



The Economic Outlook: Pandemic and Recession

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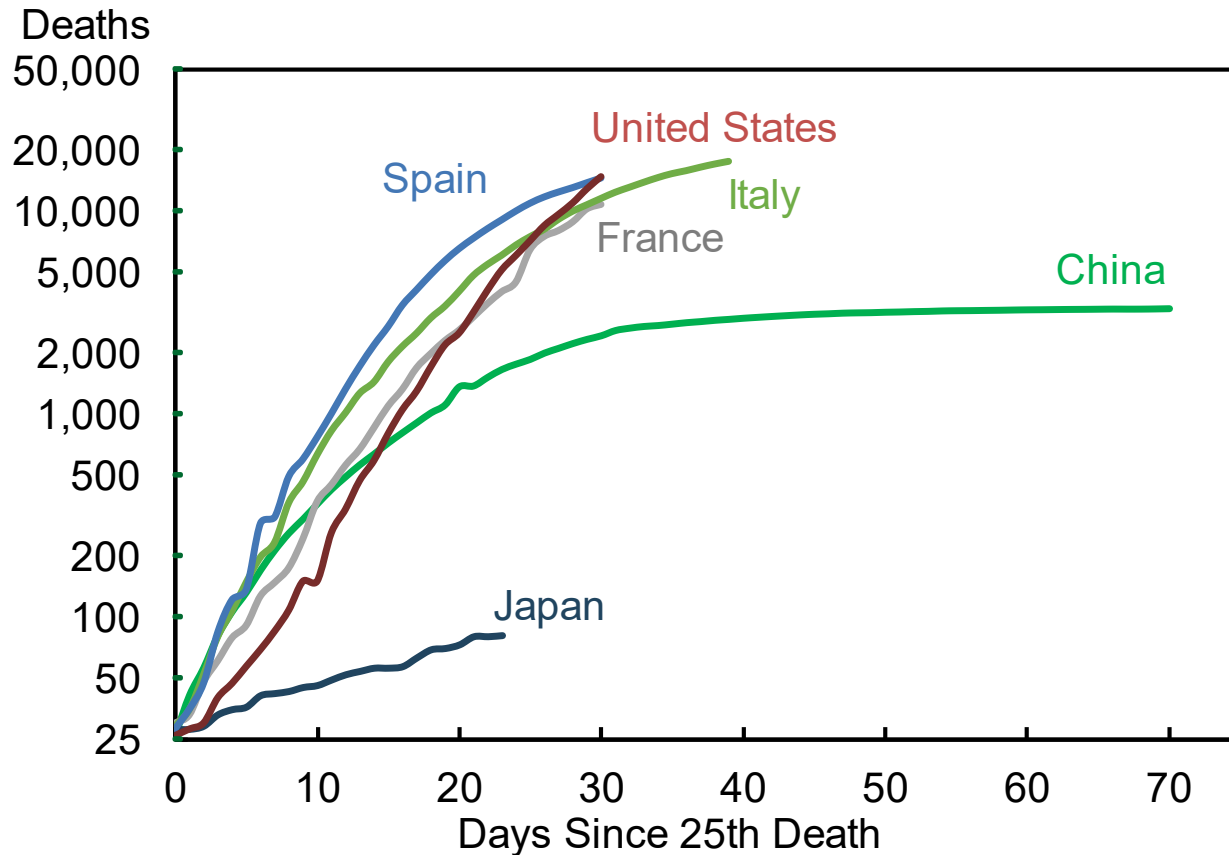
Washington, DC

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Shutdowns and other measures are slowly bending the COVID-19 curve



Cumulative Deaths from COVID-19



Source: European Centre for Disease Prevention & Control; Macrobond; author's calculations.

But containment measures (and choices to stay home) are causing a plunge in economic activity



Unprecedented drop in consumer demand for many services

Sharp slowing in production of many goods as employees cannot get to work and supply chain disruptions take hold

Knock-on effects include liquidity crises, drops in asset prices, and surge in unemployment

The pace of the rebound depends on 3 key factors



How dangerous and contagious is the virus?

How quickly can countries build capacity for testing, tracking, and other means of reducing contagion after shutdowns are eased?

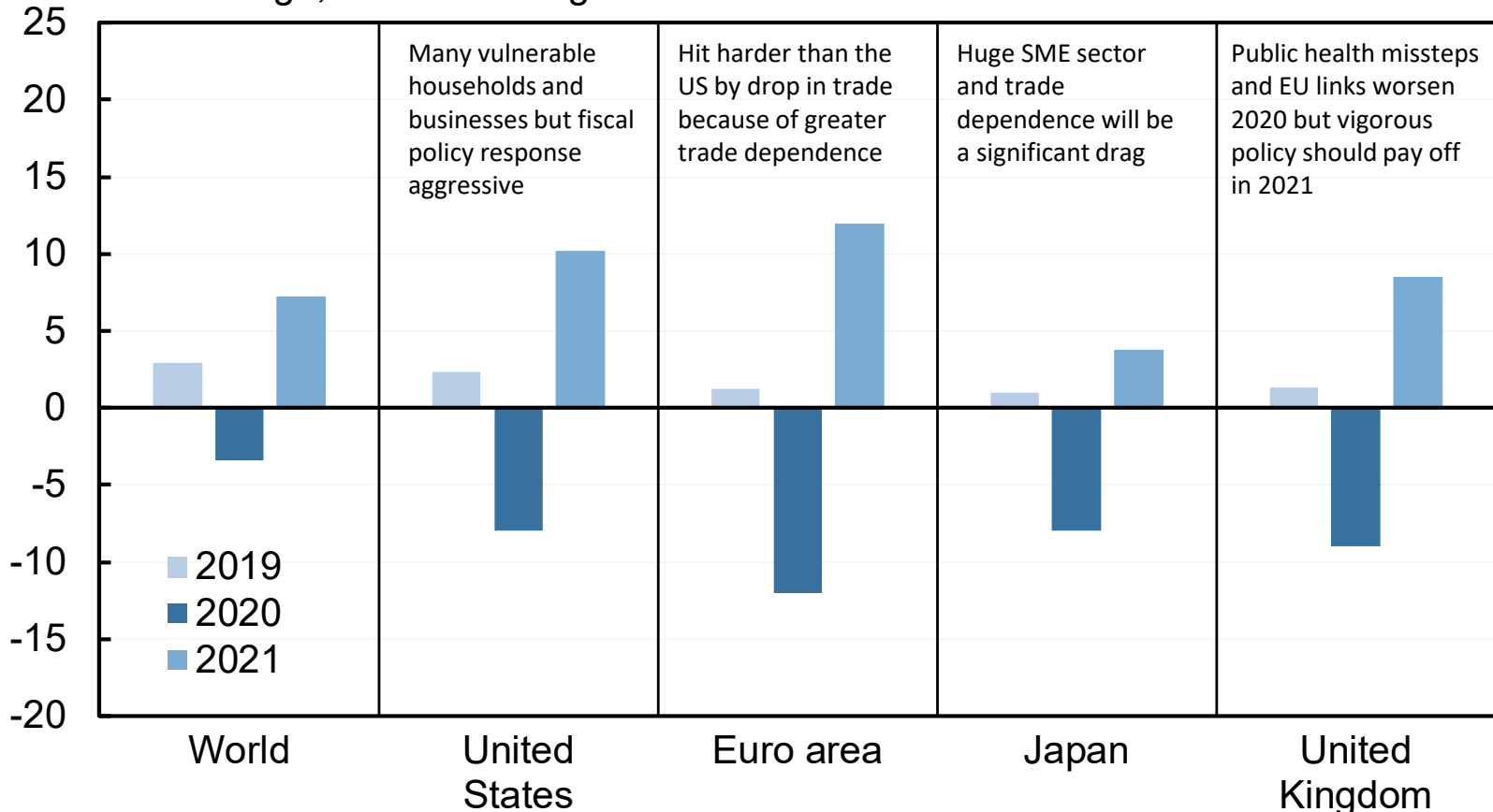
How much can aggressive policy responses limit the damage to economic structures during the shutdowns?

