

COVID-19 and the U.S. Economy: A Booster Shot

April 1, 2021

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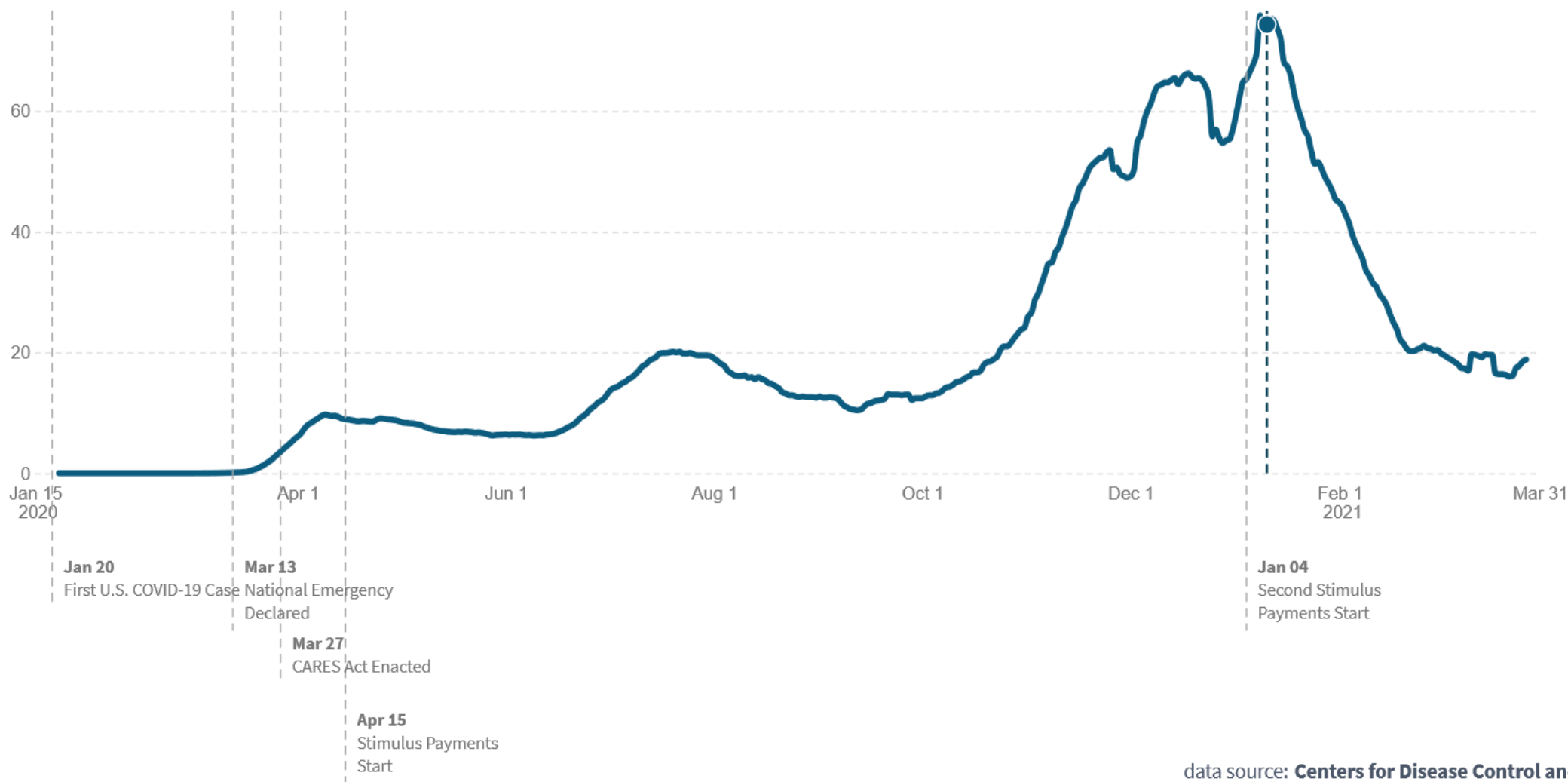
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Daily Reported COVID-19 Cases, Deaths and Tests*

In **the United States**, on **January 10, 2021**, there were **74.3** newly reported COVID-19 cases per 100,000 people.

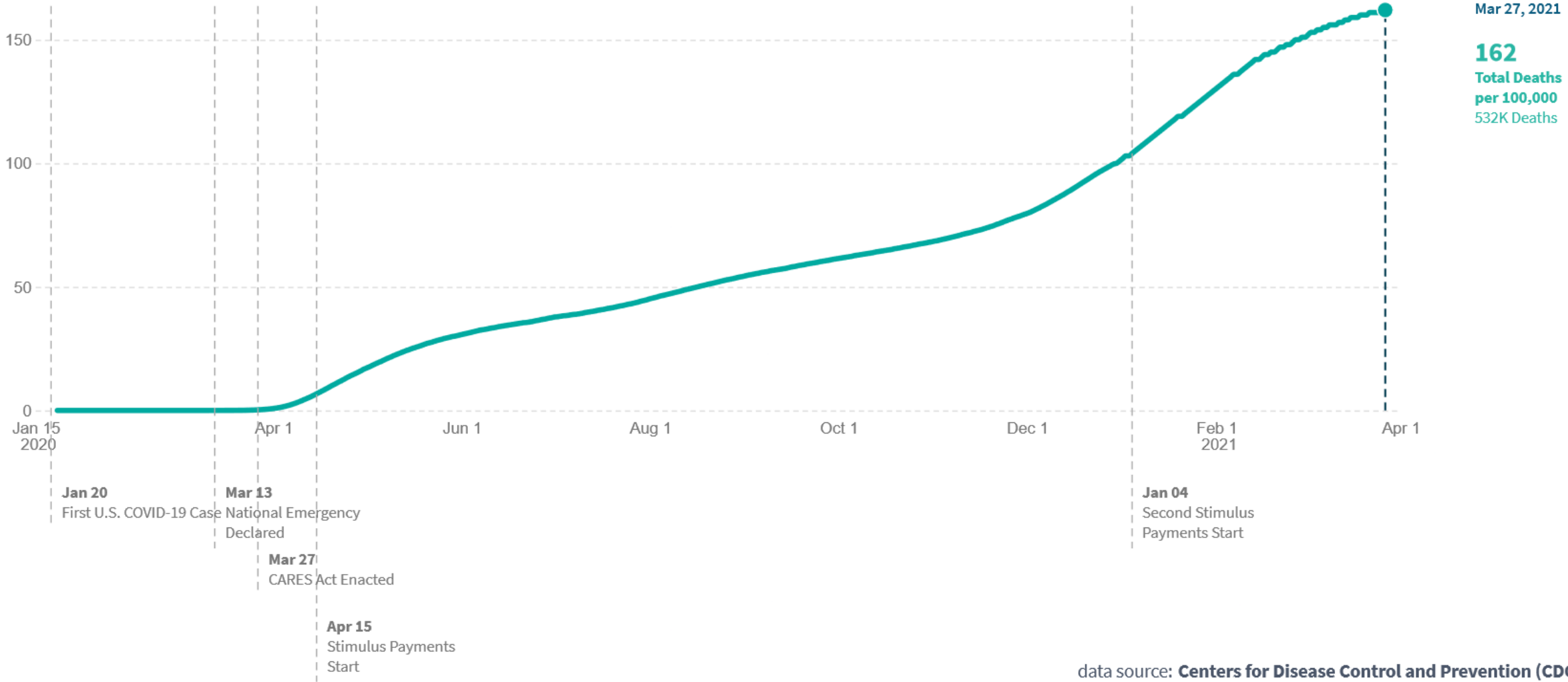


data source: **Centers for Disease Control and Prevention (CDC)**

*Confirmed COVID-19 cases, deaths and tests, 7-day moving average. This series uses the data published by the Centers for Disease Control and Prevention (CDC). Negative numbers may appear if corrections to official statistics are made that, on net, reduce the daily count relative to new events.

Daily Reported COVID-19 Cases, Deaths and Tests*

In the United States, on March 27, 2021, there were 162 cumulatively reported COVID-19 deaths per 100,000 people.



data source: **Centers for Disease Control and Prevention (CDC)**

*Confirmed COVID-19 cases, deaths and tests, 7-day moving average. This series uses the data published by the Centers for Disease Control and Prevention (CDC). Negative numbers may appear if corrections to official statistics are made that, on net, reduce the daily count relative to new events.

Early 2020 Policy Responses

- Feb 29: Washington issues stay-at-home order
- Mar 6: Congress provides emergency funds for testing, vaccine research, prevention, and medical supplies
- Mar 15: federal guidelines for social distancing
- Mar 15-23: Federal Reserve
 - lowers short-term interest rate to 0%
 - **Quickly** enacts large-scale liquidity/credit policies (same as Great Recession)
- Mar 27: Congress pass \$2 trillion CARES Act
- Mar 31: Virginia issues stay-at-home order

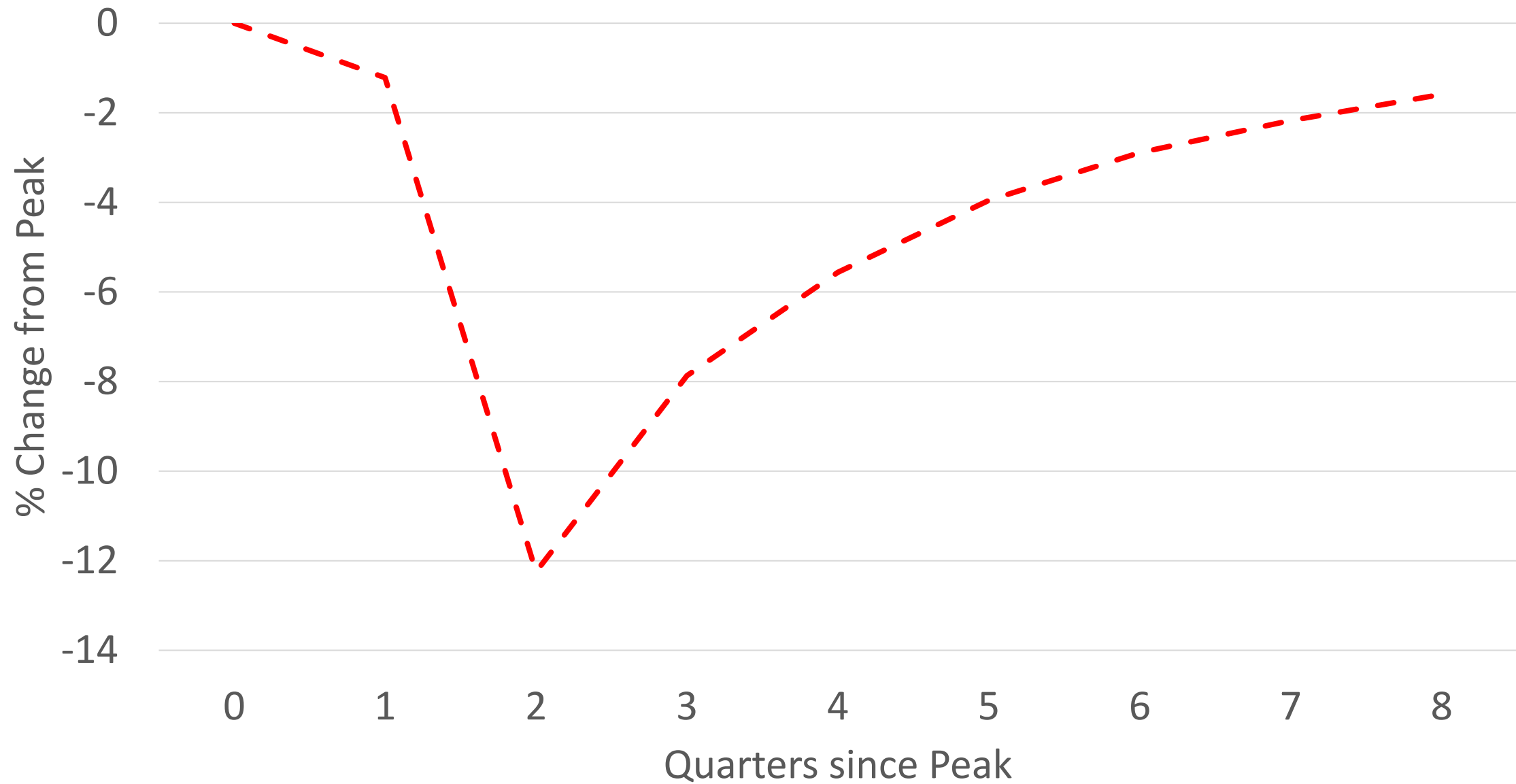
Overview

- Examine the U.S. Economy
- Arrive at a diagnosis
- Review the (policy) prescriptions

