

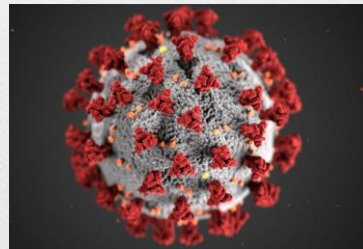
# The Pandemic and the Economy: January 2022 Update

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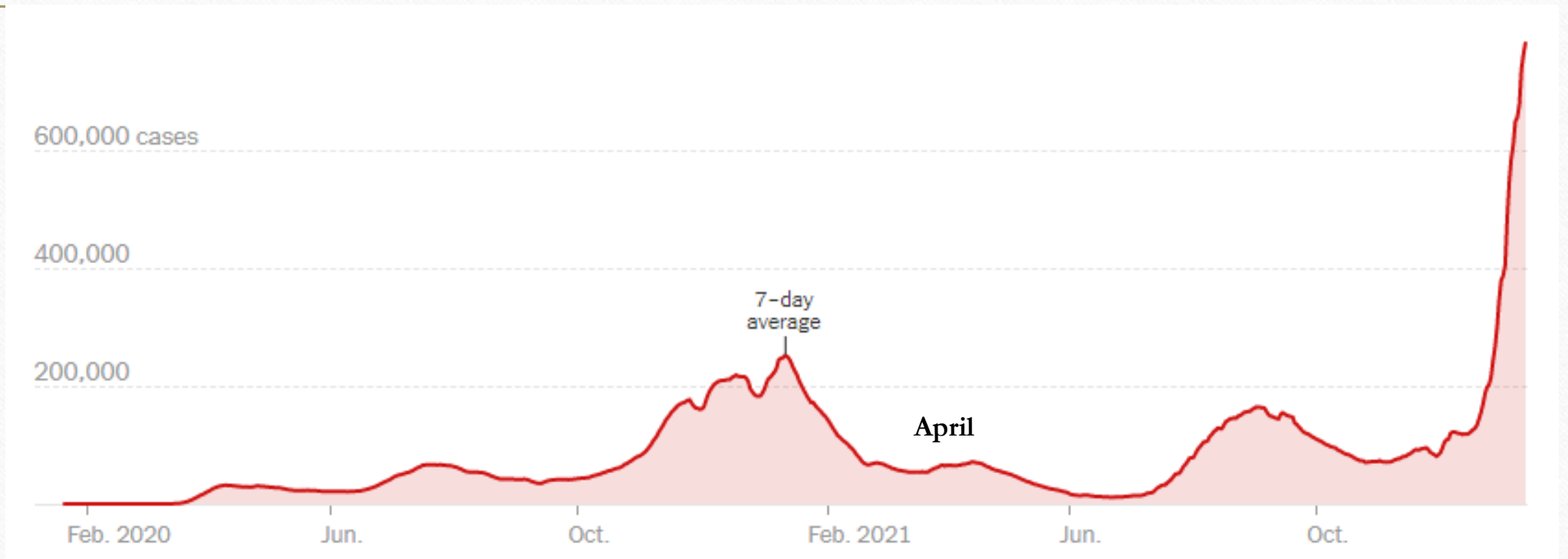
Professor Alan S. Blinder

