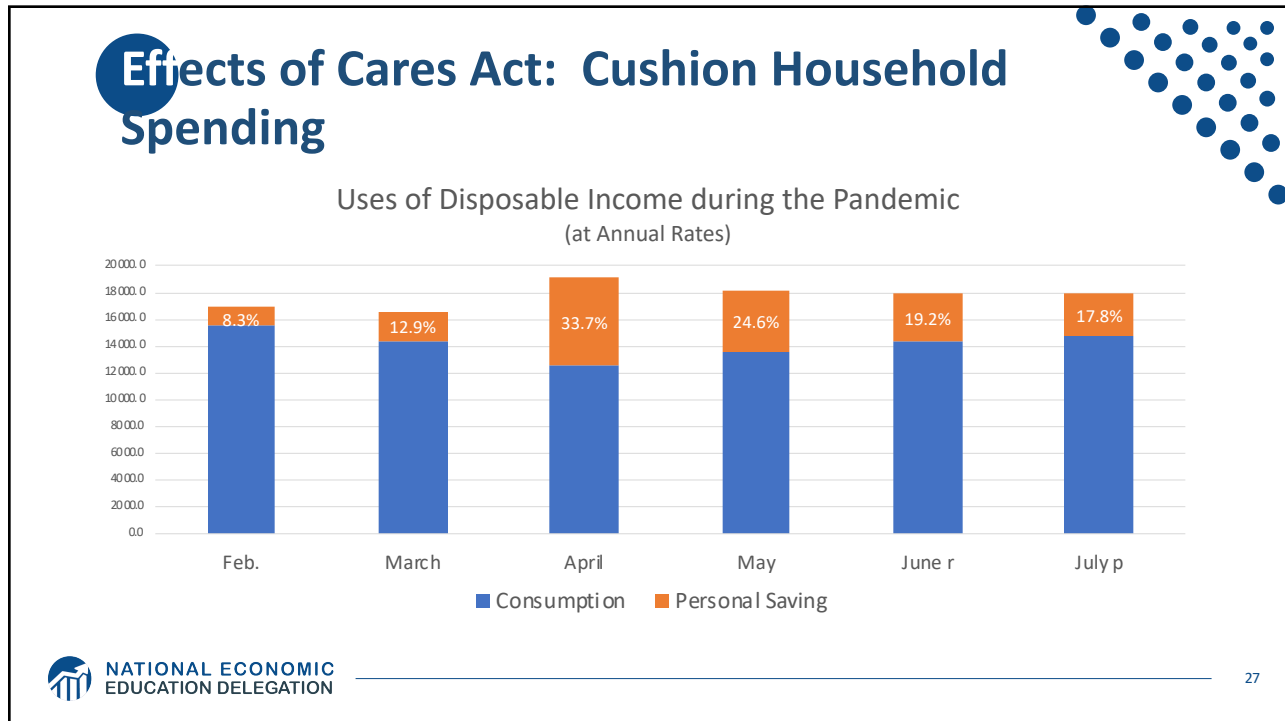
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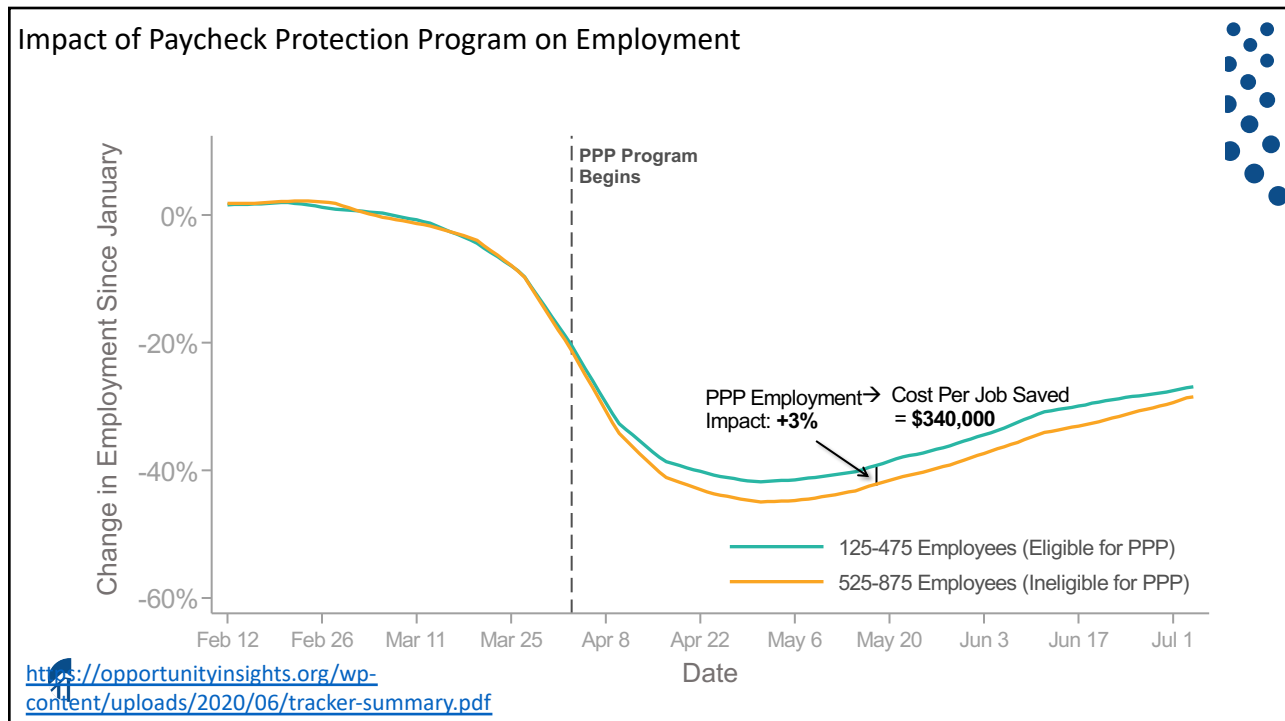
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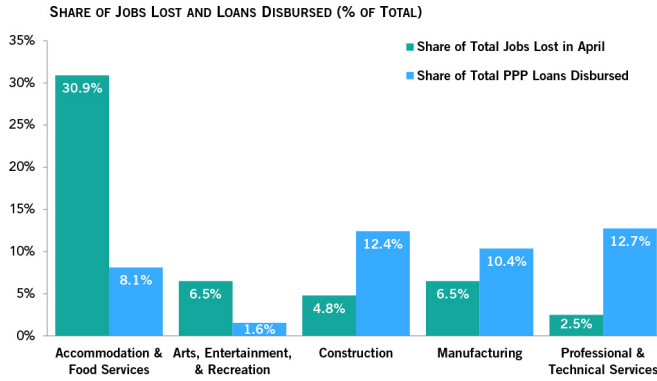