U.S. Income/Production

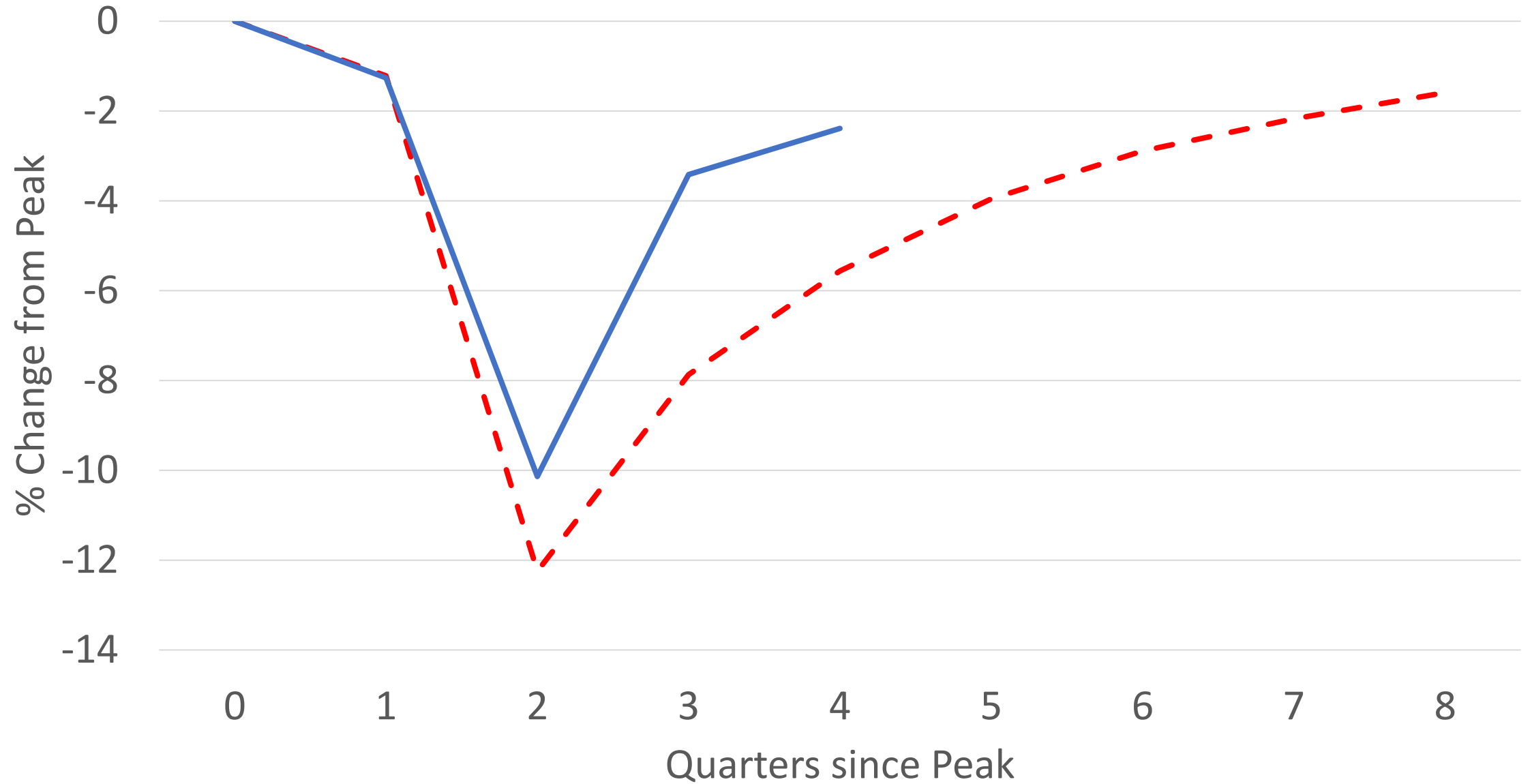
- A main indicator of health of economy
- Measured by Gross Domestic Product
- Reported by the Bureau of Economic Analysis
- <https://www.bea.gov/data/gdp/gross-domestic-product>

Gross Domestic Product



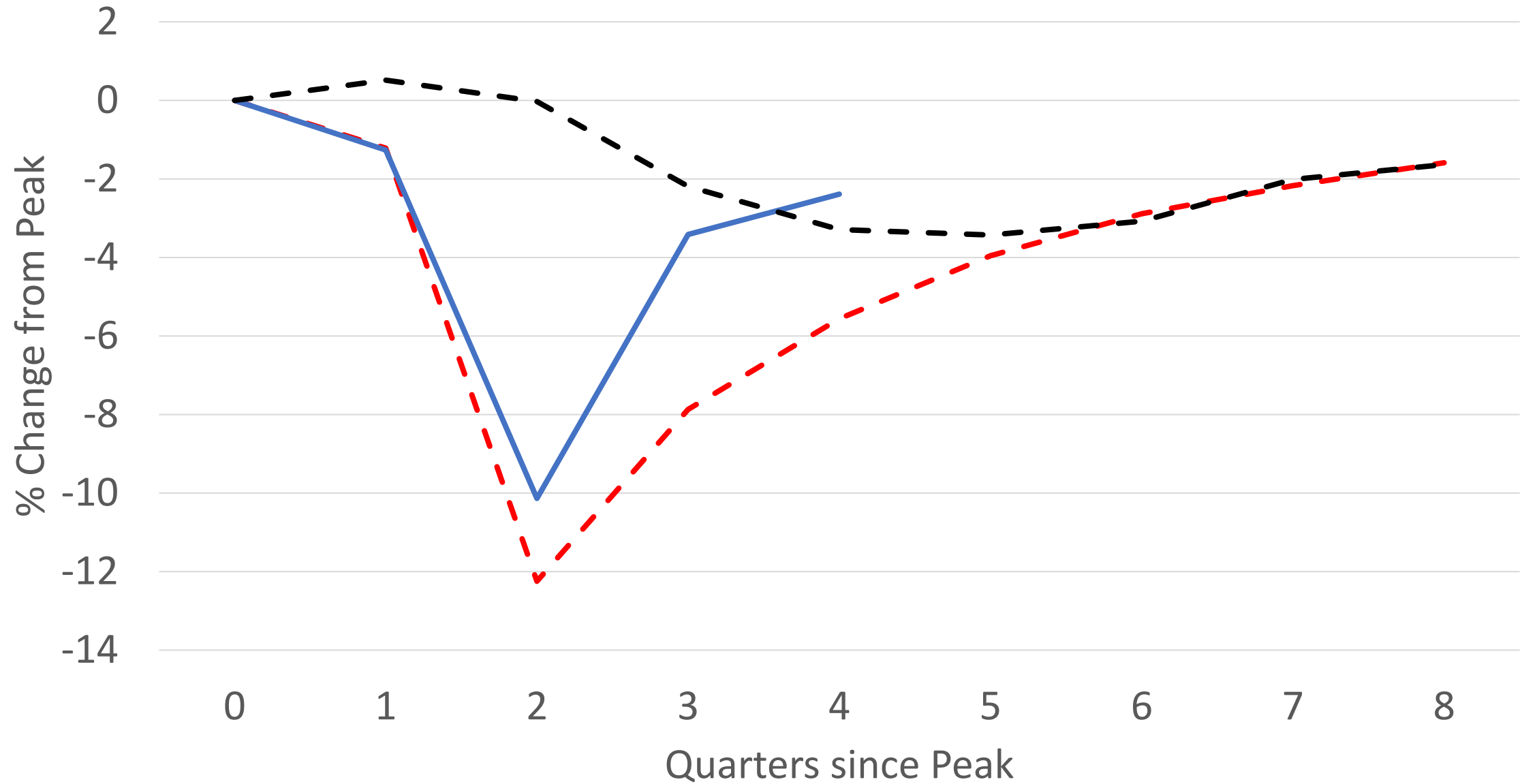
- - Forecast (CBO 2020Q2)

Gross Domestic Product



- - Forecast (CBO 2020Q2) — Actual

Gross Domestic Product



- - Forecast (CBO 2020Q2)

— Actual

- - Great Recession (2008Q2)

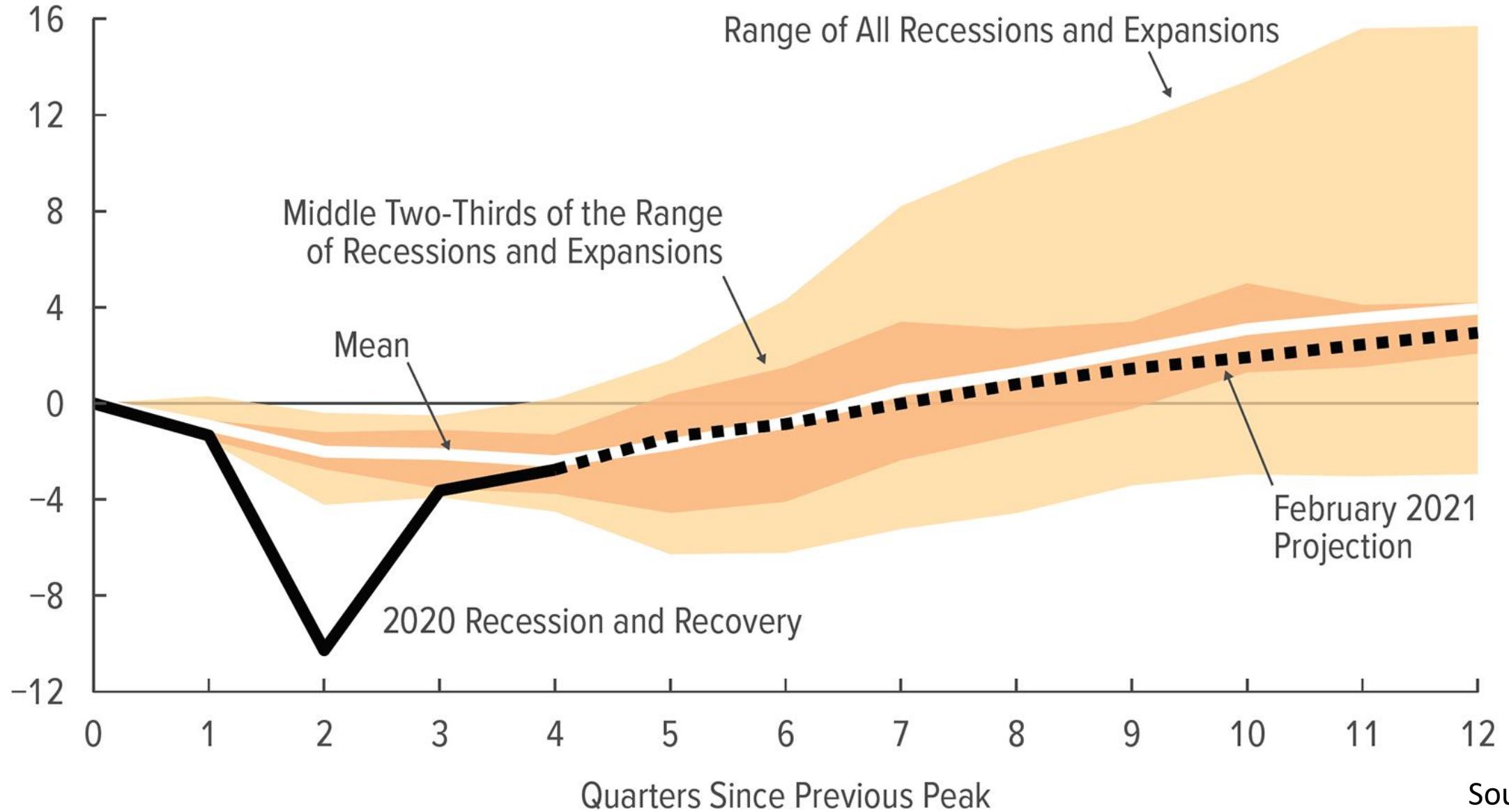
Source: BEA

Congressional Budget Office

- Independent analyses of budgetary and economic issues
- Supports Congress and the budget process
- Reports Economic Outlook containing forecasts GDP, Employment Interest Rates
- Latest forecasts: <https://www.cbo.gov/publication/56989>
- <https://www.cbo.gov/>

