The Pandemic and the Economy: Update # 3

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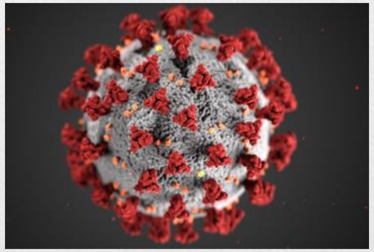
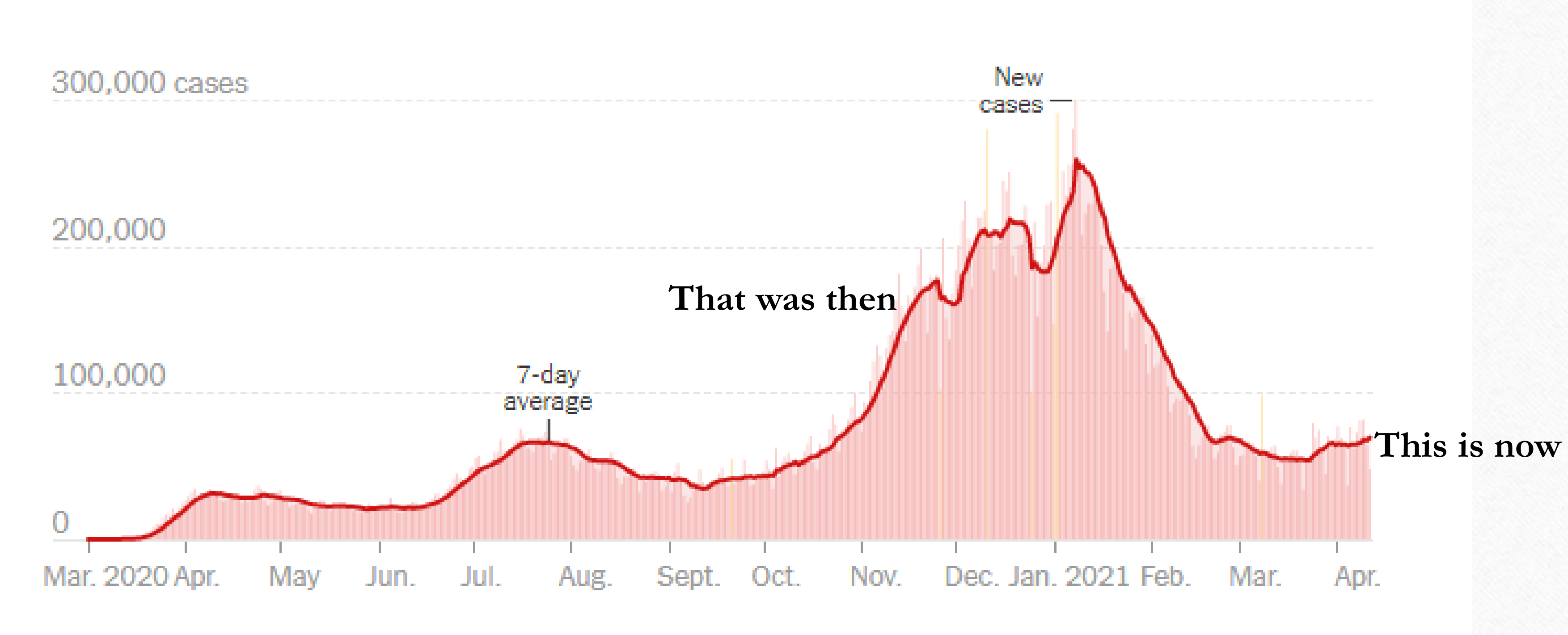
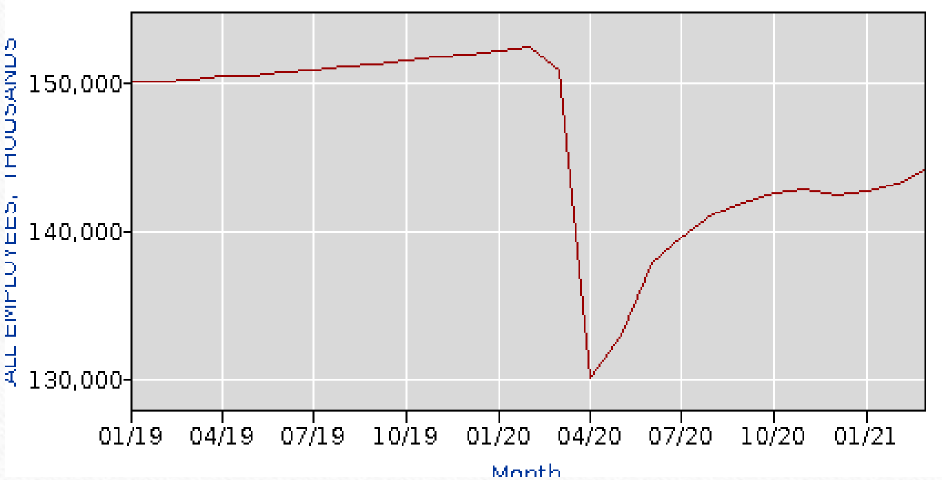