Pandemic causes a sharper global slump than the financial crisis, with significant recovery thereafter



Real GDP Growth

Percent Change, Annual Average

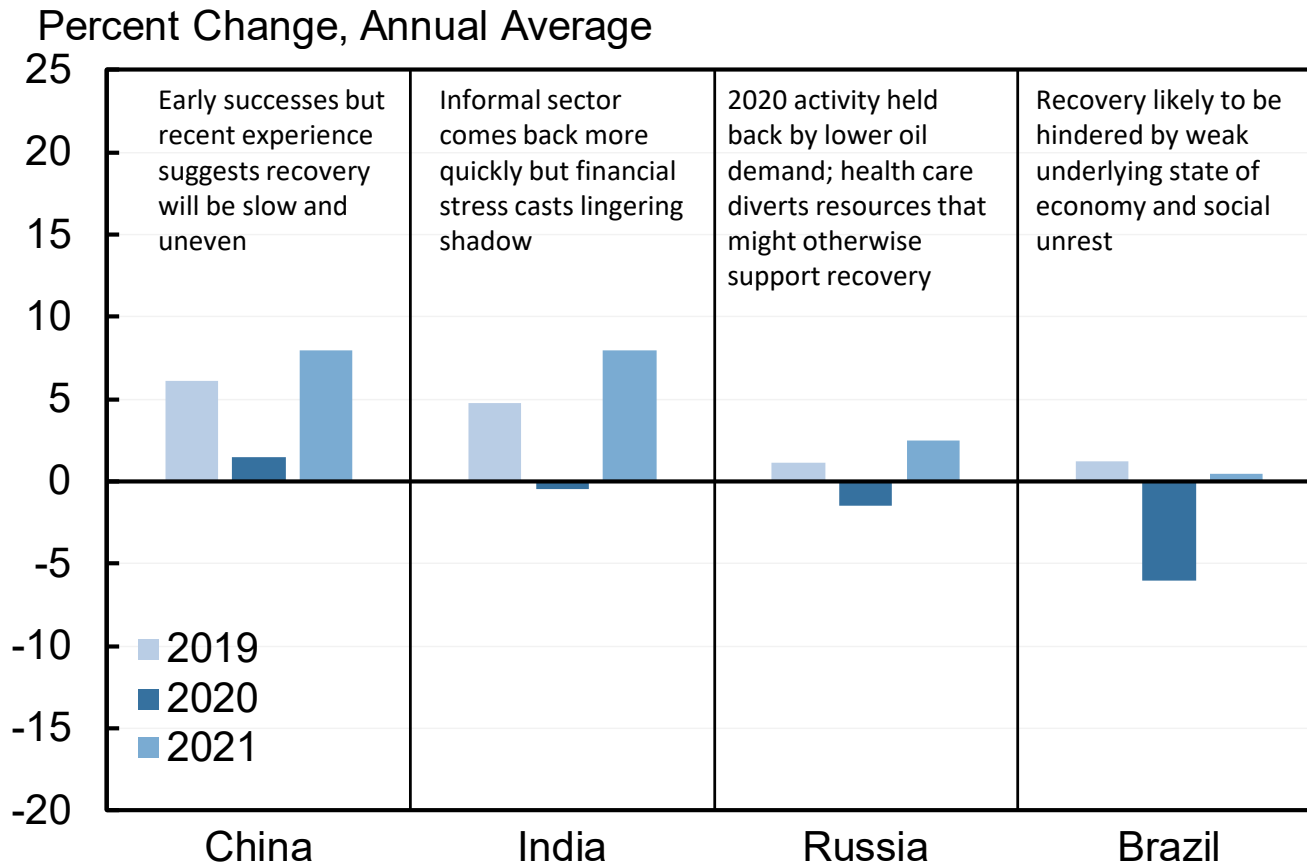


Source: Consensus Forecasts for 2019, PIIE for 2020-2021. Annual-average-over-annual-average growth rates. PPP weights.