Real GDP per Potential Worker Across Business Cycles

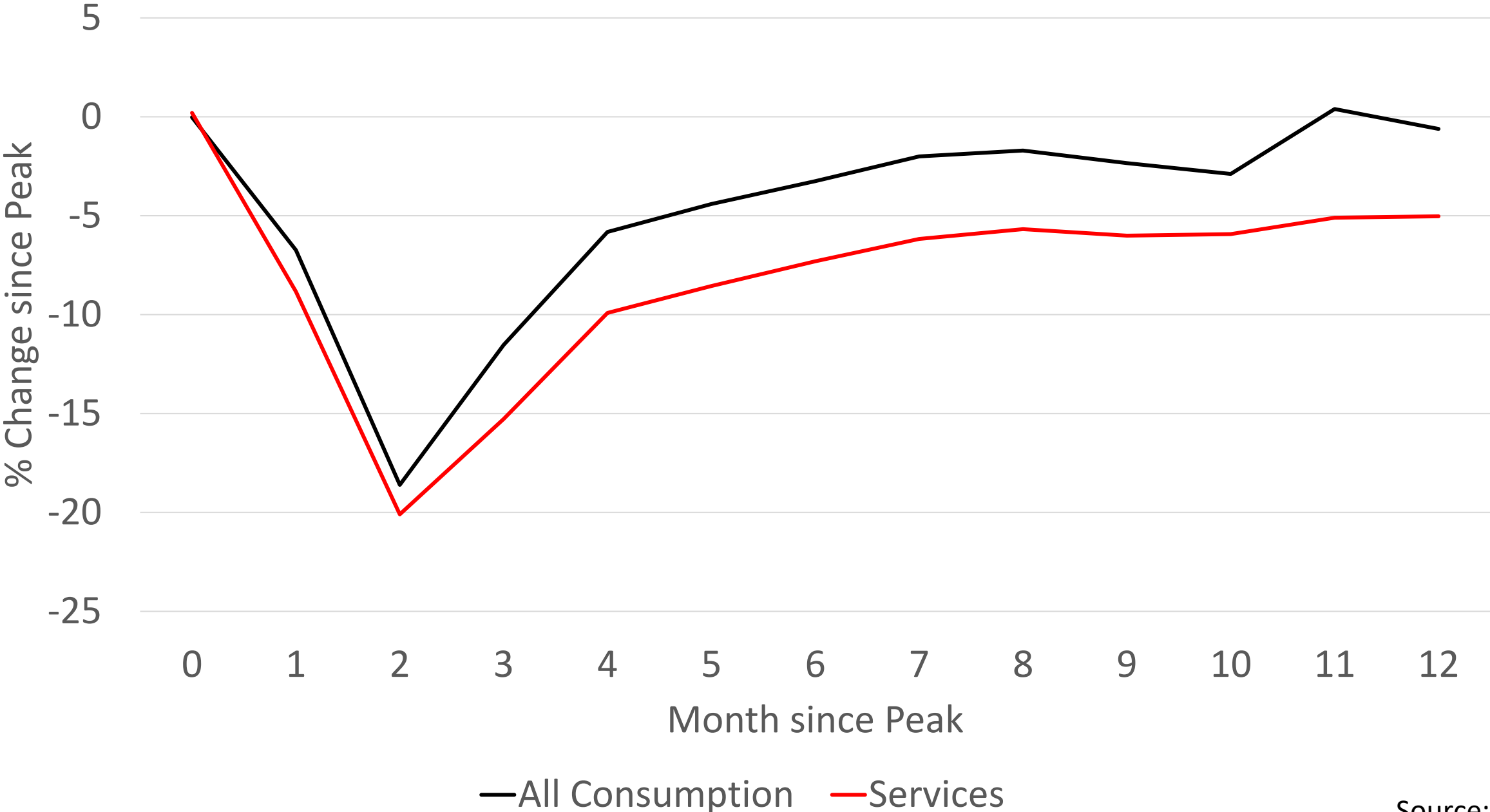
Percentage Change From Previous Peak



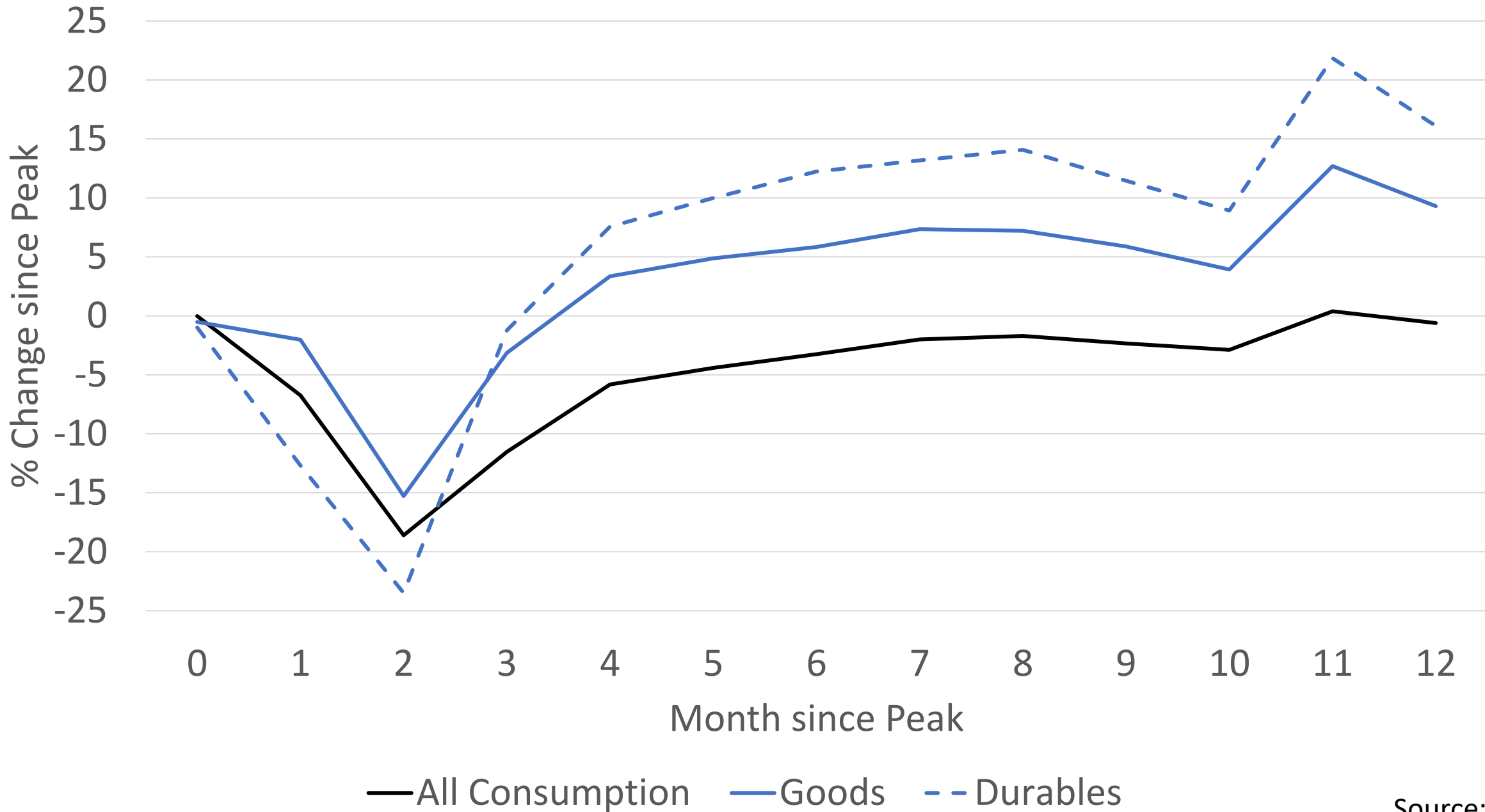
Consumer Spending

- Comprises 2/3rds of all expenditure in U.S.
- U.S. economy rises and falls with household demand
- Split between goods and services
- 2/3rds of consumer spending is on services, hit hard during COVID-19
- But spending on goods, especially durables has increased
- Reported by BEA:
<https://www.bea.gov/data/consumer-spending>

Personal Consumption

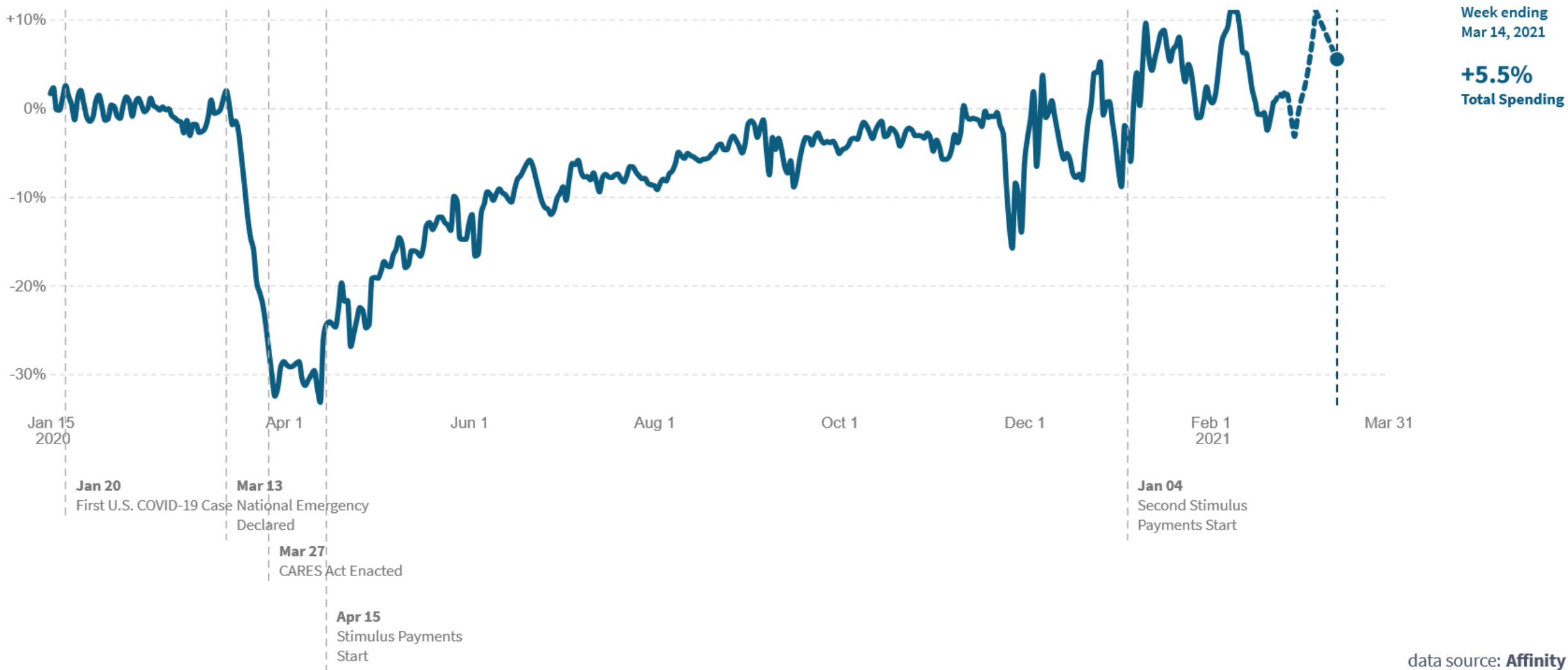


Personal Consumption



Percent Change in All Consumer Spending*

In the United States, as of March 14 2021, total spending by all consumers increased by 5.5% compared to January 2020.



