The COVID-19 Recession:
Economic Fallout and Prospects for Recovery

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Faculty at Home Webinar Series

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Context for the COVID-19 Recession

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- failure to rollout widespread testing, tracing
- holes in social safety net, health care provision
The Unfolding COVID-19 Recession
The U.S. Labor Market Has Fallen Off a Cliff

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- The U.S. labor market’s rate of collapse is unprecedented
Weekly initial unemployment insurance claims
Not seasonally adjusted, 1967–present

Note: Due to the scale of the chart and rapid increase in initial unemployment insurance (UI) claims, the initial UI claims for the last five weeks appear to align vertically.


Economic Policy Institute
Change in U.S. Employment During Recent Recessions

Source: Bureau of Labor Statistics
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Cumulative percentage change in nonfarm payroll employment

Source: Bureau of Labor Statistics
Leading Economic Indicators Shows Steep Contraction

WEI over Recent Months

Percent (GDP growth units)

Source: Authors’ calculations based on data from Haver Analytics, Redbook Research, Rasmussen Reports, the American Association of Railroads, and Booth Financial Consulting.

April 23, 2020: Update

Source: Federal Reserve Bank of New York
ECONOMIC POLICY RESPONSES, RECENT AND PENDING
The Fed Responds More Aggressively Than in ’07-09

Lowering short- and long-term interest rates:

- Emergency rate cut: -0.5ppt to 1-1.25% (3/3/20)
- Emergency rate cut: -1ppt to 0-0.25% (3/15/20)

$700bn in large-scale asset purchases (3/15/20)

Open-ended large-scale asset purchases (3/23/20)

Lender of last resort (3/17/20, 3/18/20):
- Numerous liquidity facilities, collateralized lending programs

Investor of last resort (4/9/20):
- Buying up to $600bn in bank loans to businesses
- Up to $500bn in municipal debt from state/local govt
- Up to $750bn in corporate bonds
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Scaling Up Our Fiscal Response

1. Coronavirus Preparedness and Response Supplemental Appropriations Act (3/6/20)

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3. Coronavirus Aid, Relief, and Economic Security Act (3/27/20)
   - $2.3tn (10.6% GDP): lifelines to households (checks, Pandemic Unemployment Assistance), businesses (Paycheck Protection Program, grants, loans, tax write-offs), state/municipal/tribal governments (grants), hospitals and health agencies (funding)
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4, 5, ... TBD (?)

   - $484bn! (2.2% GDP): expansion of Paycheck Protection Program, hospital funding, widespread testing and tracing

   - $500bn? (2.3% GDP?): grants to state/municipal governments?
Prospects for Recovery and Downside Risks
To ‘V’ or Not to ‘V’? The Drop in GDP

Forecasts for Rapid Drop, Rebound in U.S. Real GDP

Goldman Sachs (4/15)
JP Morgan (4/17)
Five Related Risks to a Rapid Recovery

1. Prematurely trying to reopen economic activity,* cases spiking, and going back to square one (happening?)

*A call for public health experts, not politicians or economists
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5. Federal lifelines severed b/c concerns about rising debt
Conclusion
Four Reasons for Optimism

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3. Fed’s learning curve, recent experience fighting 2007-09 crisis
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3. Fed’s learning curve, recent experience fighting 2007-09 crisis

4. Political stars aligned for better fiscal response than 2007-09
Wrapping Up...

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If you want to stay tuned: https://andrewjfieldhouse.com/blog/
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And I look forward to your questions...
Returning to Depression-era Unemployment Rates

U.S. Unemployment Rate, 1929-2020

Note: Shaded bars indicate recessions