Our last update was 5 months ago:



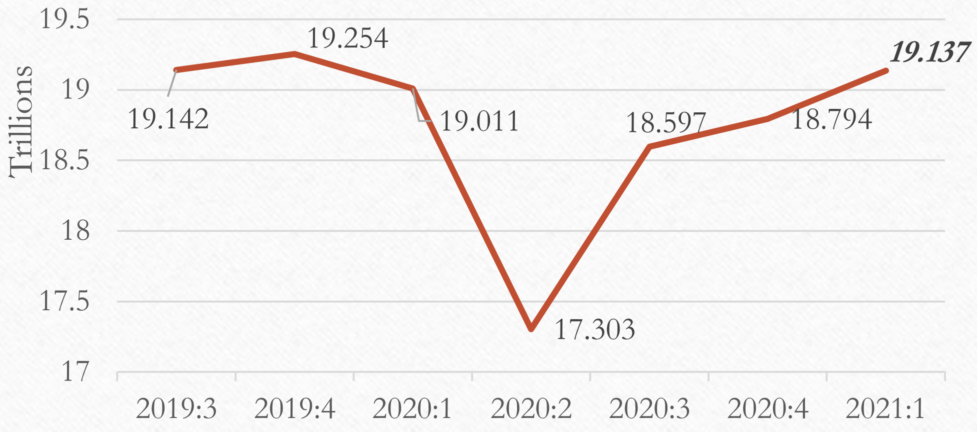
The economy is perking up strongly.

Payroll employment



Feb-April 2020: −14.5%
Feb 2020-Mar 2021: −5.5%

Real GDP (level)



2019:4-2020:2: −10.1%
2019:4-2020:4: − 2.4%

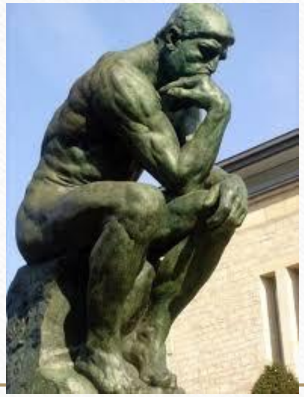
Something worth noting:

- The real GDP declines (10.1% and 2.4%) are noticeably less than the employment declines (14.5% and 5.5%).
- This is one indicator of the "K" shape (*not* just a K-shaped *recovery*).