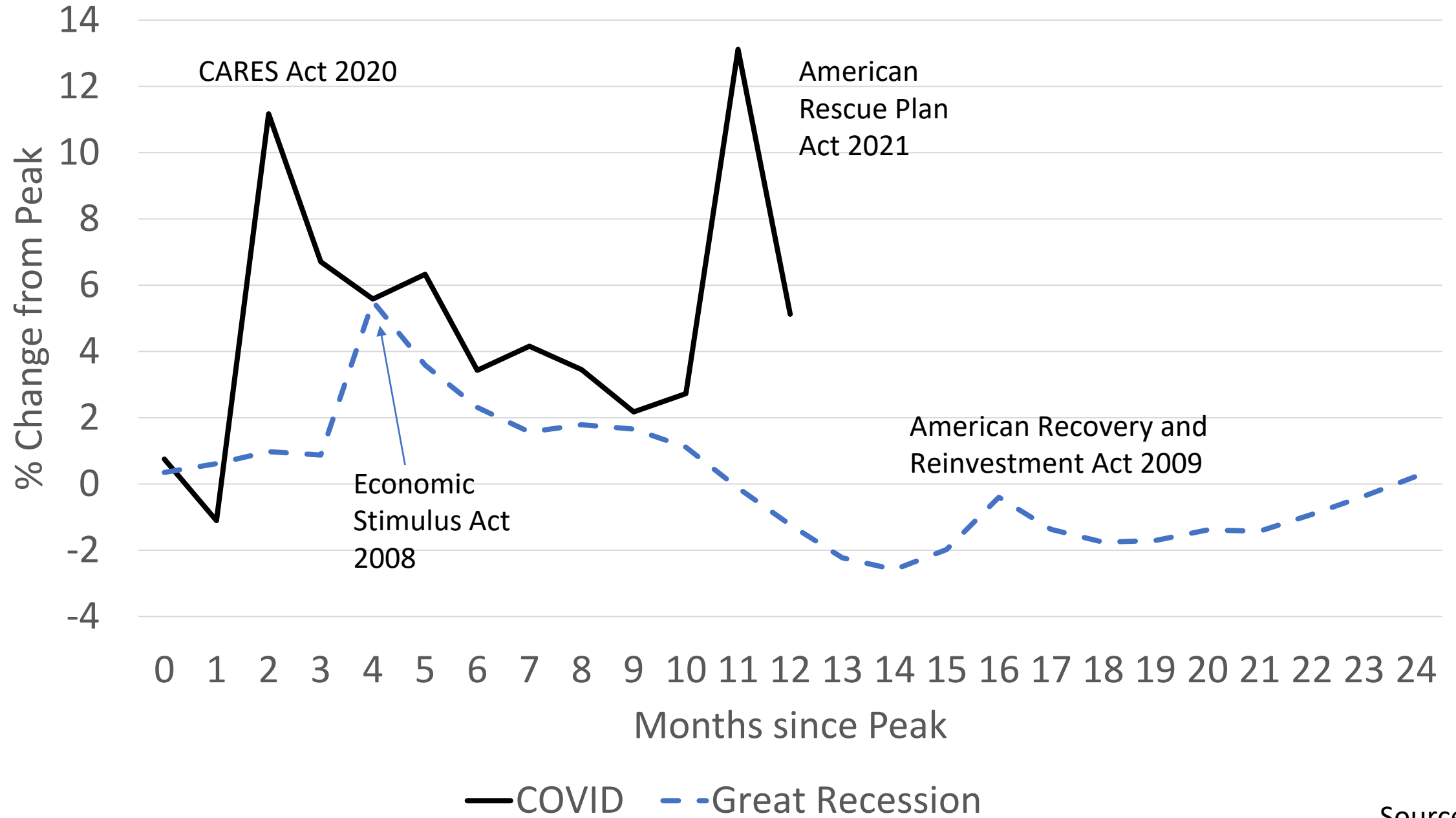
*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

last updated: March 26, 2021 next update expected: March 31, 2021

data source: Affinity

visit tracktherecovery.org to explore

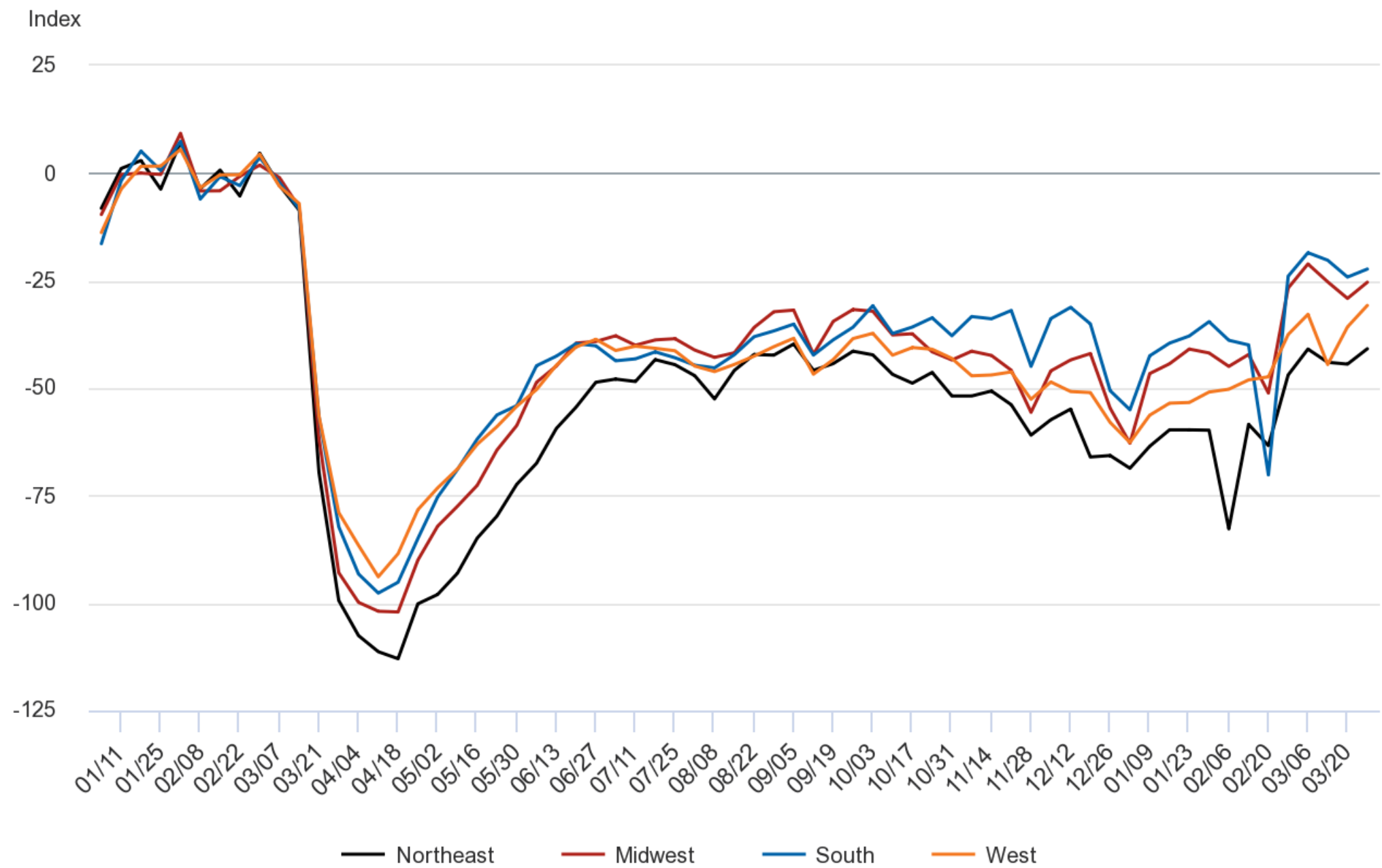
Personal Income



Are people moving around again?

- The Dallas Fed Mobility and Engagement Index (MEI)
- Summarizes large sample of mobile devices
- Gain insight into the economic impact of the pandemic
- MEI measures the deviation from normal mobility behaviors induced the pandemic/policy responses
- <https://www.dallasfed.org/research/mei.aspx>

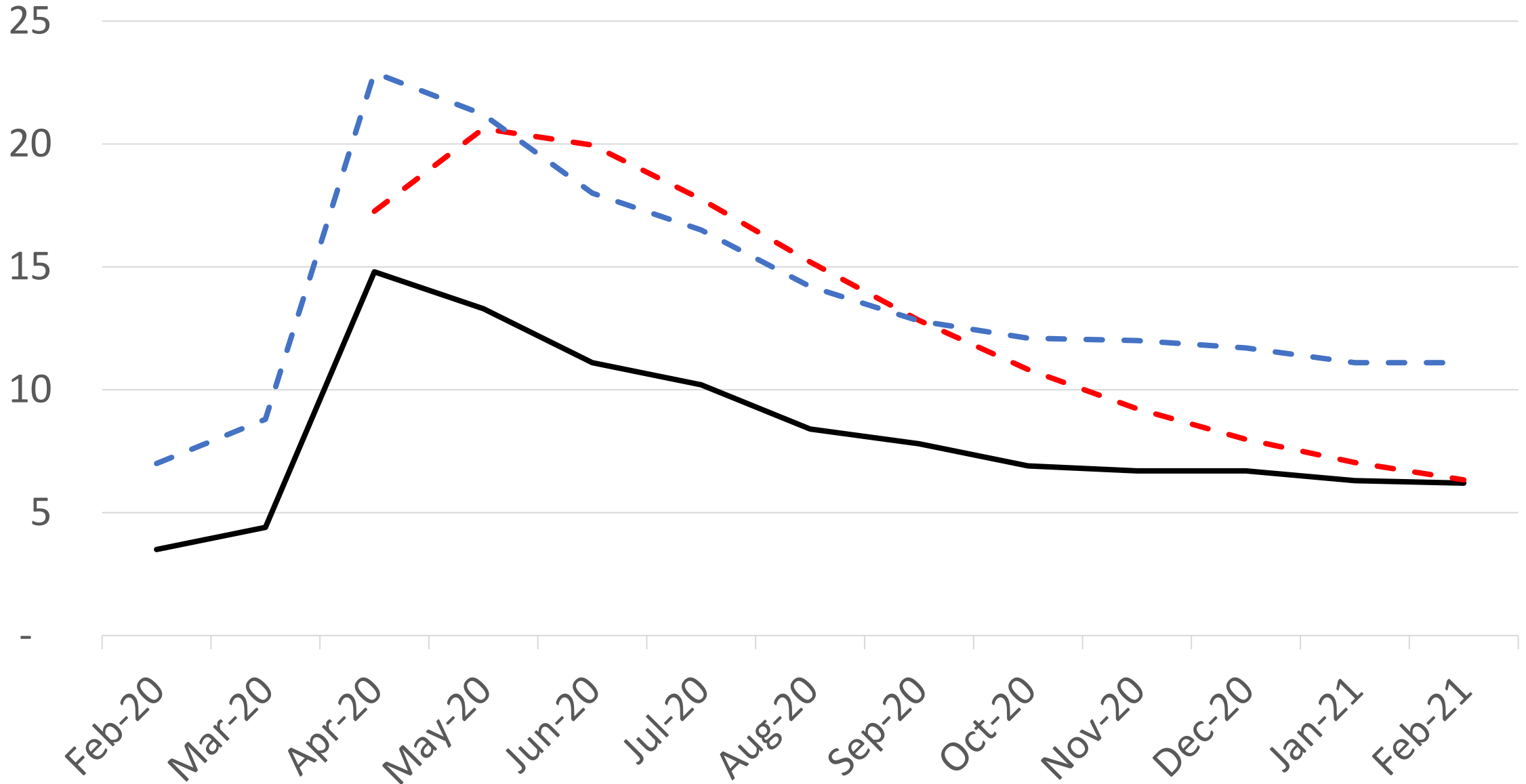
Mobility and Engagement Index by Census Regions