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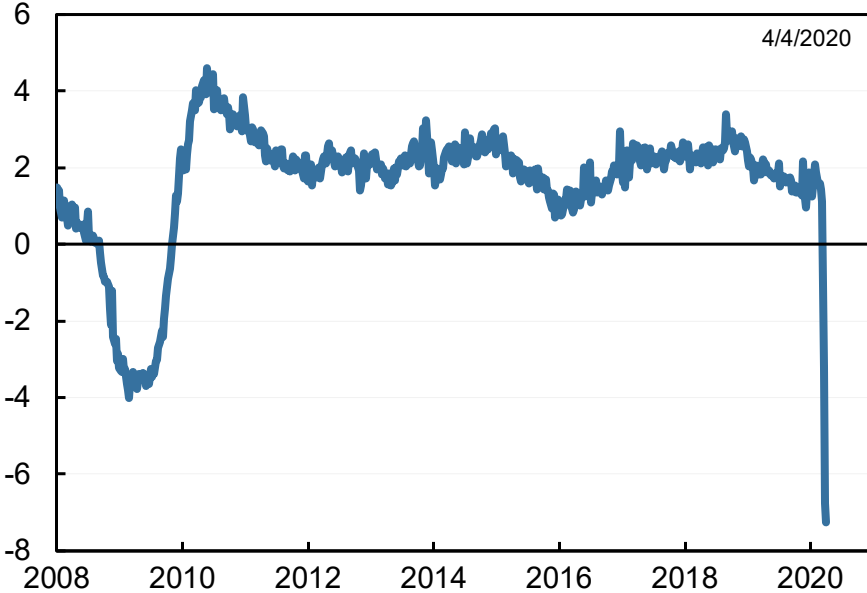
Source: Consensus Forecasts for 2019, PIIE for 2020-2021. Annual-average-over-annual-average growth rates. PPP weights.

In the United States, hard data about the severity of the recession is emerging



Weekly Economic Index

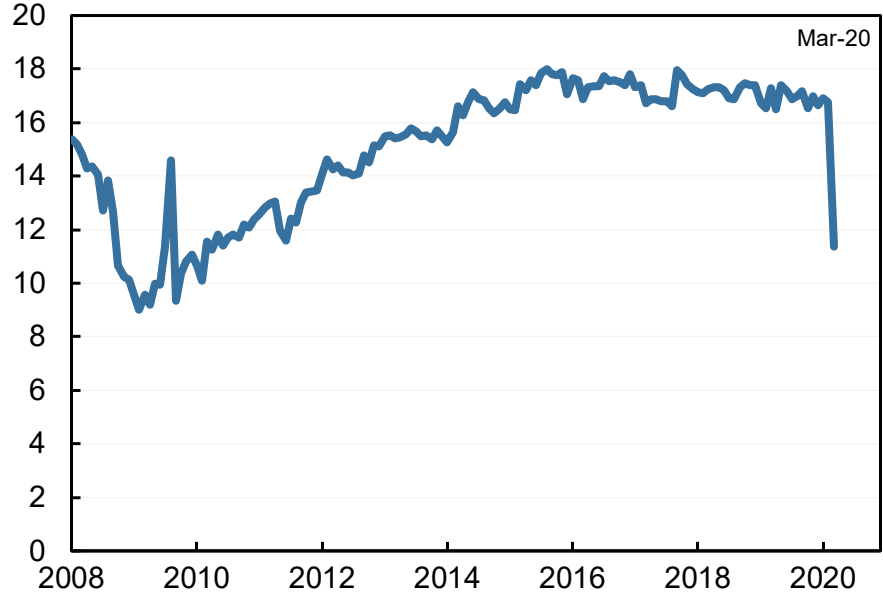
Four-Quarter Percent Change of Real GDP



Source: Lewis, Mertens, and Stock; Macrobond.

Light Vehicle Sales

Millions of Units, Annual Rate



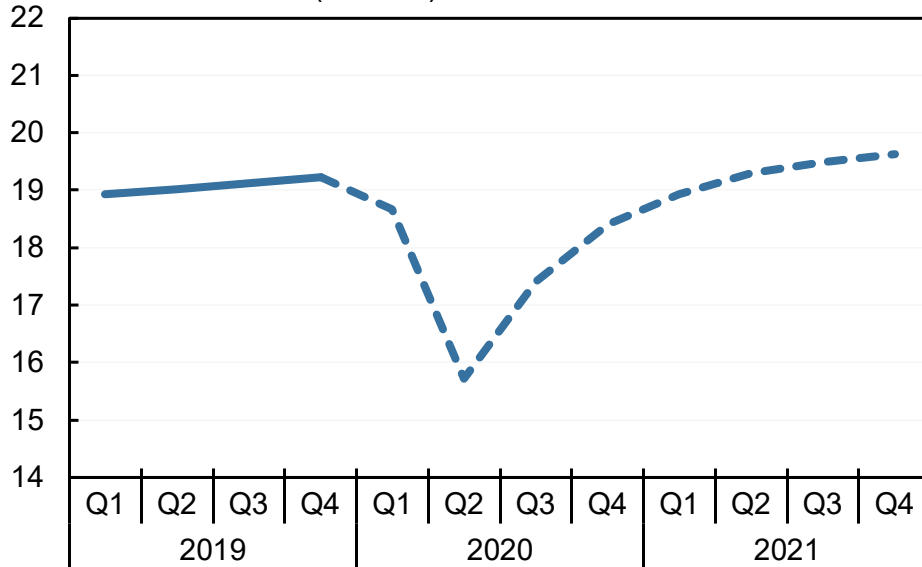
Source: Bureau of Economic Analysis; Macrobond.

An “check mark” shaped cycle is most likely



U.S. Real GDP

Chained 2012 Dollars (Trillions)

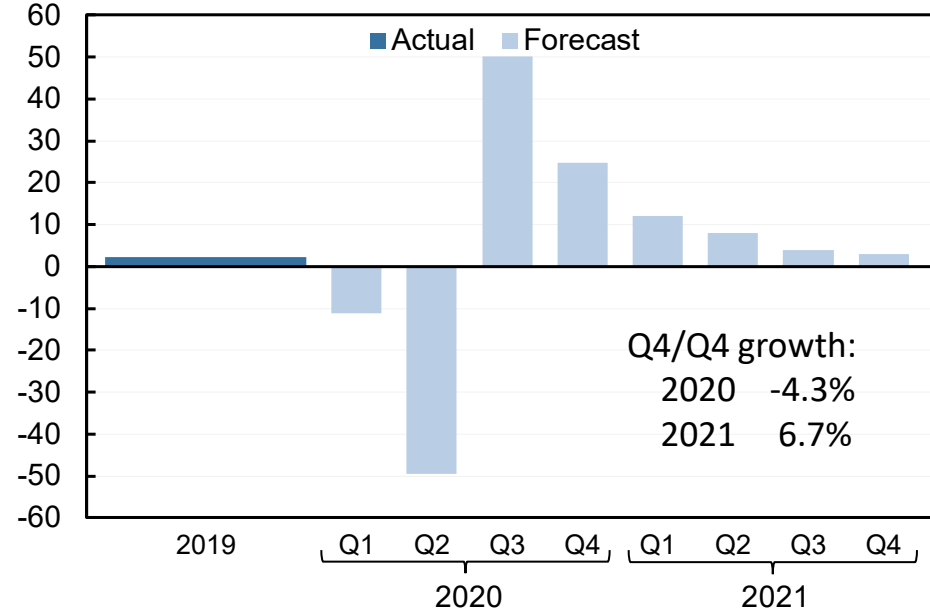


Note: Dashed segment is forecast.