“Forecasted” growth rates of real GDP

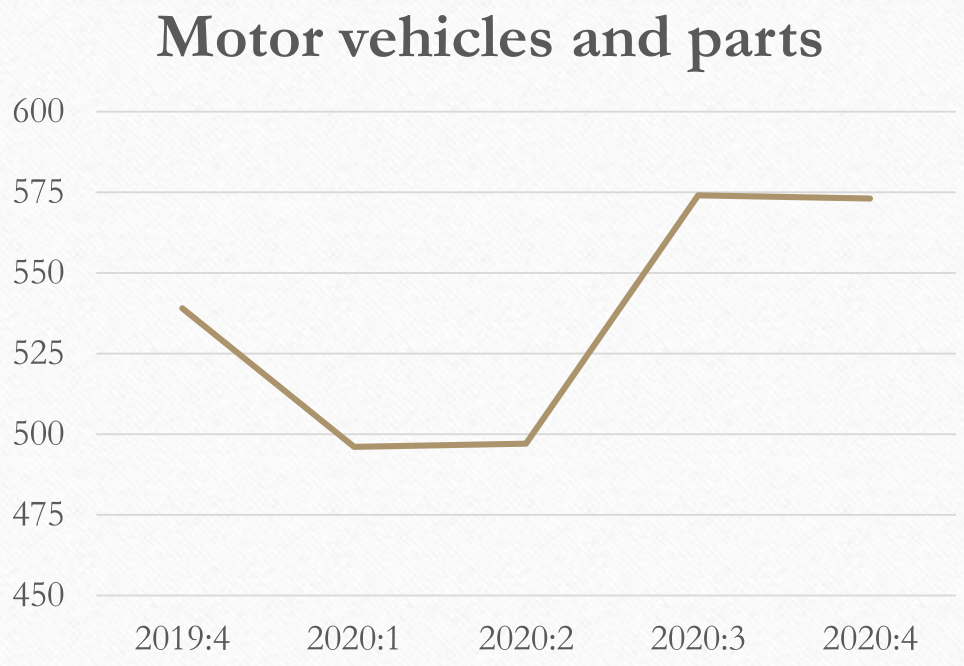
- 2021:1: **7-8%** (Remember: The first estimate will be based on partial data.)
- 2020:4-2021:4: Average of **6.4%** in recent *WSJ* poll of economists
- In short, it looks like we’re in a boom period. (Fastest year since 1983.)

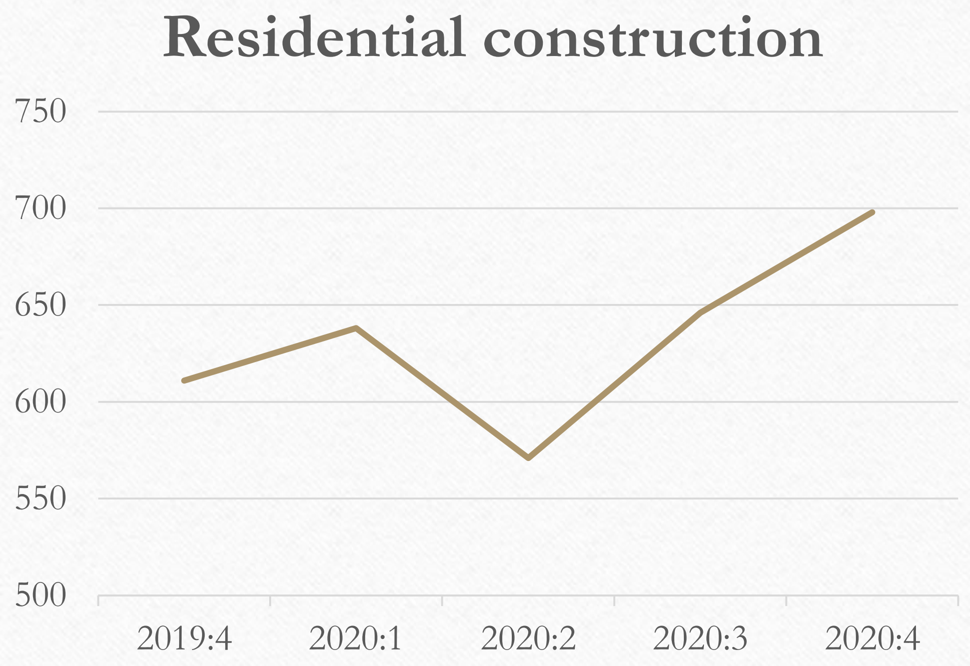
Why such a rapid snap-back?