Employment

- Headline unemployment rate (UR) was historically low (3.5%) before COVID-19
- UR peaked at 15% in April 2020
- Minority and low-income households disproportionately affected
- For example, Black or African American UR peaked at 17% and is currently 3.7 pp higher than national average
- Reported by Bureau of Labor Statistics:
<https://www.bls.gov/>

Unemployment Rate (%)



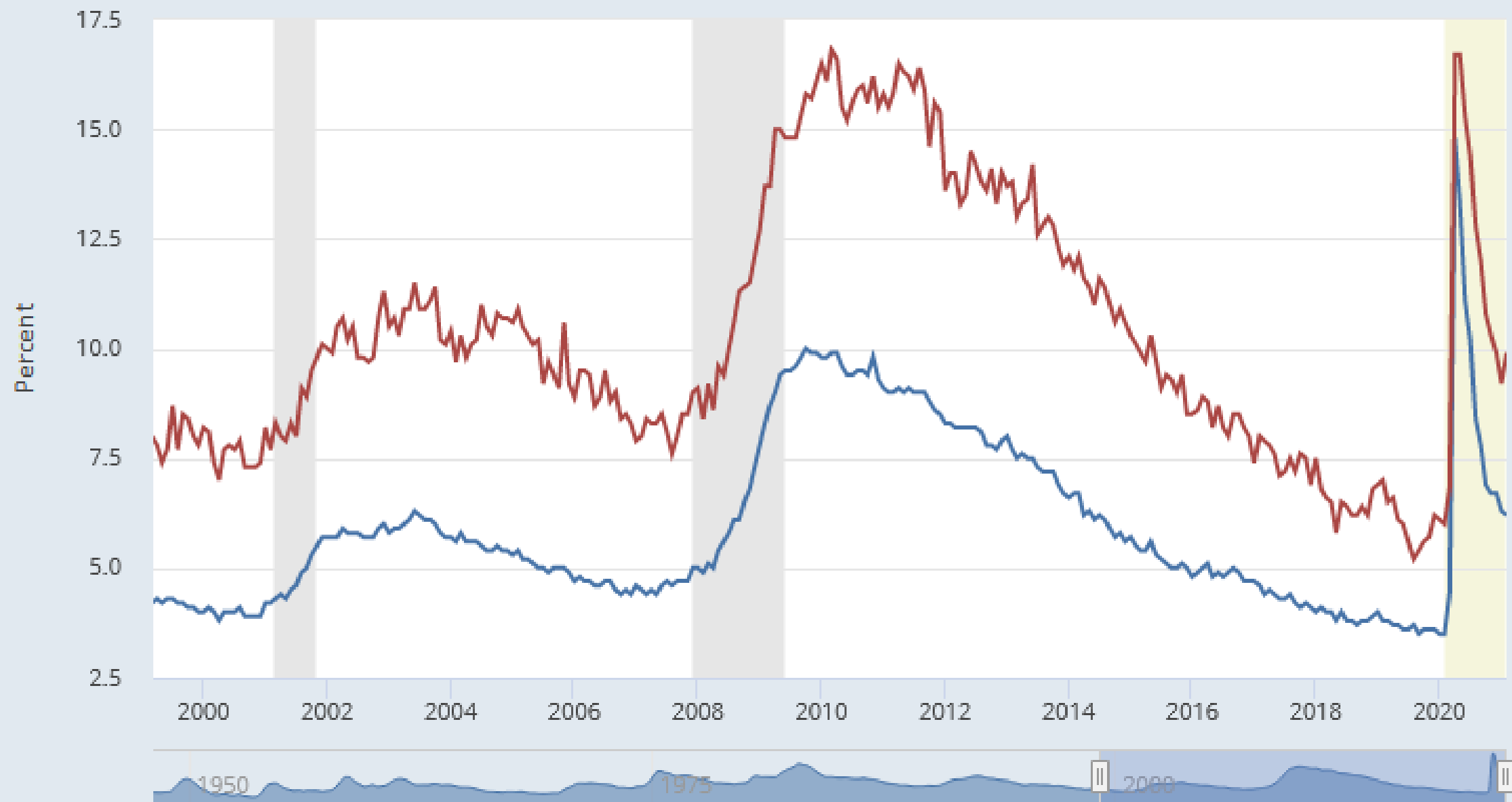
— Headline

- - Forecast (mine April 2020)

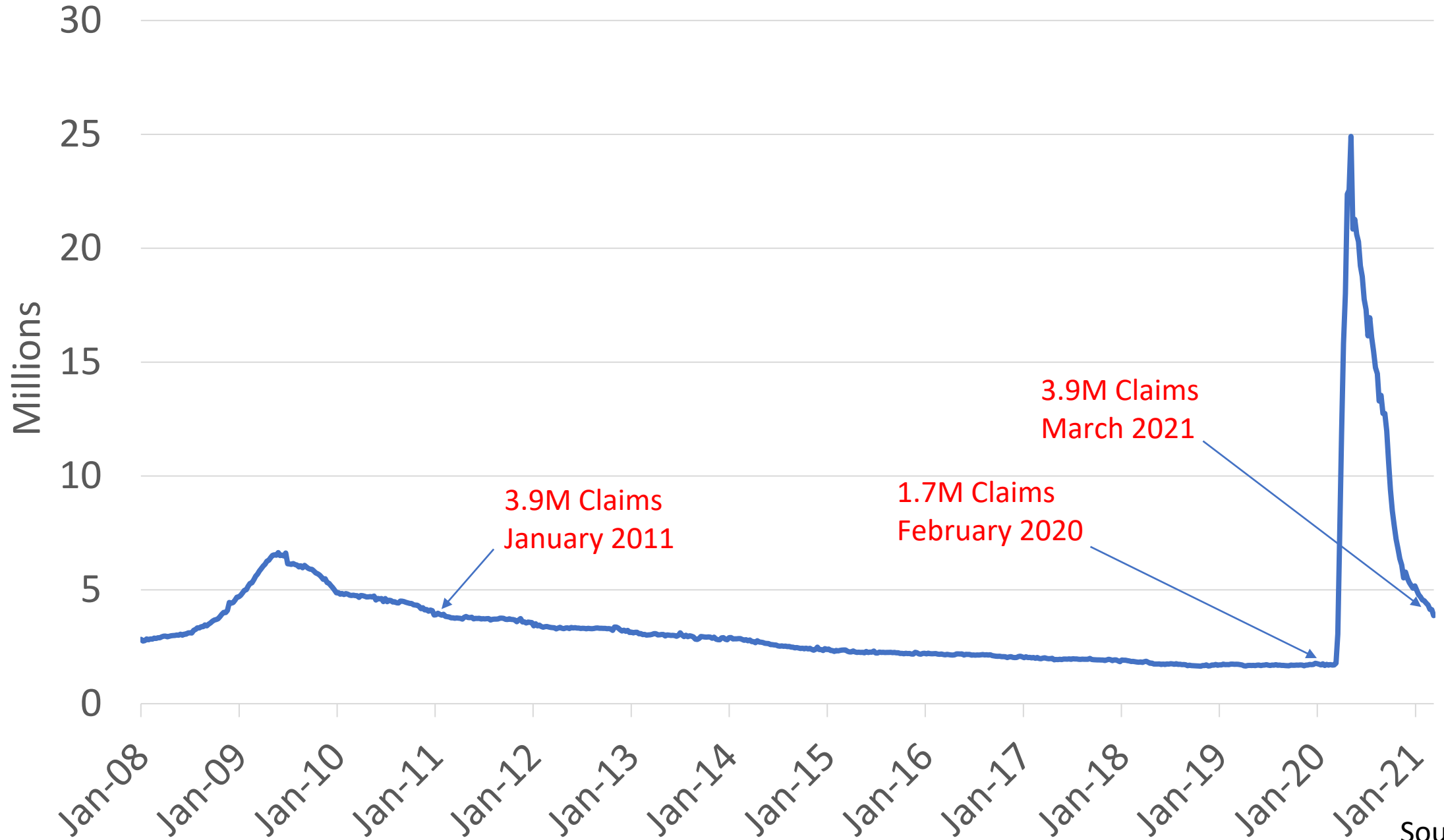
- - Broader Measure (U6)