Source: Bureau of Economic Analysis; Macrobond; author's calculations.

U.S. Real GDP Growth

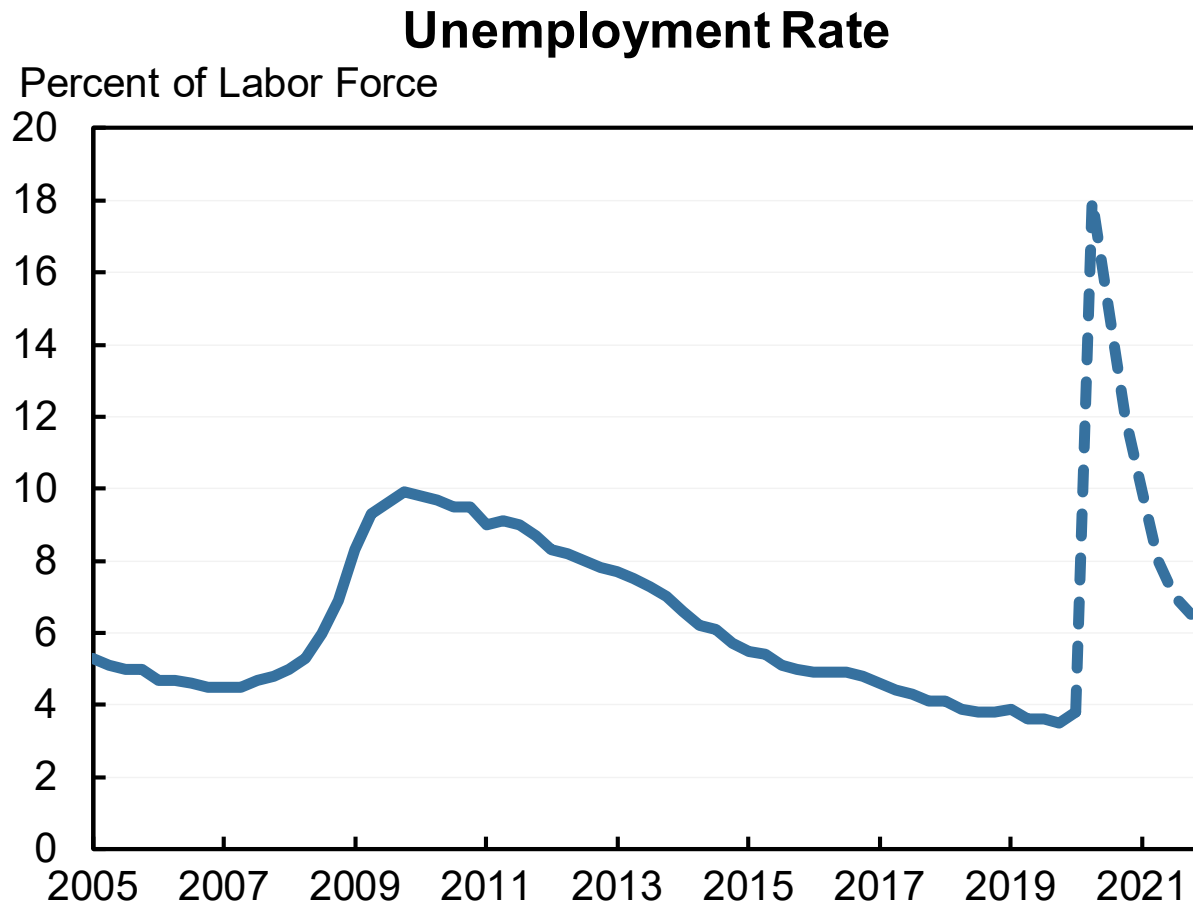
Percent Change, Annual Rate



Q4/Q4 growth:
2020 -4.3%
2021 6.7%

Source: Bureau of Economic Analysis; Macrobond; author's calculations.

With the unemployment rate rising to the highest level since the Great Depression



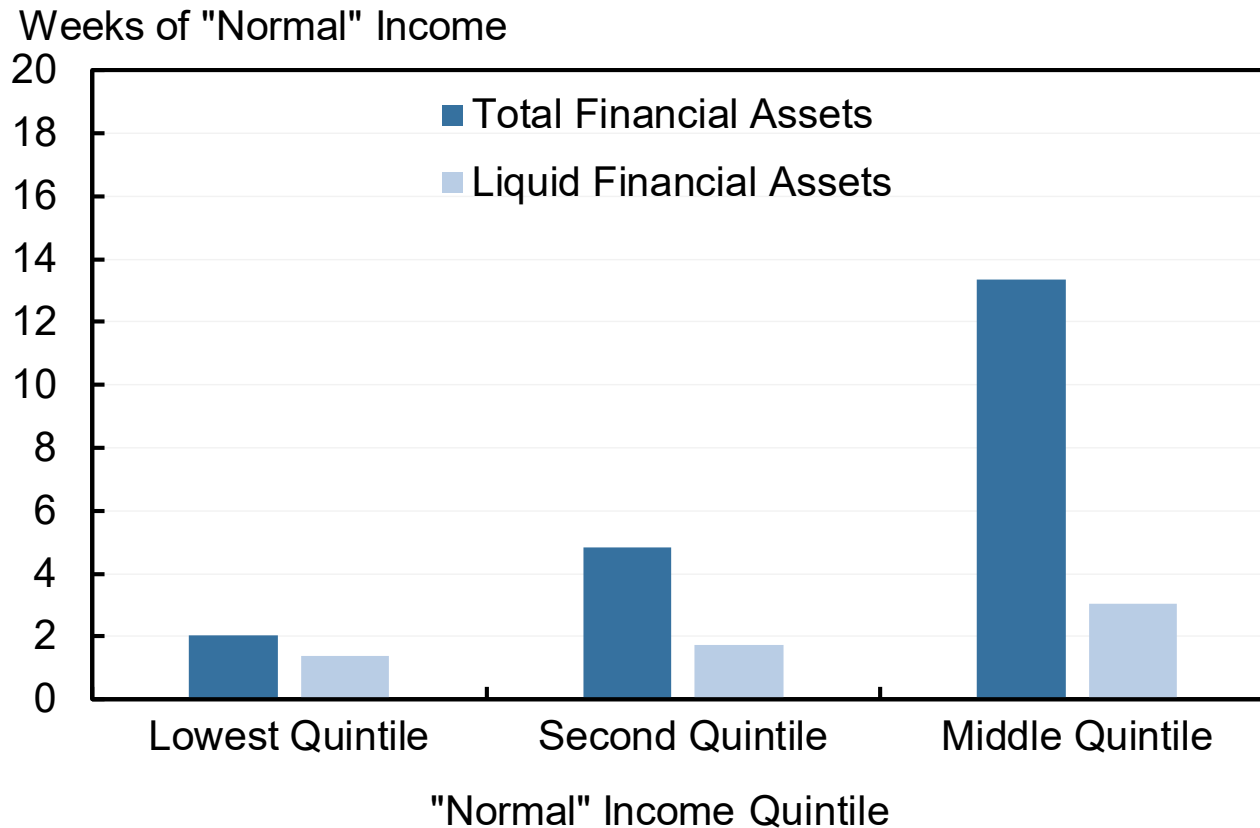
Note: Dashed segment is forecast.