1. Vaccines!!
2. Resilience of the US private sector, assisted by…
3. ***Enormous fiscal expansion***
4. Enormously supportive monetary policy *(see Dudley)*

A remarkable note on the Fed's interest rate cuts: The two most interest-sensitive components of GDP





The massive fiscal expansion in a nutshell

1. CARES Act (March 2020)—about $2¼ trillion.
   - Sloppy, but big and fast.
2. Consolidated Appropriations Act (December 2020)—included about $0.9 in Covid relief
3. American Rescue Plan (March 2010)—about $1.9 trillion

Note: That's already $5 trillion, and there's more TK.

4. American Jobs Plan (recently proposed, over $2 trillion)—What will pass? How much will be "paid for"?

5. The "American Family Plan" (?)—When? Another $2-$3 trillion? Same two questions!

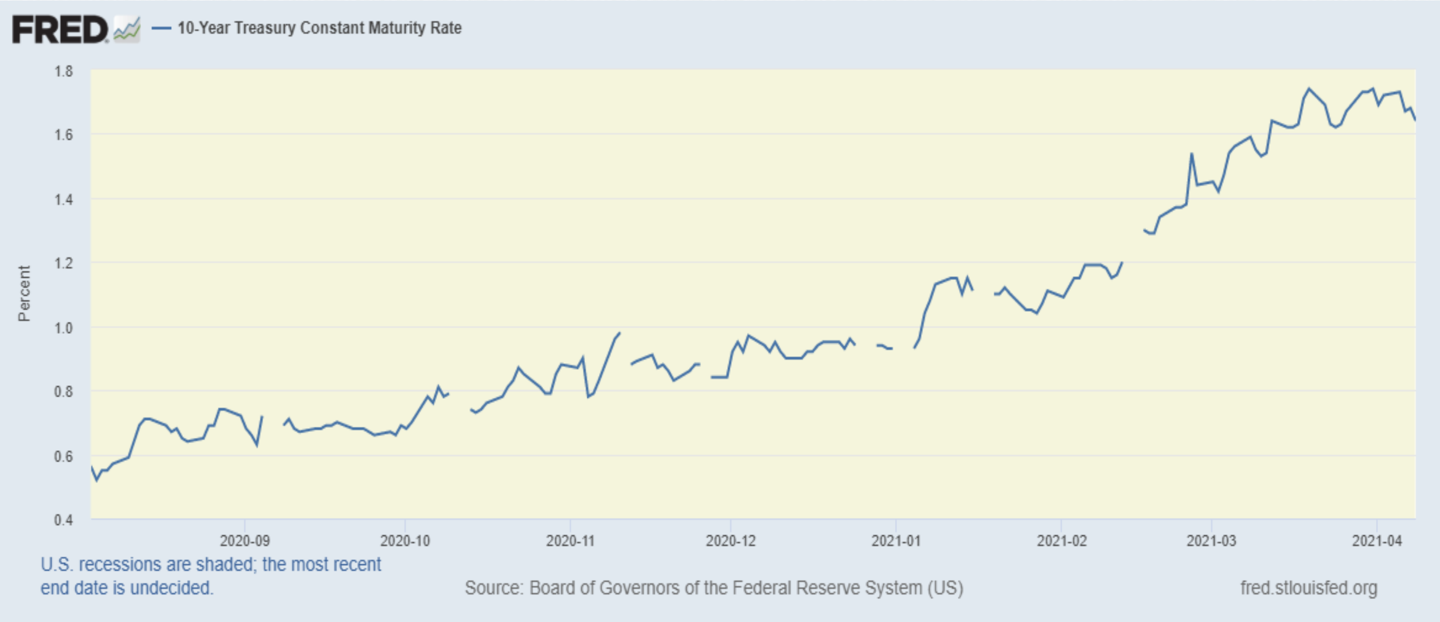
Something to remember:

- These numbers are generally for 10 years.
- So $2 trillion is $200 billion per year, which is less than 1% of GDP.