Source: BLS

— Unemployment Rate
— Unemployment Rate - Black or African American



Unemployment Insurance Continued Claims



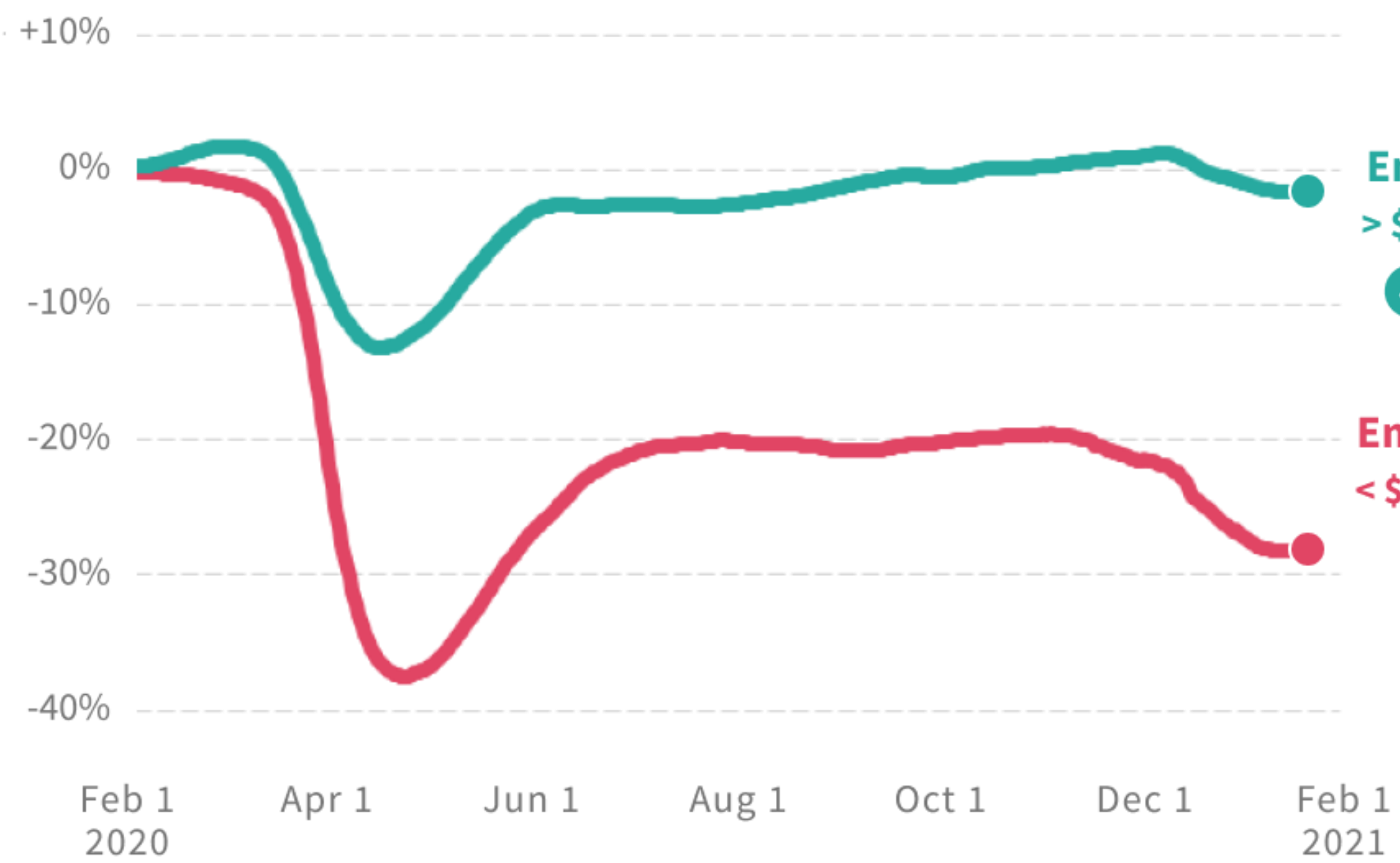
Jan 20, 2021

**High-Wage
Employment
> \$60K per Year**

↓ 1.6%

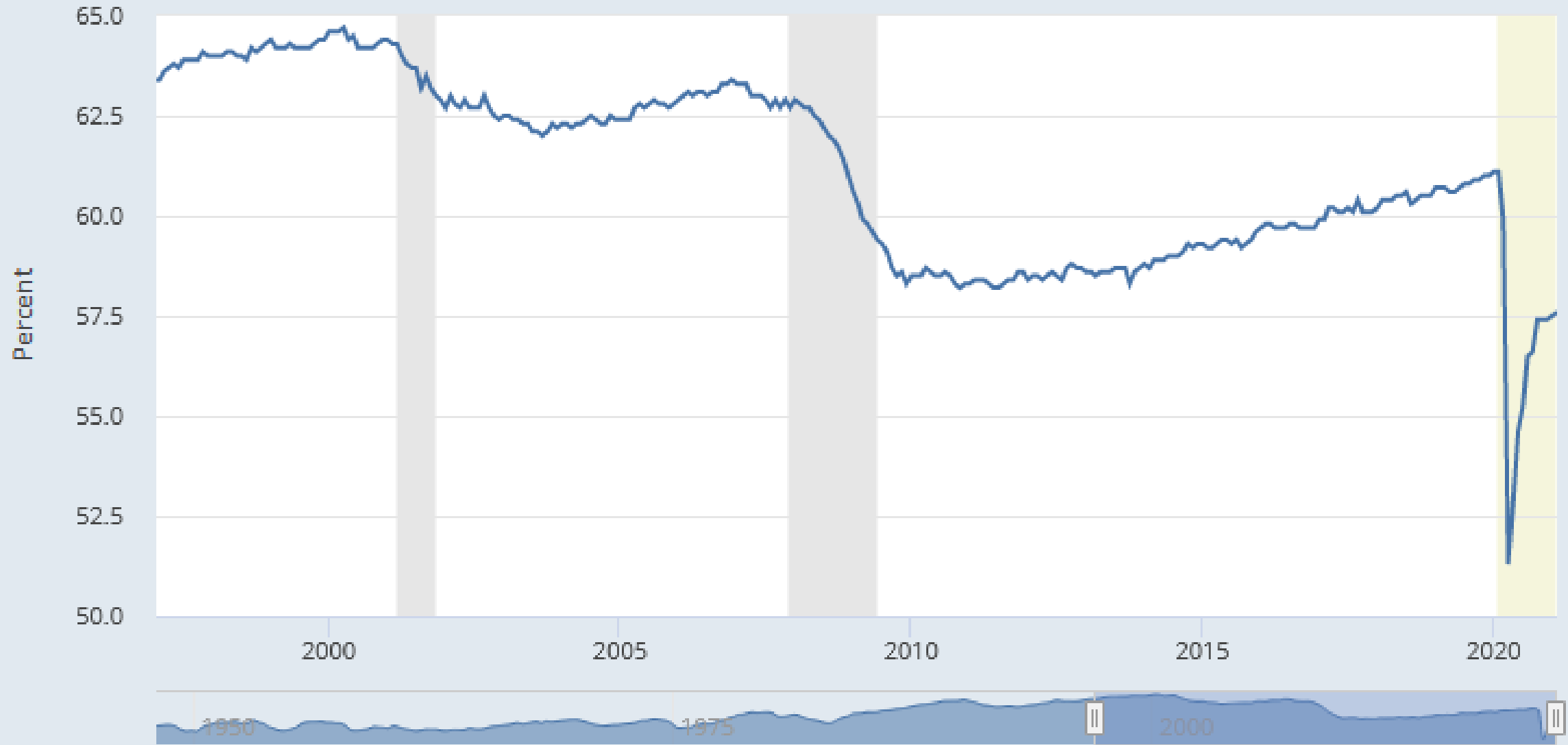
**Low-Wage
Employment
< \$27K per Year**

↓ 28%

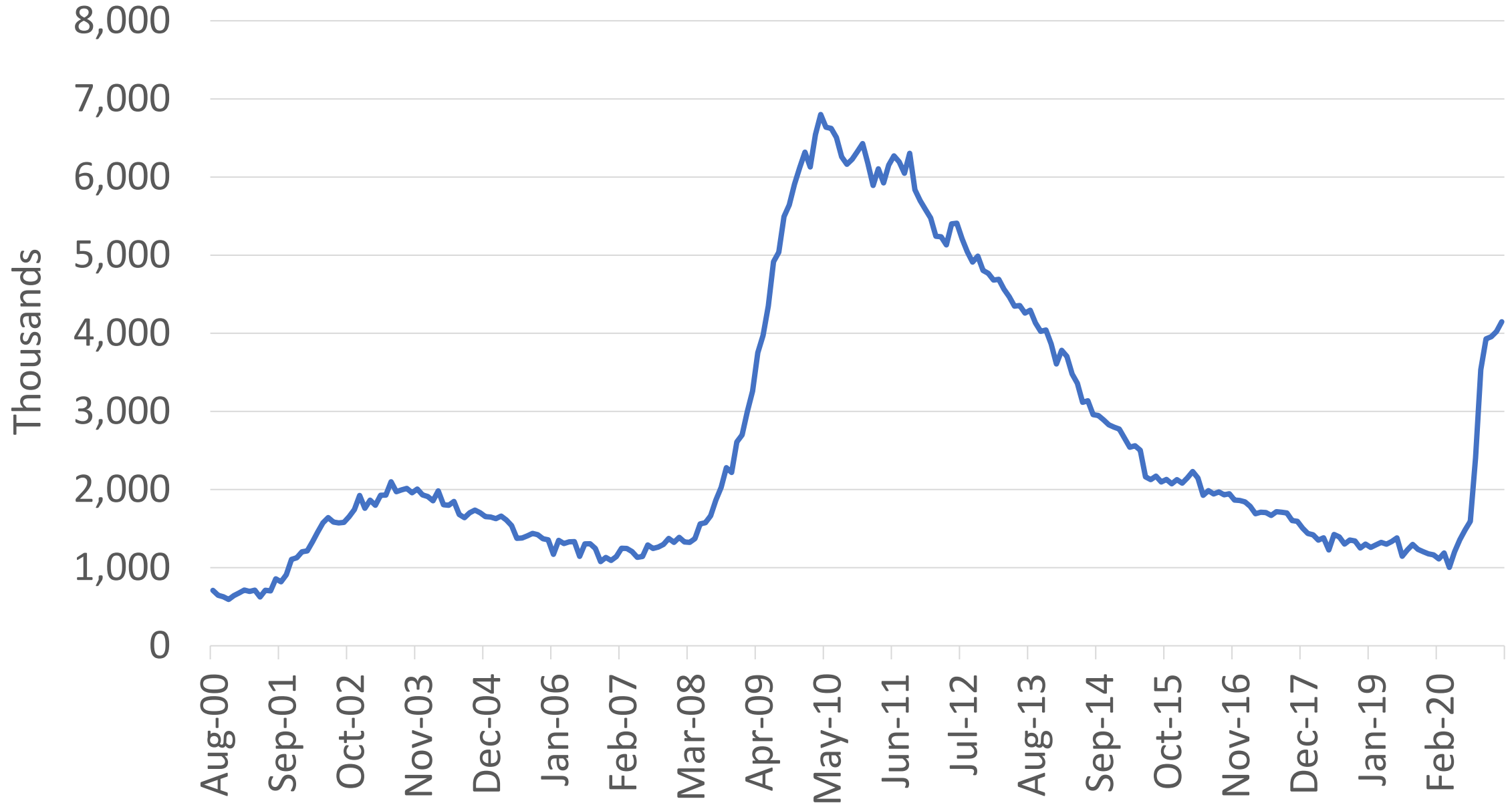


Long-term labor market

- Has COVID-19 caused any long-term damage?
- The longer a person is without a job the harder it is to find a job
- This is known as unemployment hysteresis or labor market scarring
- Permanently fewer employed people hurts U.S. potential income/production



Long-term Unemployment (>27 weeks)



What's the diagnosis?

- **The Good**

- Economy recovering faster than people expected
- Current recovery in line with past recessions, despite harsh impact
- Policies boosting household income and consumer spending

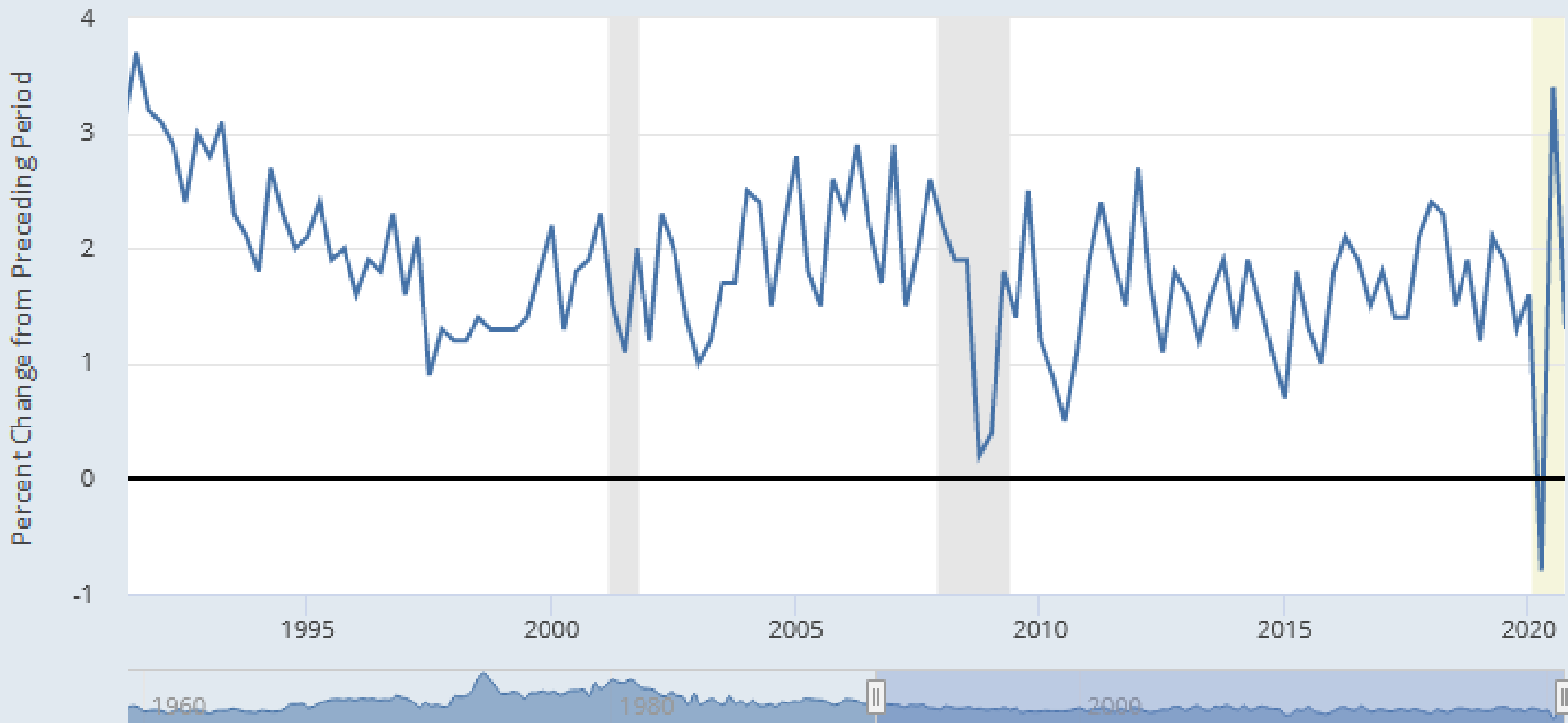
- **The Bad**

- Minority and low-income households suffer more and take much longer to recover
- Potentially permanent decrease in employment
- Sharp increase in long-term unemployed

