The Pandemic and the Economy: January 2022 Update

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Our last update was April 2021
This looks frightening, and it is. But Omicron + Vaccines → less serious illness.
The economy powered through the last spike.

Payroll employment

We are now about 3.5 million jobs below February 2020.
Why? How?

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 $2\frac{1}{4}$ 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

• 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
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• 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)  

- 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?).