Source: Bureau of Labor Statistics; Macrobond; author's calculations.

Many households in the middle and lower part of the distribution have little financial buffer



Median Financial Assets



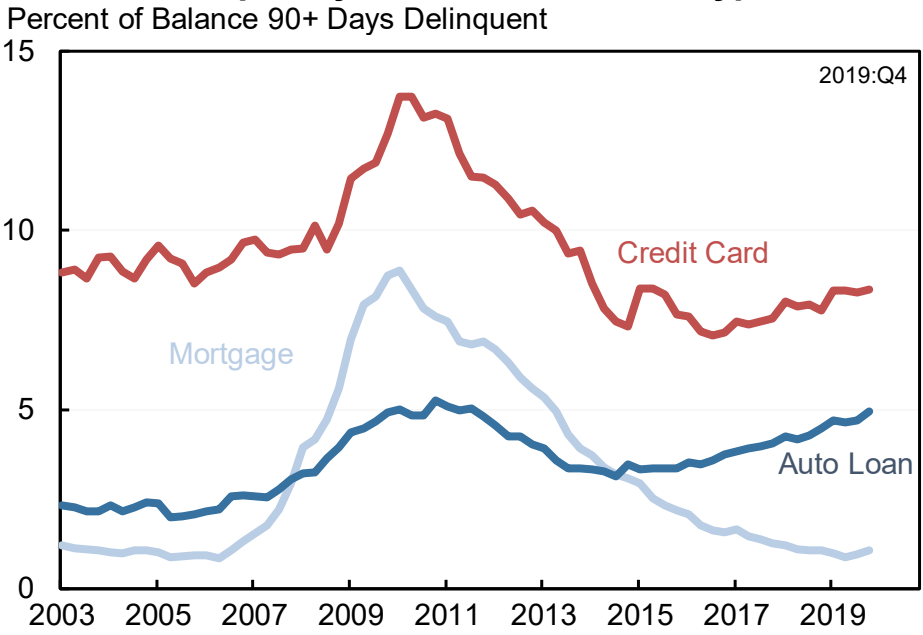
Note: For households with heads age 25-54.

Source: Survey of Consumer Finances (2016); author's calculations.

Some were already encountering greater financial difficulties and many more will likely do so

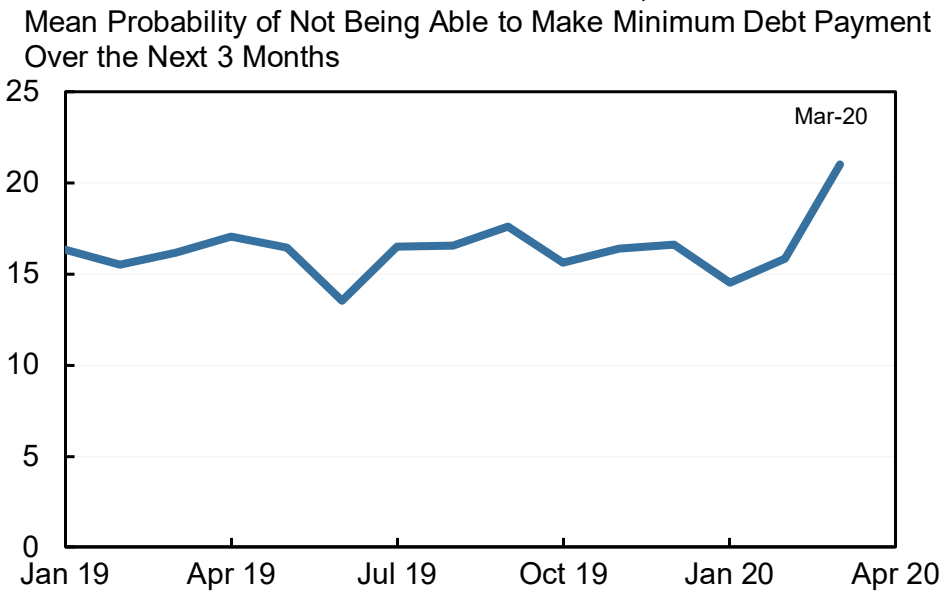


Serious Delinquency Rates for Selected Types of Debt



Source: Federal Reserve Bank of New York; Macrobond.