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Loans Didn't Always Go to the Right Industries



The distribution of PPP loans has not matched levels of unemployment



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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Major Risks Going Forward

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. "K-shaped recovery"



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State and Local Budgets

FIGURE 1

COVID-19 State Budget Shortfalls Could Be Largest on Record

Total state budget shortfall in each fiscal year, in billions of 2020 dollars



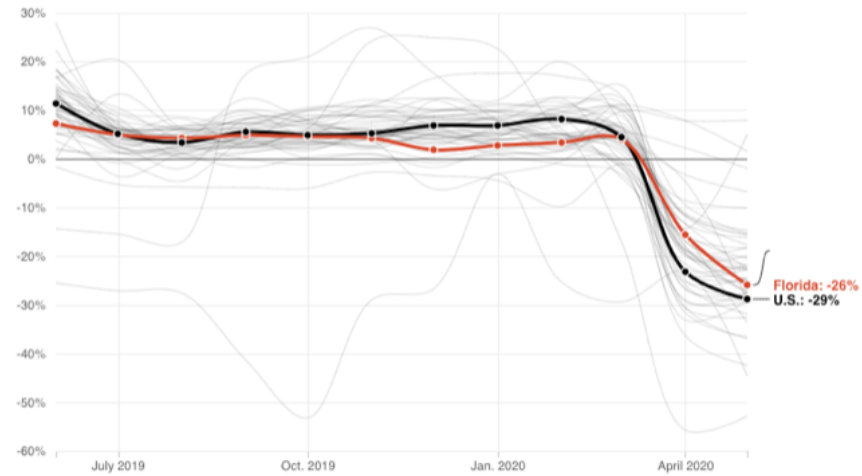
* Estimated based on CBPP calculations
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

