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
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 ≈ 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?