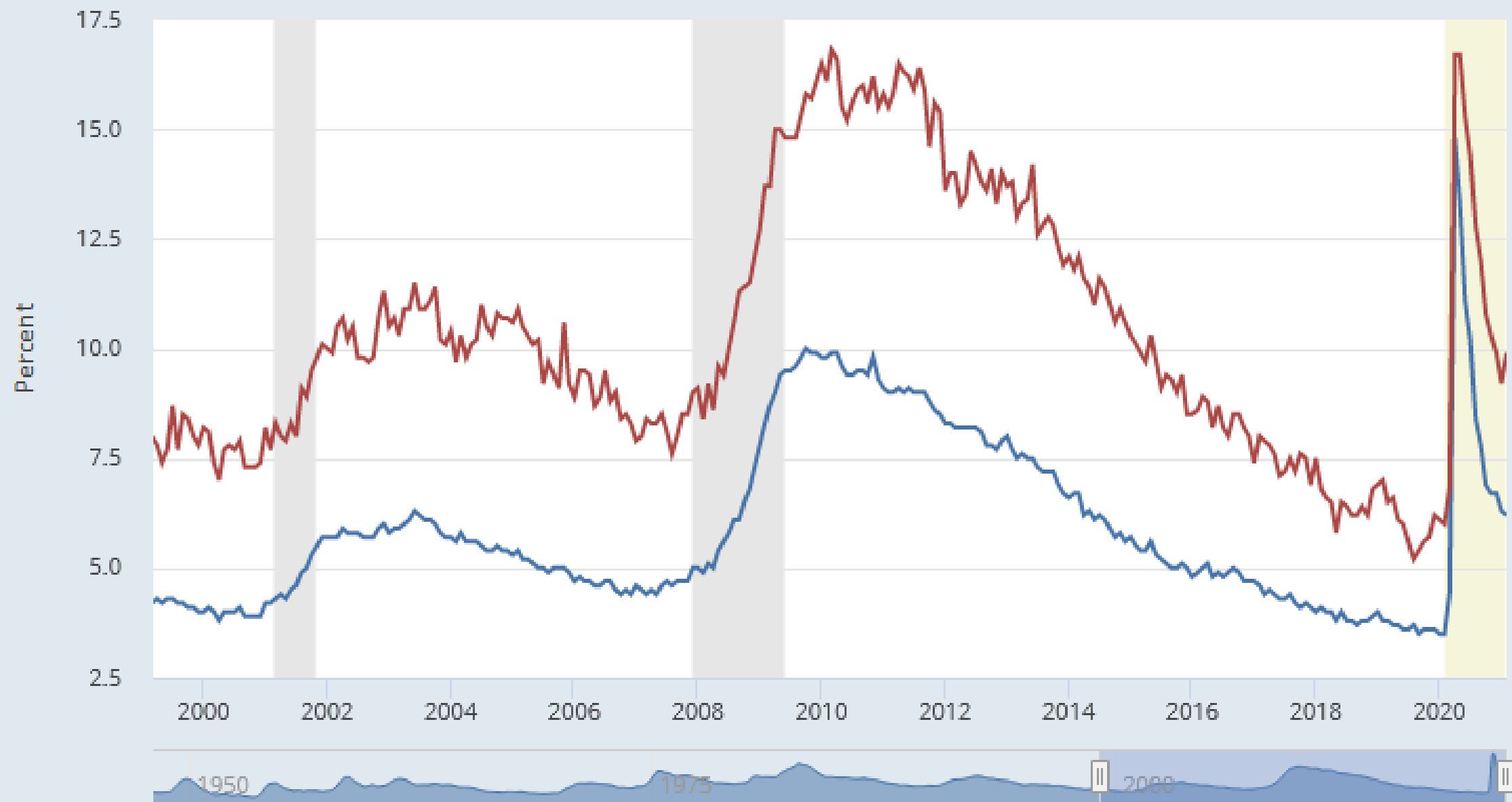
- **Prescription: policies to help those who most need it**

Federal Reserve Policy

- Inflation rate was/is consistently below 2% target
- August 2020: Switch to average inflation targeting
- Fed will keep interest rates lower for longer to heat up economy and maintain fast recovery
- If inflation goes above 2%, that's OK for a while
- Employment should rise more quickly
- This will speed up recovery for minority and low-income households



— Unemployment Rate
— Unemployment Rate - Black or African American



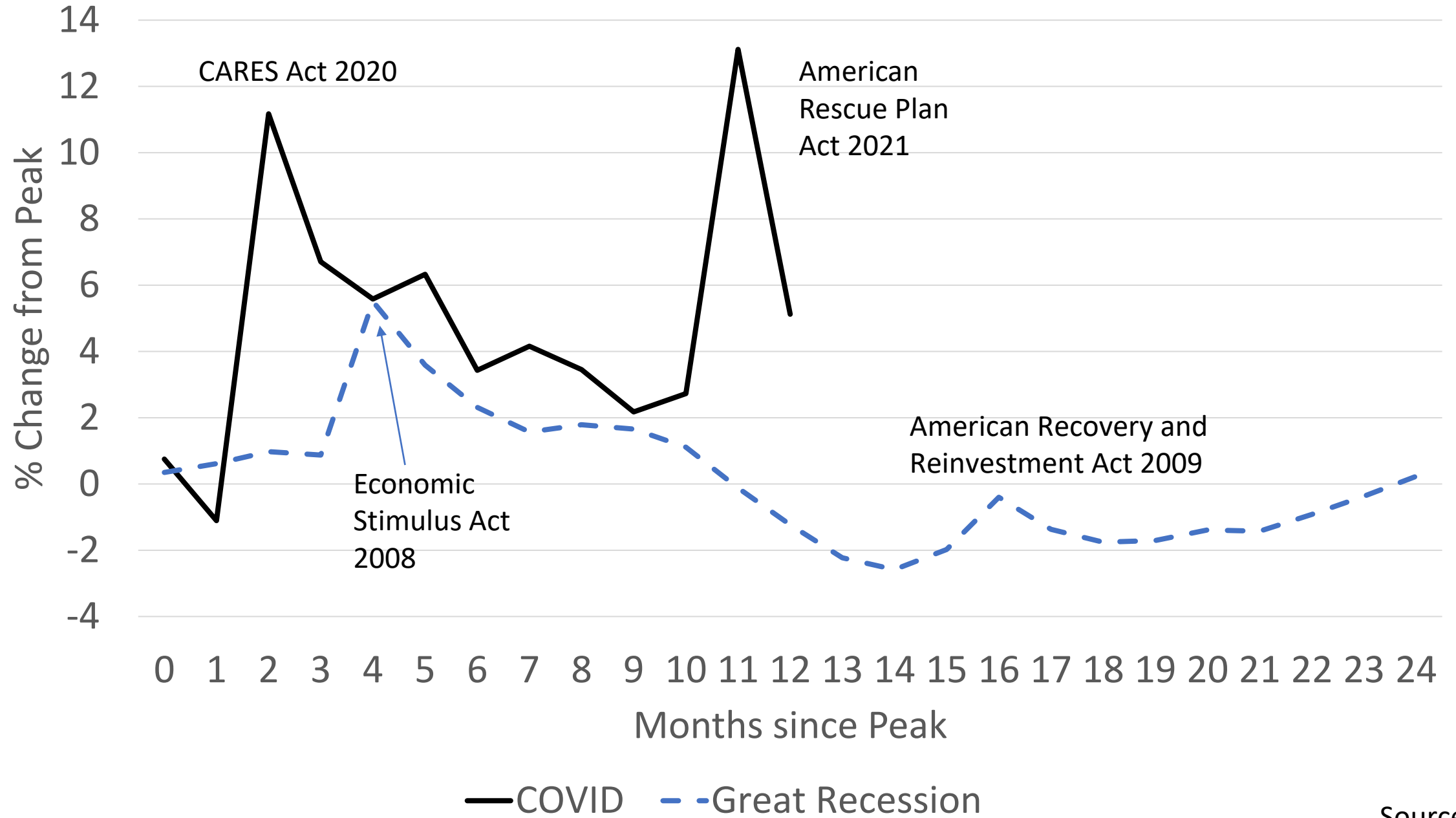
Congressional Policy

- March 2020: **Coronavirus Aid, Relief, and Economic Security**
 - \$450B loans to corporations
 - \$350B loans to small businesses
 - \$300B to households
 - \$250B expansion of unemployment insurance
 - \$220B in tax deferrals
 - \$150B to state and local gov't
 - \$120B to hospitals

March 2021: American Rescue Plan

- Short-term economic policy
- Expand unemployment benefits by \$300/week through September 2021
- \$1,400 payments per person
- \$350B to state and local governments
- \$170B to schools and universities to safely reopen
- Support for housing, health care, pension funds, agriculture, and more
- Quite a few tax provisions

Personal Income



Rescue Plan 2021 Tax Provisions

- Expanded child tax credit from \$2,000 to \$3,600 under age 6 or \$3,000 otherwise
- Makes child and dependent care credit fully refundable
- Expands earned income tax credit
- Any forgiven student loan debt will not be taxed

U.S. Child Poverty

- 12 million (1 in 6) children live in poverty in U.S.
- “The American Rescue Plan is the most ambitious proposal to reduce child poverty ever proposed by an American president,” Jason Furman, Harvard economist
- Similar efforts in Canada and U.K. have reduced child poverty by 20-50%
- Like the Federal reserve policy, this should help minority and low-income households disproportionately affected by the pandemic

What's Next?

- Long-term economic policy
- Revitalize infrastructure
- Reduce carbon emissions
- Reduce economic inequality
- +\$2 trillion over 10 years?