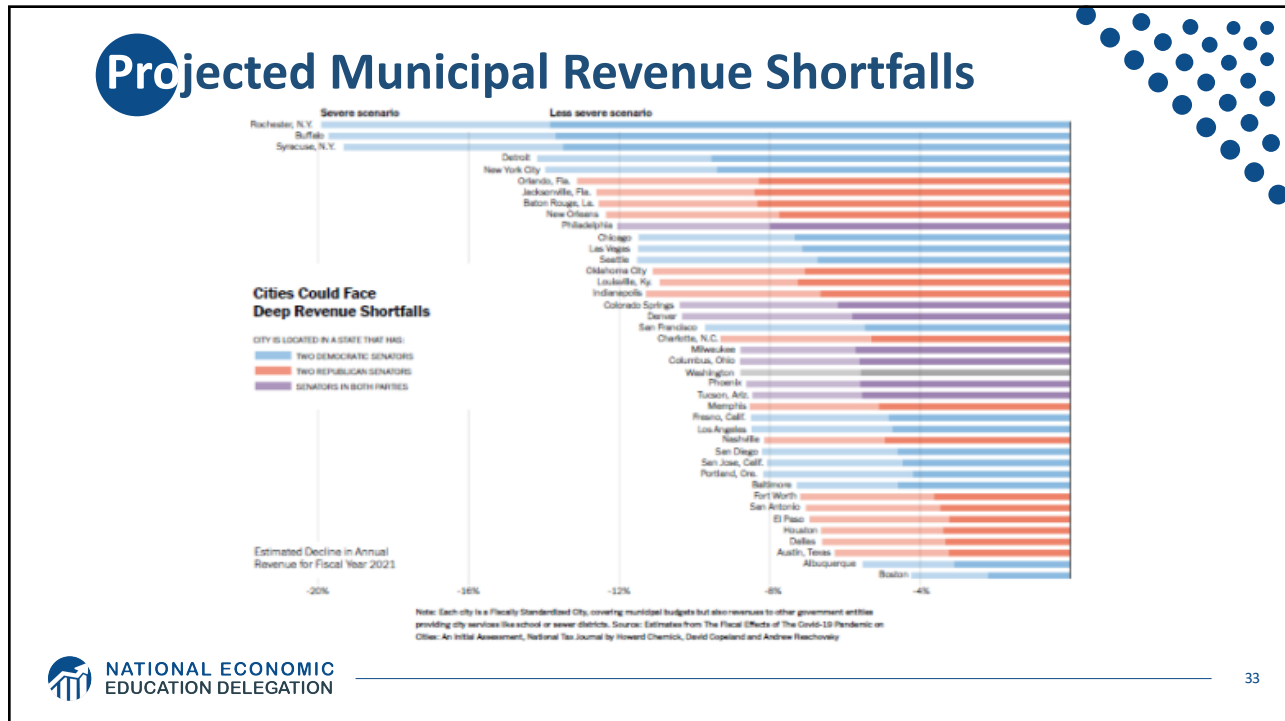
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State and Local Budgets

CHANGE IN MONTHLY REVENUE VS. PREVIOUS YEAR (3-MONTH AVERAGE)



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Tracking the Recovery

- **Major Economic releases between now and November 3**
 - Weekly, Unemployment Insurance Weekly Claims, Thursdays (DOL)
 - Monthly
 - o Personal Income and Outlays for August, Thursday, 10/1 (BEA)
 - o The Employment Situation for September, Friday, 10/2 (BLS)
 - o First Estimate of GDP for 2020, third quarter, 10/29 (BEA)
 - o Personal Income and Outlays for September, Thursday, 10/30 (BEA)
 - Economic Calendars at
 - o [Marketwatch](https://marketwatch.com/economy-politics/calendar) (marketwatch.com/economy-politics/calendar)
 - o [FRBNY](https://newyorkfed.org/research/calendars/nationalecon_cal) (newyorkfed.org/research/calendars/nationalecon_cal)
- **Real Time Data:**
 - [Track the Recovery](https://tracktherecovery.org): (tracktherecovery.org)
 - [Federal Reserve Economic Database \(FRED\)](https://fred.stlouisfed.org): (fred.stlouisfed.org)

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Thank you!

Any Questions?

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