Princeton University

January 14, 2022

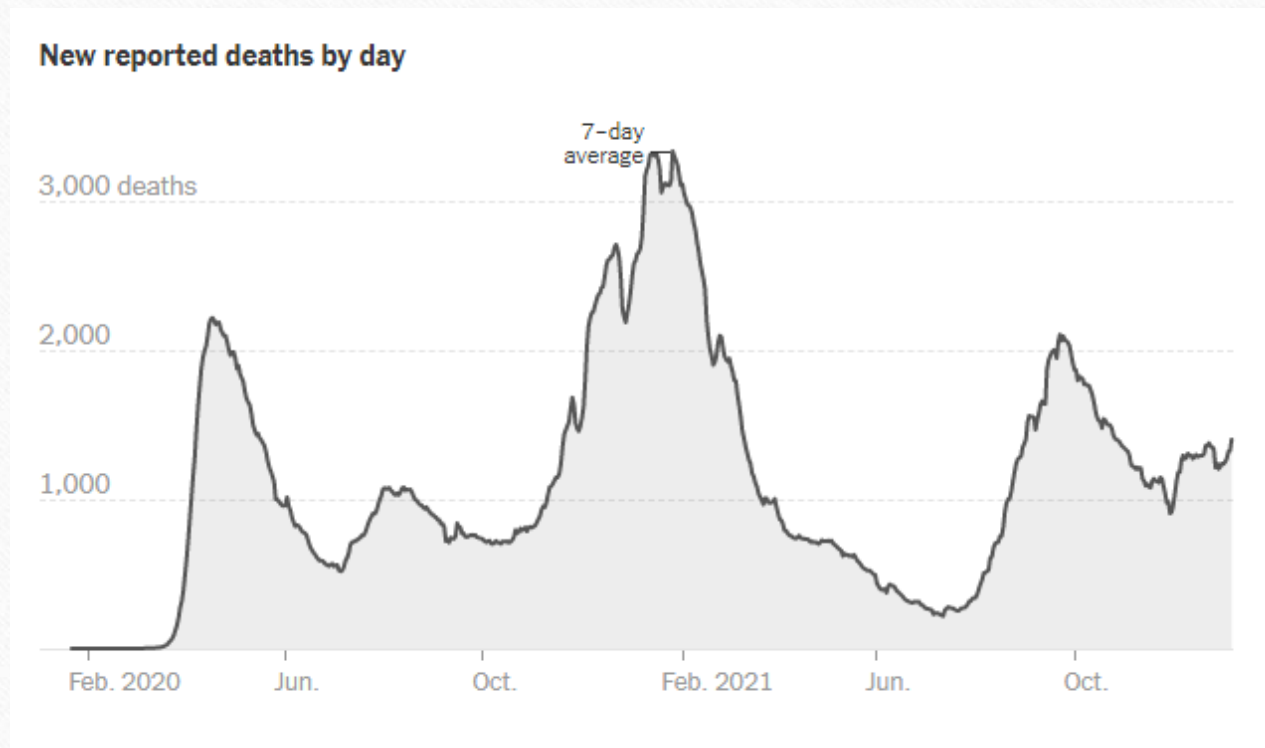


# Our last update was April 2021



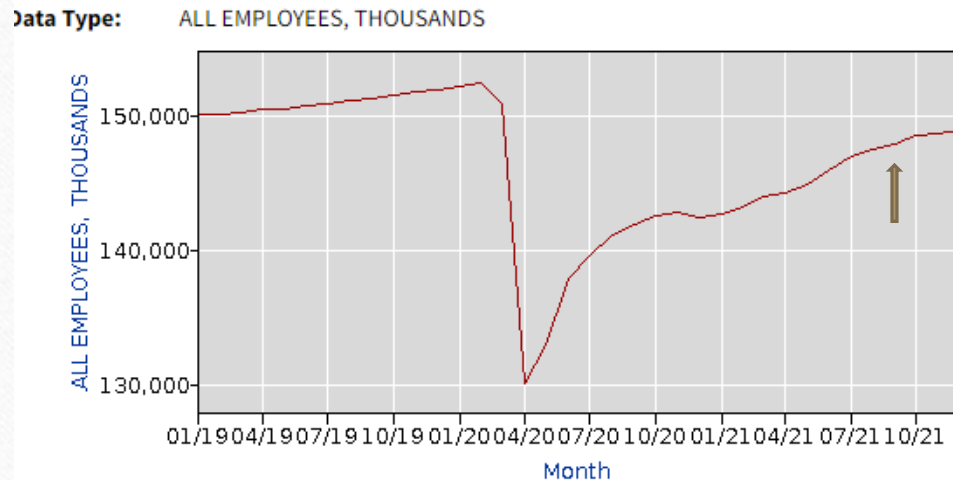
This looks frightening, and it is.  
But Omicron + Vaccines → less serious illness.

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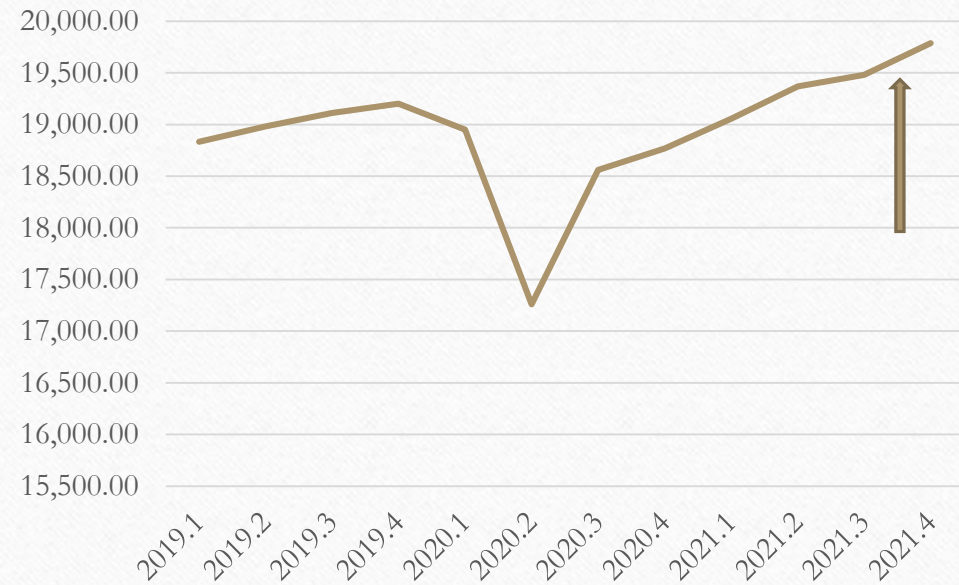
# The economy powered through the last spike.

