

The Pandemic and the Economy: Update

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The shape of the recession/recovery: unemployment

- May employment report surprised everyone. Heading up so soon?
- The official unemployment rate: (*Note: April and May numbers are underestimates.*)
 - February: 3.5%
 - March: 4.4%
 - April: 14.7% ← Previous postwar high was 10.8%.
 - May: 13.3%

The shape of the recession/recovery: real GDP

- GDP growth (in round numbers, at annual rates):
 - 2020:Q1 -5% ← That's -1.3% on the *level*, all in March.
 - 2020:Q2 -40% ← That's -12% on the *level*.
 - 2020:H2 +16% (CBO) ← That's +7.7% on the *level*.
- For comparison: The decline in the Great Recession was -4%; the decline in the Great Depression was -26.5% over 4 years

} About 13%
down

A few oddities about this recession

- Speed
- Depth
- Severe effect on spending on consumer *services*
- Disposable income actually went *up* (due to government transfers).

Fiscal “stimulus”

- Fiscal support from the federal government (mainly transfer payments) has been enormous; as a share of GDP, it's \approx the biggest in the world.
- But it's not *stimulus*, it's emergency *relief*--as after a hurricane.
- Once the economy gets back on its feet, conventional *stimulus* will help boost demand.

About that second-half recovery

- As the economy normalizes, stimulus will start to matter.
- Shape of the recovery depends sensitively on the pandemic.
 - If there is a second wave, all bets are off.
 - The Spanish flu came in three waves.
- People were withdrawing even before the states ordered them to.
 - Denmark v. Sweden: only about 4% bigger decline

We need another bill soon

- This one should combine relief *and* stimulus.
- Huge need for assistance to state and local governments
 - They are cutting employment like mad.
 - Sadly, this has become a Red-Blue issue.
- Extra unemployment insurance provisions expire July 31. Three options:
 - Extend them as is (many Ds)
 - Zero out the extra benefits (some Rs)
 - Restructure them
- Ds have already passed the HEROES Act in the House; Rs won't buy it.
- Rs insist on liability protection for businesses; Ds are skeptical.

The skyrocketing federal debt

- Increase is gigantic—in just a few months.
- But so far, the Fed has bought almost as much as the Treasury has issued.
- The appetite for US debt in world capital markets looks enormous.
- But how much? And for how long?