

The background of the slide is a photograph of the New York Stock Exchange building. The image shows the grand facade with its iconic Corinthian columns and the pediment above. The words "NEW YORK STOCK EXCHANGE" are visible on the pediment. The lighting is somewhat dim, suggesting an overcast day or late afternoon. Three American flags are visible in the foreground, flanking the central entrance.

The US Economic Outlook in the Covid-19 Pandemic

Narayana R. Kocherlakota | University of Rochester | May 28, 2020

What We'll Cover Today:

- Current **state** of the US economy
- Three **outlooks** for the US economy (just like Goldilocks)
- Two key **policy** questions
- Your questions



Where We Are Today

US Economy: Growth

Real GDP is expected to fall **by about 10%** from **first to second quarter of this year**.



This has never happened before in US history.



In Great Recession (2007-09), real GDP fell by **less than 5%**.

US Economy: Unemployment Rate

- The unemployment rate was **14.7% in mid-April**.
- Highest since 1939 (Great Depression).
 - Context: the unemployment rate peaked at 10% in October 2009 (right after Great Recession)
- The unemployment rate will be near **20% in May**.



US Economy: Policy Response

- Massive federal government programs to help:
 - **Those who make under 75K per year.**
 - **The unemployed.**
 - **Large and small businesses.**
- Will more be done (for example, to help state and local governments?)

US Economy: Glimmers of Good News



Unusually large fraction of the unemployed expect their layoffs to be temporary.



Inflation is expected to stay low.



Three Outlooks

Economic Outlook Depends on the Epidemiological Outlook

- What is the outlook for the disease?
- What is the outlook for the public health response to the disease?

Two Kinds of Public Health Responses



SOCIAL DISTANCING

- Both legally mandated AND self-imposed.



TESTING, TRACING, AND QUARANTINING (TTQ)

- Need all three components.

Main Public Health Facts

- More and better TTQ → we need less social distancing.
- TTQ is much less costly for the economy than social distancing.



1. Optimistic Outlook: The Disease

- The coronavirus will be largely behind us by June (VP Pence).
- (At least so far, there seems to be little epidemiological support for this view.)



1. Optimistic Outlook: The Economy

- Real GDP will grow by 10% in second half of 2020.
- The unemployment rate will:
 - **Fall below 10% by year-end 2020.**
 - **Be close to 5% by year-end 2021.**



2. Modal Outlook: The Disease

- Virus remains potent.
- BUT: the country has much better TTQ in place within six months.
- That means that we can ease up on social distancing (“open up safely”)

2. Modal Outlook: The Economy

- Real GDP grows by 5% in second half of the year (still VERY fast).
- The unemployment rate:
 - **Remains above 10% through 2020.**
 - **Falls to near 5% by the end of 2022**

3. Pessimistic Outlook: The Disease

- US is unable to implement effective TTQ.
 - **Concerns about privacy?**
 - **Ineffective national coordination?**
- Without effective TTQ, there will continue to be a lot of social distancing restrictions.
 - **These will be both self-imposed and legally mandated.**



3. Pessimistic Outlook: The Economy

- Essentially no growth in the second half of 2020.
- The unemployment rate remains in the teens.
 - **Until a vaccine is implemented.**
 - **Or we reach “herd immunity.”**



Two Policy Questions

Two Policy Questions

- To rule out the pessimistic outlook: we need an effective national TTQ program.

BUT WILL THAT HAPPEN?

- Suppose we have a very long recession.

WILL CONGRESS BE WILLING TO PROVIDE NECESSARY SUPPORT TO THE ECONOMY?

Thank you!



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