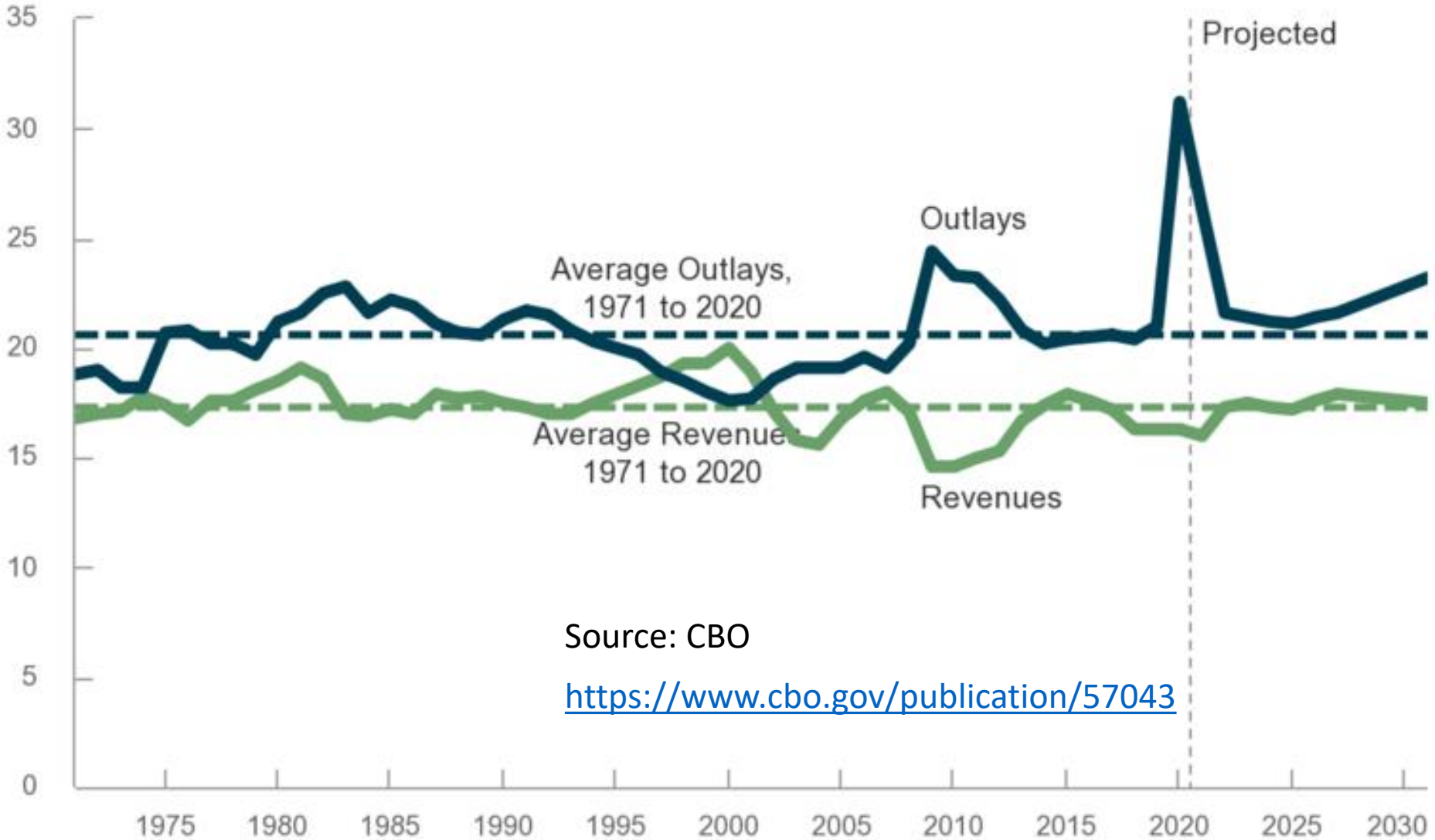
Budget Concerns

- New spending puts pressure on deficits
- But economic policies boost income/production
- Most economists estimate that every \$1 increase in spending leads to a more than \$1 increase in income (multiplier effect)
- This boosts tax revenues and reduces deficits
- Also new spending is partly financed by increasing the tax base and raising tax rates on certain groups (redistribution)
- CBO Budget Outlook:
<https://www.cbo.gov/publication/57043>

March 2021 CBO Budget Outlook

Total Revenues and Outlays (Adjusted for timing shifts)

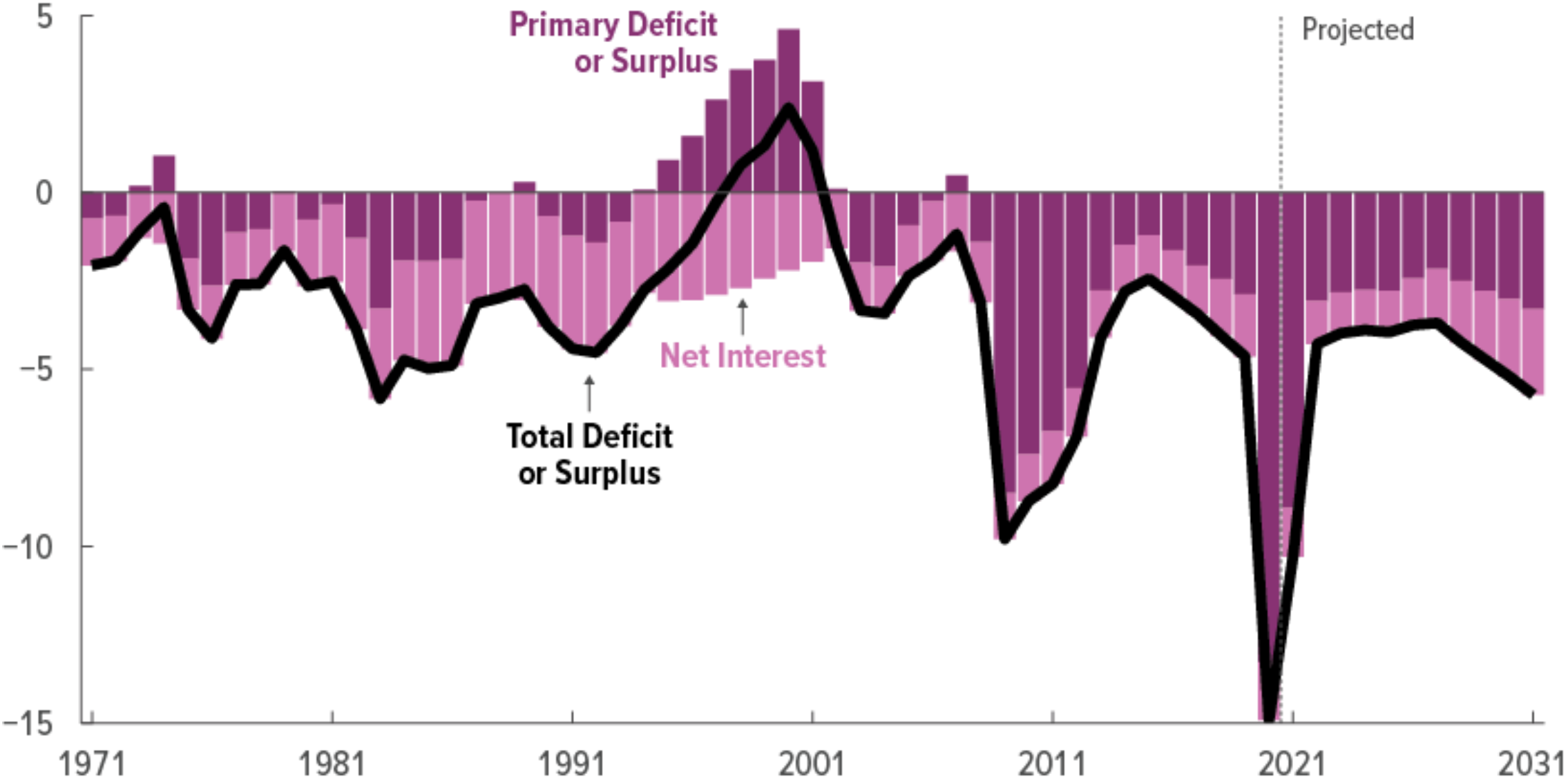
Percentage of GDP



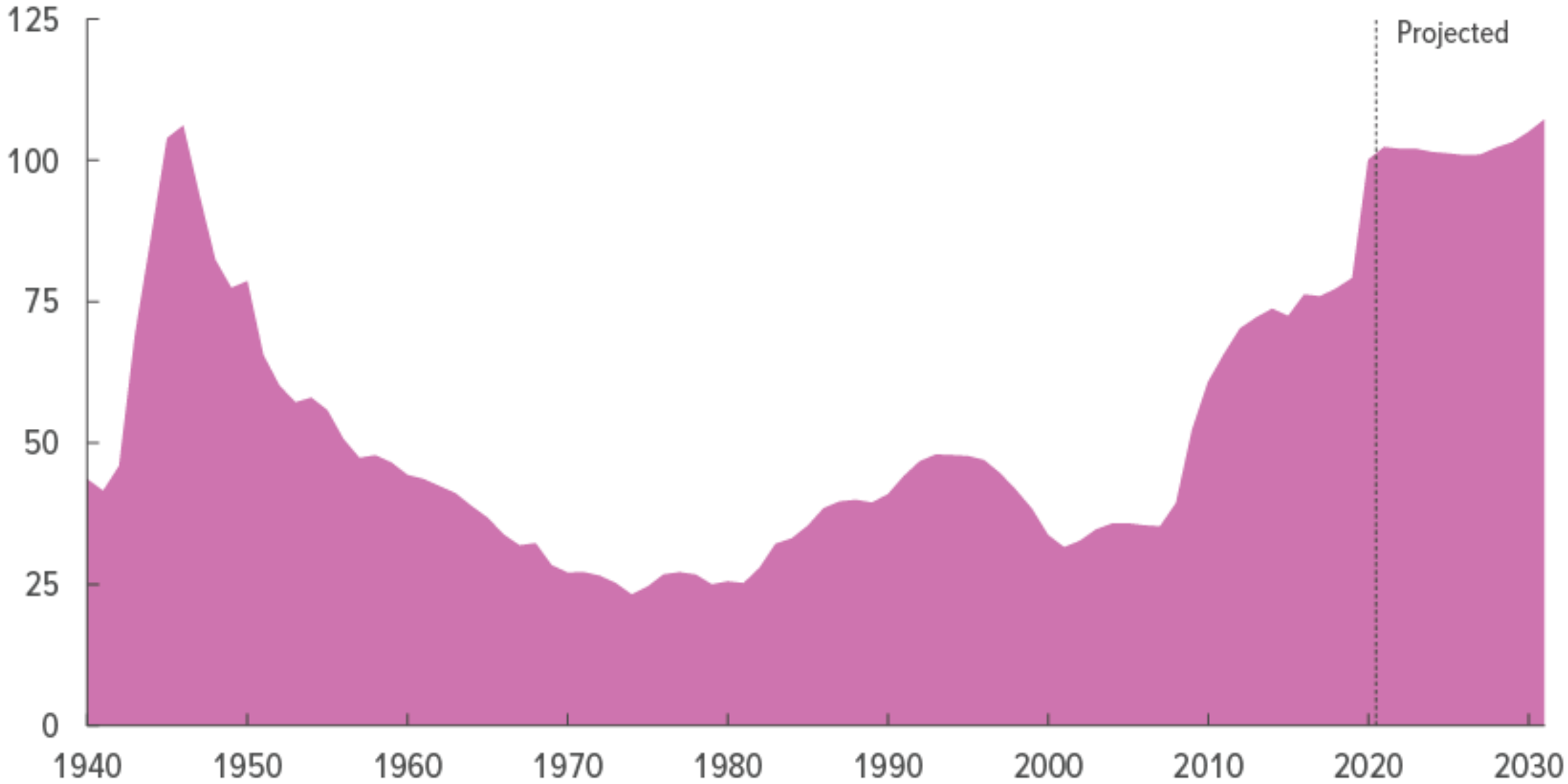
Source: CBO

<https://www.cbo.gov/publication/57043>

Federal budget deficits



Federal debt held by public



Conclusion

- U.S. Economy is recovering in line with past recoveries
- Some people are left behind and full recovery will take longer for them
- Short-term policies aim to help people hurt the most by pandemic
- Future long-term policies aim to address looming crises such as under-invested infrastructure, climate change, and economic inequality