## Payroll employment



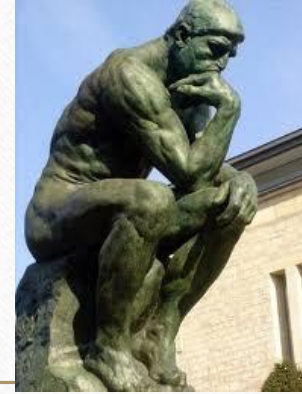
**We are now about 3.5 million jobs below February 2020.**

## Real GDP (level)



# Why? How?

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1. Vaccines!!
2. Covid fatigue (so people would not lock down)
3. Resilience of the US private sector, assisted by...
4. Enormous fiscal expansion (*next slide*)
5. Enormously supportive monetary policy (*see Dudley*)

# 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 2021)—about \$1.9 trillion

**Note: With infrastructure bill, that's about \$6 trillion. Maybe no more to come.**

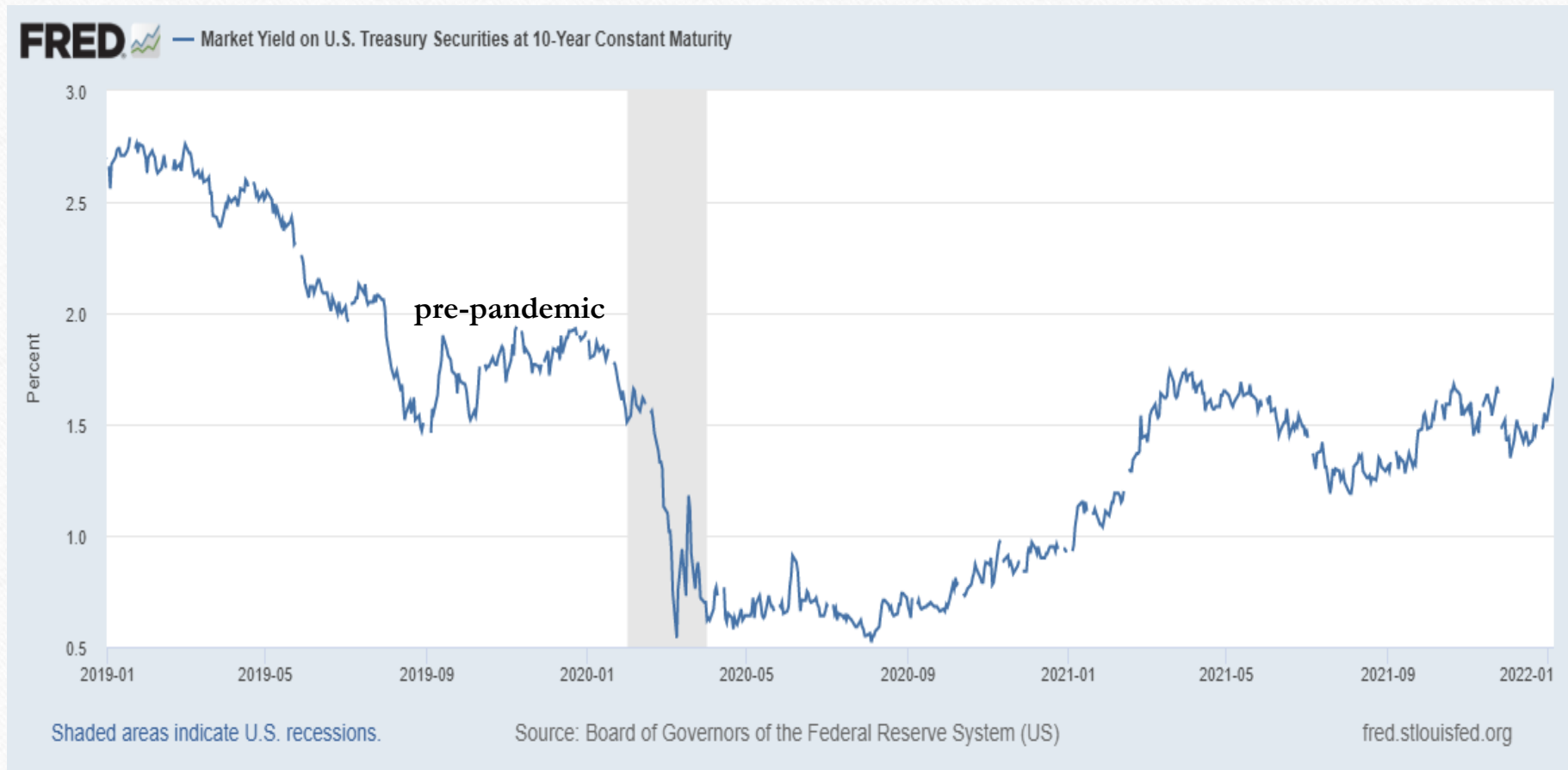
4. The Build Back Better Plan looks like it's dying in Congress. If anything passes, it's likely to be “paid for.”

