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April 13, 2020



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Caveats

- These slides were completed on April 13, 2020
- Things will have changed by the time you see this presentation.
- This presentation is based on my readings and data from sources noted throughout.





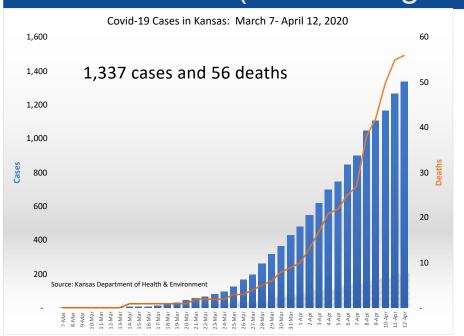
Overview

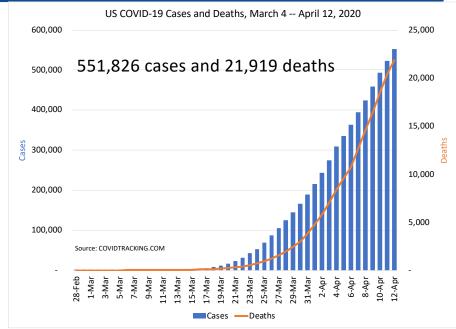
- Update on the Coronavirus in Kansas and the United **States**
 - We have not yet bent the curve in Kansas
- What's happened to the economy so far?
 - Stock Market
 - Unemployment Claims
 - Economic Growth
- Policy responses
 - New policy may be needed





The US and Kansas have a Pandemic (data through April 12, 2020 4:00 PM)



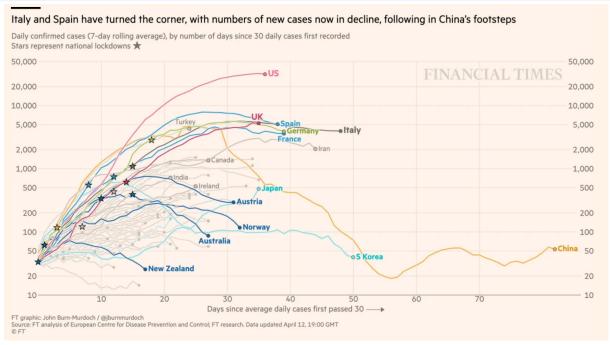


In both Kansas cases grew by 79% in the past week and deaths were 2.5 times higher. In the US cases grew by 65% and deaths

were 2.3 times higher in the past week.



COVID-19 Cases by Country



• Financial Times shows that US may be starting to bend the CUrve.Source: https://www.ft.com/coronavirus-latest

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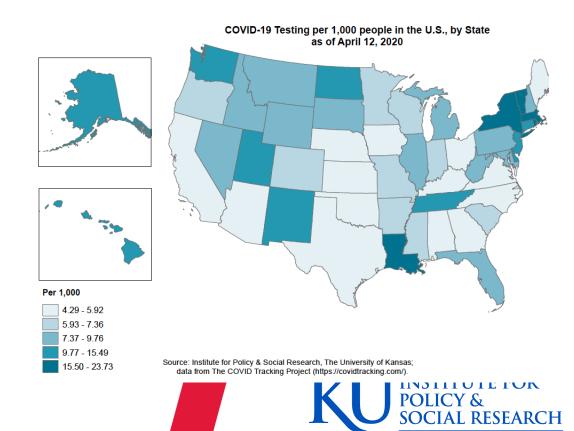
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Testing has been uneven across the country

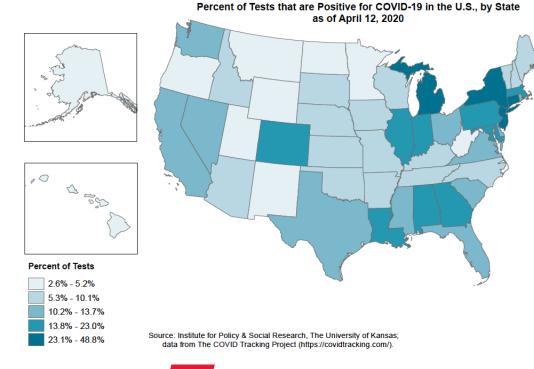
- We used data from the COVID Tracking project to calculate the number of tests per 1,000 people in each state
 - Kansas has performed only 4.5 tests per 1,000 people (double over last week)
 - Missouri has tests 7.5 per 1,000



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Testing Results are also Uneven