Debt Delinquency Expectations, Income Less Than \$50,000

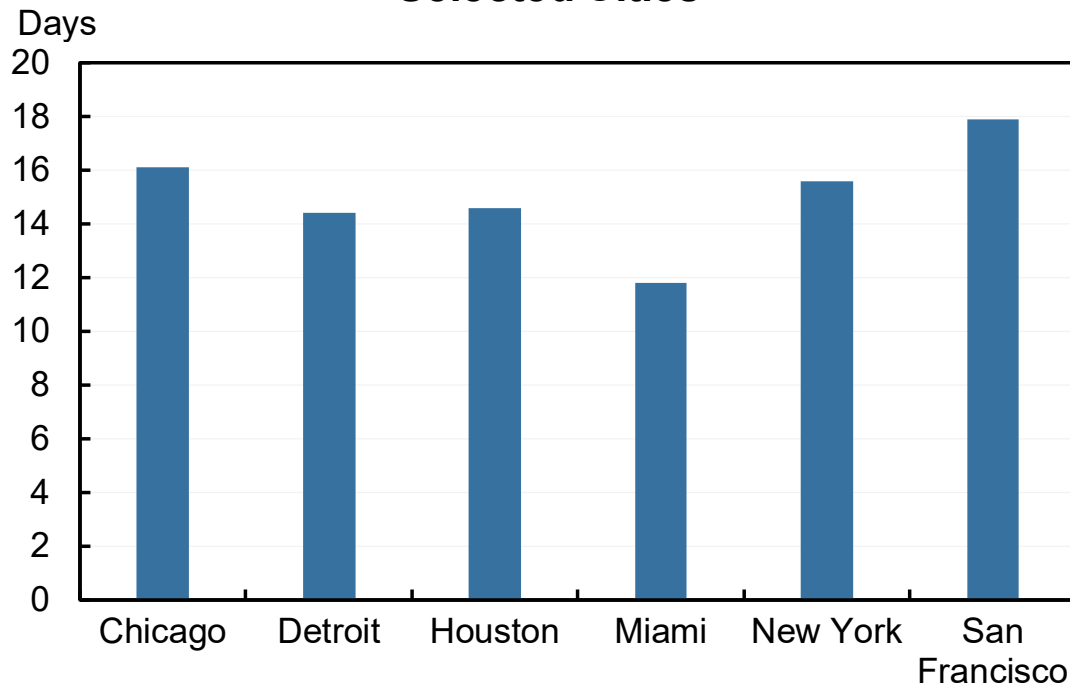


Source: Federal Reserve Bank of New York; Macrobond.

Many small businesses are operating on thin margins



Median Cash Buffer Days for Small Businesses in Selected Cities



Note: Cash buffer days measured from 2013 to 2017.
Source: JPMorgan Chase & Co. Institute.

43% of small firms reported challenges paying operating expenses in 2019

30% reported challenges making payments on debt

The United States has taken aggressive monetary and fiscal policy steps



Dramatic action by the Federal Reserve:

- Cut in policy rate and large-scale asset purchases
- Lender-of-last-resort interventions building on financial crisis playbook, including liquidity facilities aimed at domestic strains and swap lines with other central banks

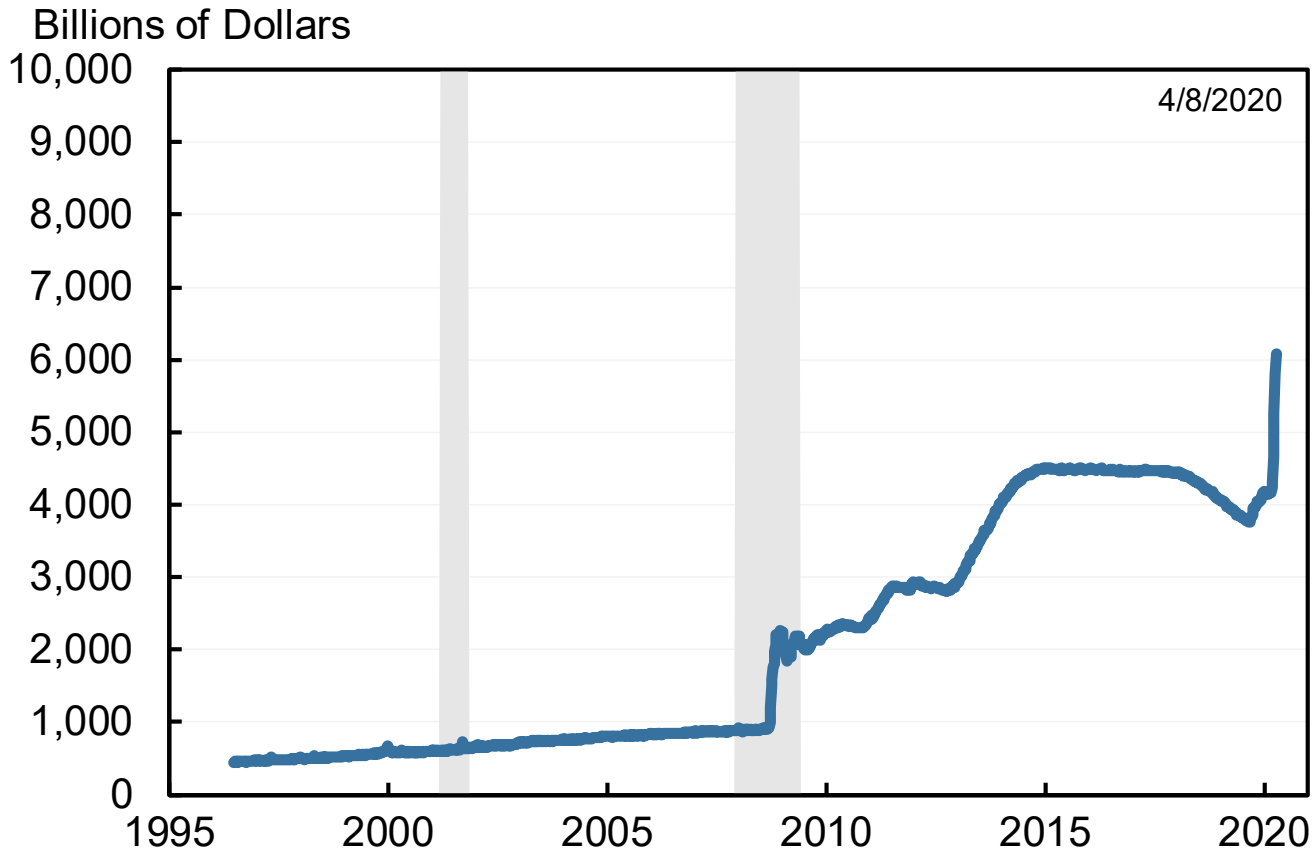
Unprecedented expansion of fiscal policy:

- Address public health needs
- Limit damage to the economic structure
- Protect the vulnerable
- Stimulate demand

Fed policy response—commitment to “whatever it takes”



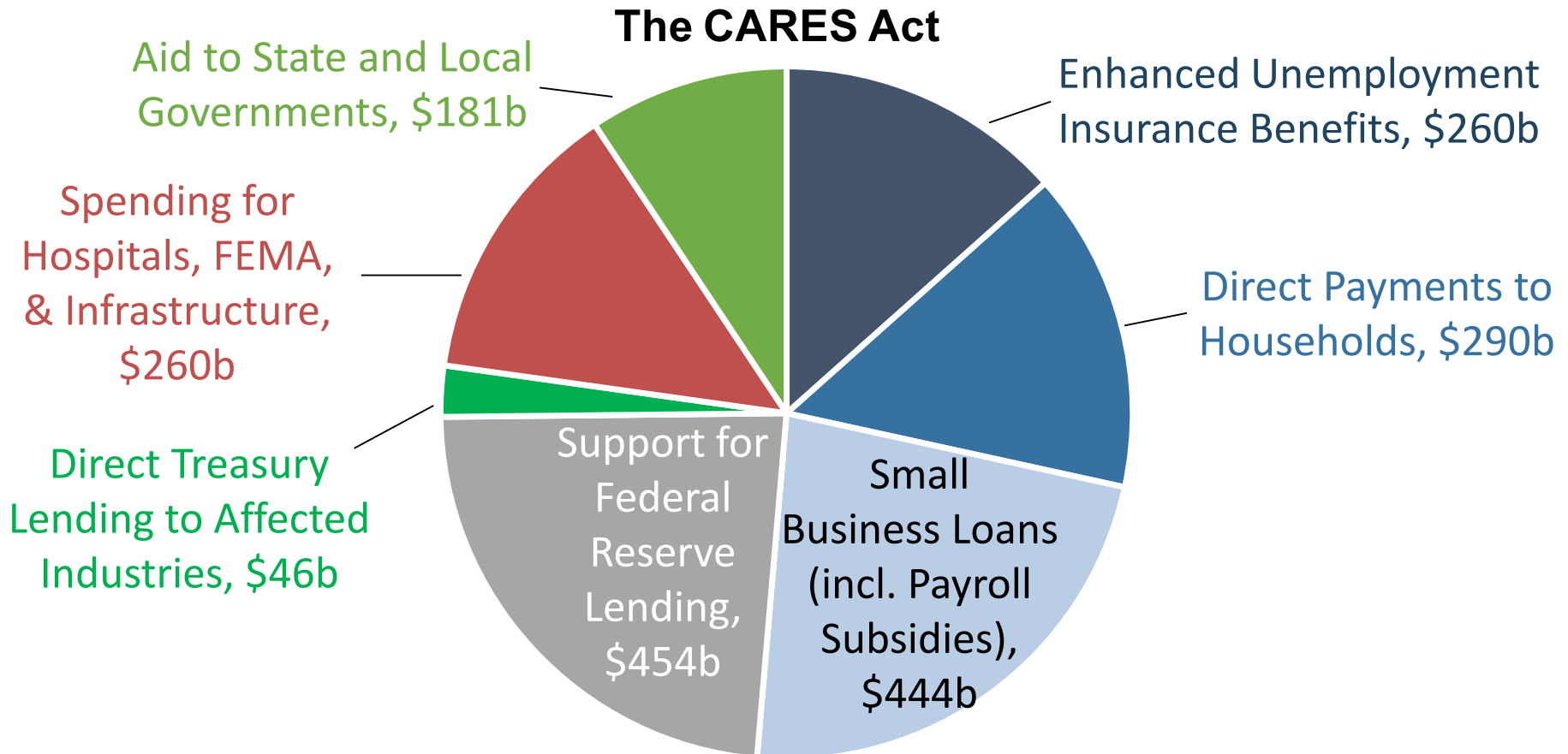
Federal Reserve System Balance Sheet, Total Assets



Note: Shaded regions denote recessions.

Source: Board of Governors of the Federal Reserve System; Macrobond.

US fiscal policy response—more than \$2 trillion so far



Note: Excludes about \$345b in tax relief, social safety net funding, and other miscellaneous spending.

Source: Committee for a Responsible Federal Budget; author's calculations.

US fiscal policy response—what comes next?



Implementation of the CARES Act is challenging and crucial

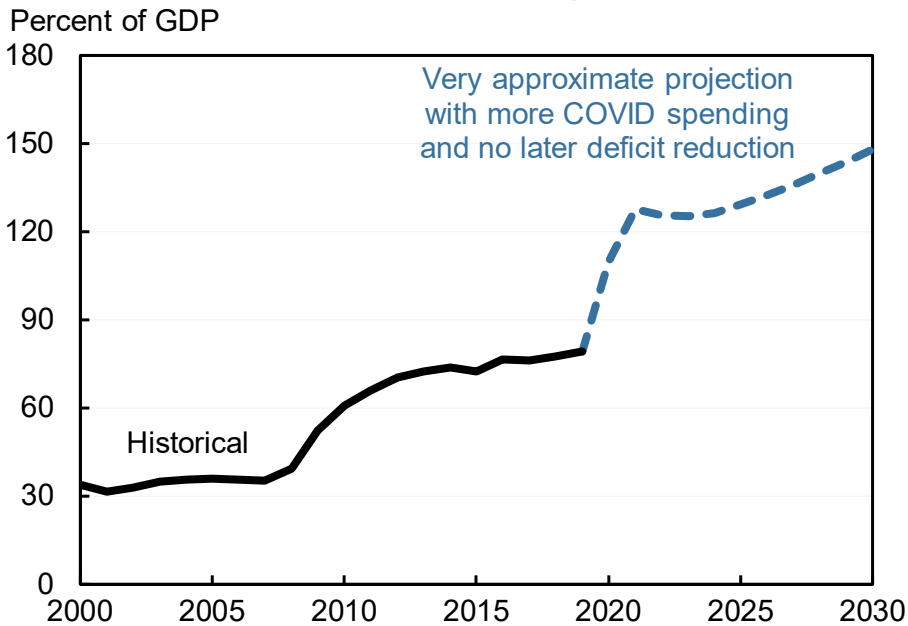
Automatic stabilizers will also buffer the downturn and widen the budget deficit—by about \$1 trillion this year