# Some observations on the fiscal response



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- Congress acted **fast**.
  - It's **huge** 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, 2019-2021





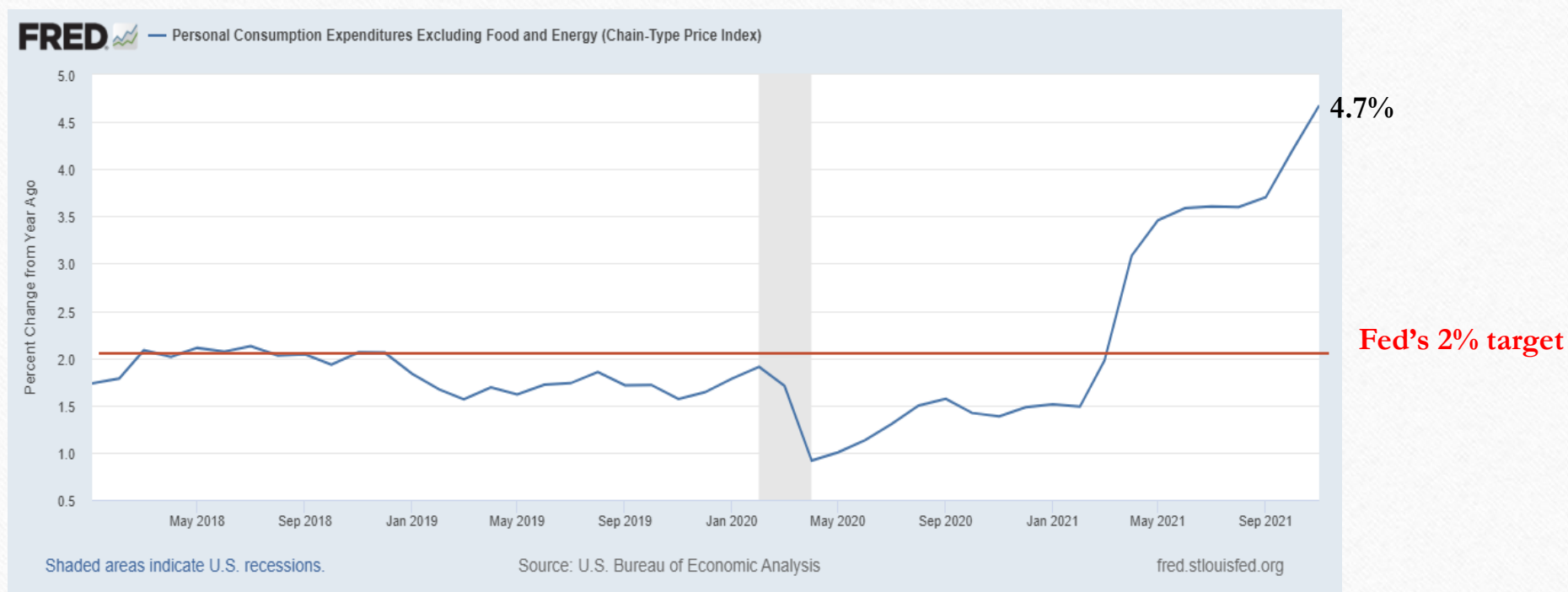
# Some observations on the fiscal response



- Congress acted **fast**.
- It's **huge** 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**.
- **One reason: The Fed has bought about half of the Treasury debt issued since the crisis struck. *But this is ending soon.***

# The big issue today is inflation.

(index shown here is core PCE)



# I'm still on Team Transitory. Why?

(“transitory” does not mean just another month or two)

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- Inflation is still fairly concentrated (though it's broadening out).
  - Dallas Fed's trimmed mean just 2.8% (but it's rising).
- Energy prices are coming down (only a little so far).
- The fiscal and monetary stimulus is disappearing fast.
- Bottlenecks and shortages are already (just barely) dissipating.
  - I believe in capitalism!
- The goods vs. services mismatch will straighten itself out. (But Omicron is a setback.)
- Inflationary expectations have not risen much (yet?).