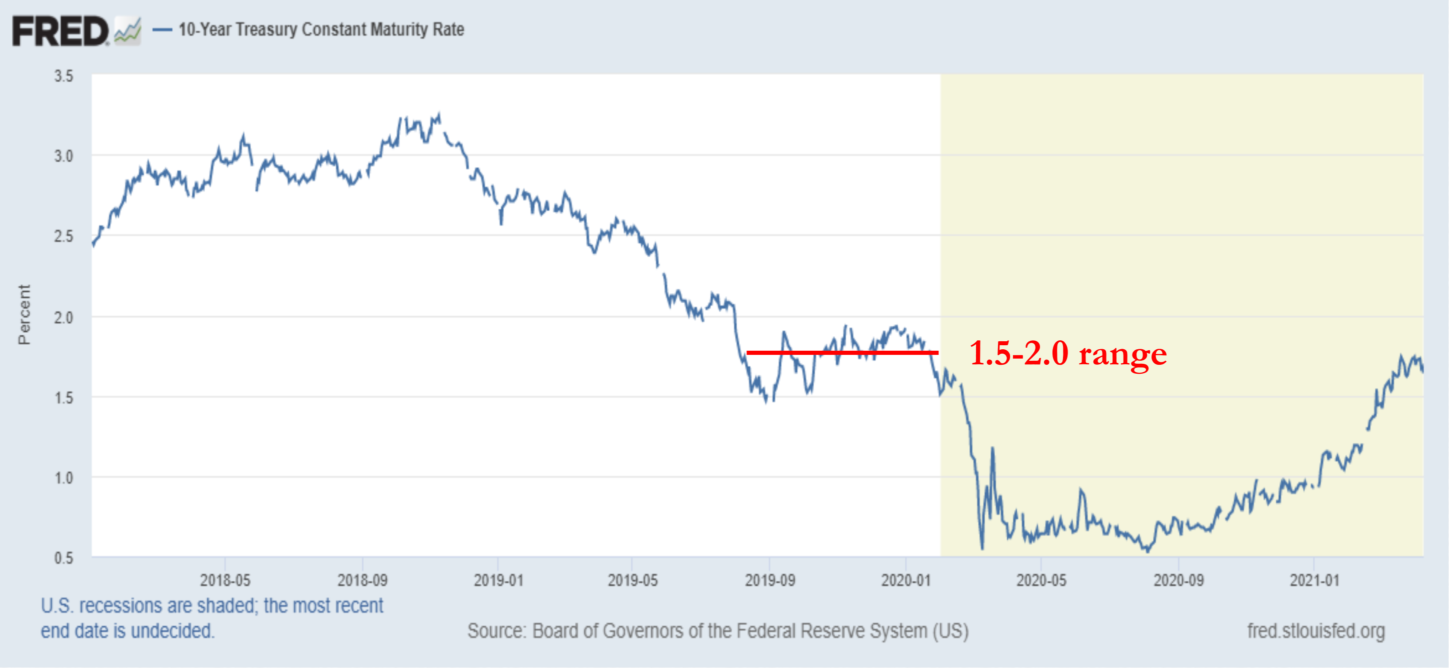
Some observations on the fiscal response

- Congress acted **fast** in March 2020 and March 2021.
- It's **huge** by world standards—or by any standard.
- Some large components, like PPP and the "checks," were **poorly targeted**.
- Started strongly **bipartisan**, now totally **partisan**.
- All this (actual and projected) debt has not driven up **long-term interest rates**. *(see next slide)*

10-Year US Treasury Rate, 2020-2021 (the wrong way to look at it)



10-Year US Treasury rate, 2018-2021 (the right way to look at it)



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- Started strongly **bipartisan**, now totally **partisan**.
- All this (actual and projected) debt has not driven up **long-term interest rates**. *(see next slide)*
- **In case you're wondering: The Fed has bought about 55% of the Treasury debt issued since the crisis struck.**

Which leads naturally to….