Phase 4 of fiscal relief will probably include more funds for small business lending, more support for state and local budgets, an extension of expanded UI benefits, and more

US federal debt will jump upward, but financing costs are very low and are unlikely to rise sharply



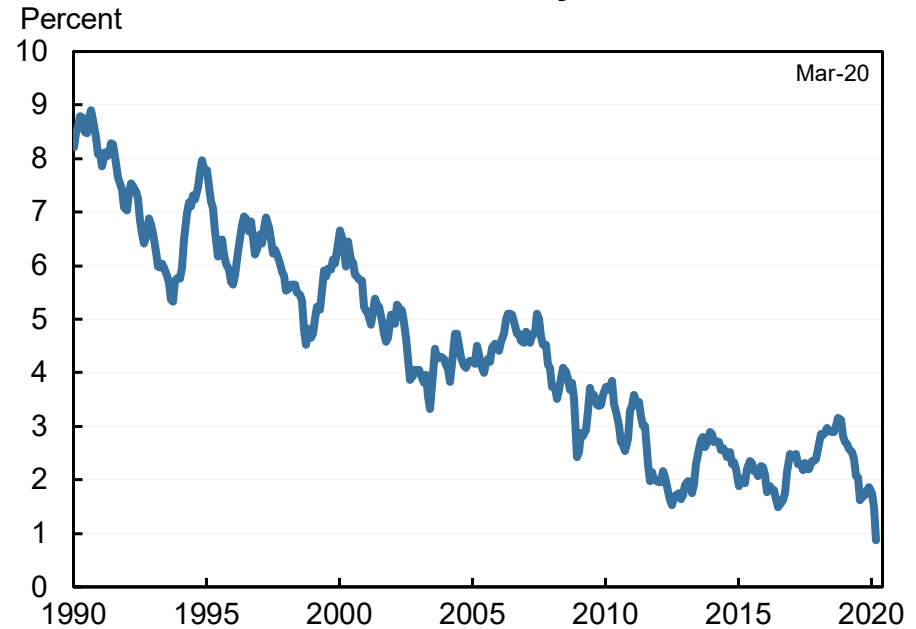
U.S. Federal Debt Held by The Public



Note: Assumes \$3 trillion of additional COVID-related measures, extensions of existing fiscal measures, and extension of 2017 tax cuts.

Source: Congressional Budget Office; Office of Management and Budget; Macrobond; Jason Furman's calculations.

10-Year Treasury Yield



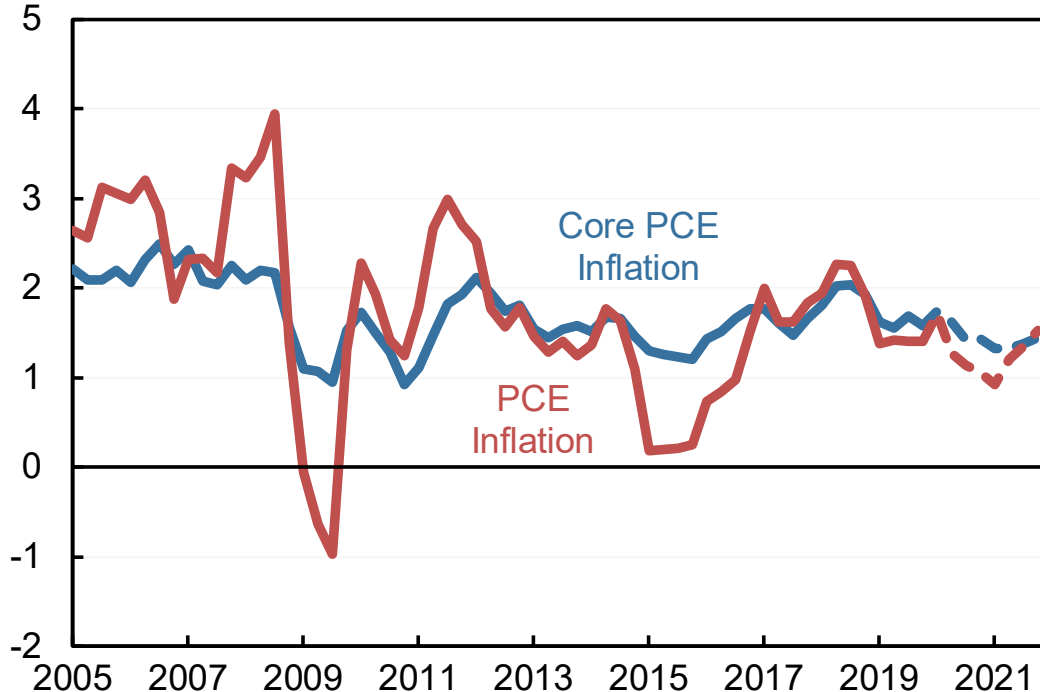
Source: Board of Governors of the Federal Reserve System; Macrobond.

US Inflation will be buffeted by cross-currents but the net effect of crisis is likely to be negative



PCE Inflation

Four-quarter Percent Change



Note: Dashed segments are forecasts.

Source: Bureau of Economic Analysis; Macrobond; author's calculations.

Supply constraints
will raise the price of
some goods

At the same time, we
are already seeing
softness in prices in
some services and
goods sectors where
demand has dropped
sharply

Confidence bands for the global economic forecast are especially large now



Neither epidemiologists nor economists have any analogous experiences in modern times on which to base their forecasts

Indicators to watch include:

- How quickly deaths and hospitalizations flatten out in Europe and the United States
- The extent to which countries in South Asia, Africa, and Latin America become infected
- China's success at rebooting its economy
- The rate at which testing increases in the United States

Addendum: Real GDP Growth Rates



Real GDP Growth (Y/Y)	2019	2020	2021
Global Output Growth	2.9	-3.4	7.2
United States	2.3	-8.0	10.2
Euro Area	1.2	-12.0	12.0
Japan	1.0	-8.0	3.8
United Kingdom	1.3	-9.0	8.5
China	6.1	1.5	8.0
India	4.8	-0.5	8.0
Russia	1.1	-1.5	2.5
Brazil	1.2	-6.0	0.5

Source: Consensus Forecasts for 2019, PIIE for 2020-2021. Annual-average-over-annual-average growth rates. PPP weights.