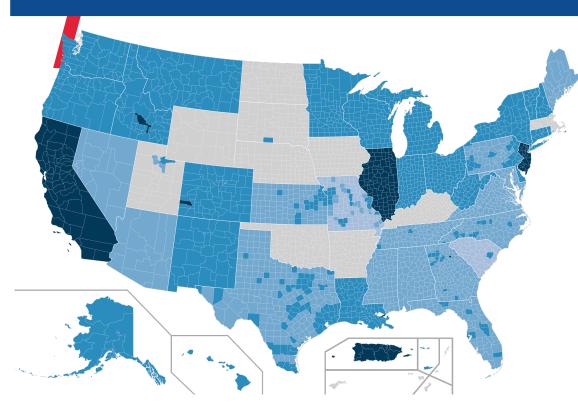
- We used data from the COVID Tracking project to calculate the share of positive tests.
 - 10% of Kansas are positive.
- 30% of tests return a false negative.
 - This also contributes to the undercount.







Shelter-in-place Orders are being imposed



the locations where shelter-in-place orders have been issued.

As of April 13th, these are

- South Carolina most recent.
- Kansas is surrounded by states that have no orders or were late to impose them (e.g. Missouri)

Source: By Minh Nguyen - Own workData:

https://commons.wikimedia.org/w/index.php?curid=88465988



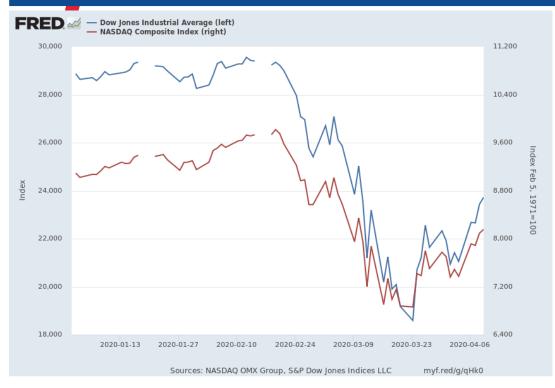


COVID-19 and the US & Kansas Economies

It's not good.



The Stock Market: January 1 – April 3, 2020



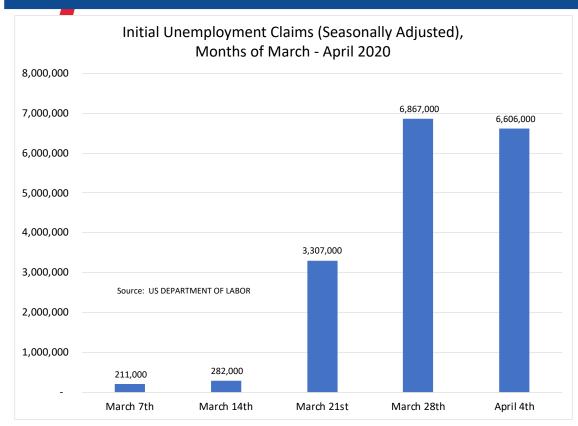
- The Dow Jones Industrial Average peaked at 29,348 on February 12th.
 - It bottomed out on March 23rd, and recovered to 23,719 on April 8th.
 - Down about 19% since the peak
- Nasdaq has followed a similar pattern.

Source: FRED https://fred.stlouisfed.org/series/DJIA





Unemployment Claims Continue to Soar

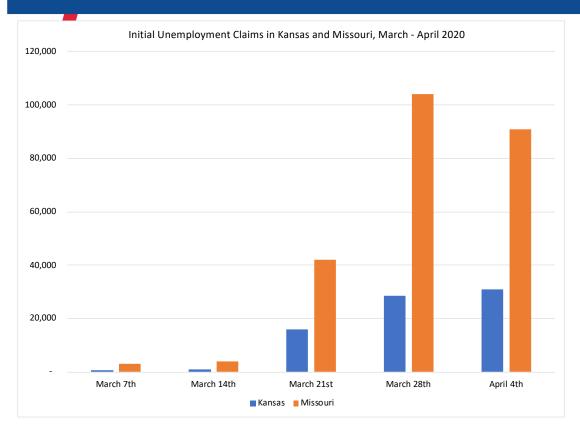


Source: https://www.dol.gov/ui/data.pdf

- US Initial Unemployment Claims are still at historic highs
 - Over 17 million unemployed in three weeks.
- Based on the US Labor Force in February 2020 the US the unemployment rate is anywhere between 10 – 13%
 - It's estimated that 12 million workers have lost employerbacked health insurance.



Unemployment Claims in Kansas and Missouri



- Missouri Initial Unemployment Claims are 3 times higher than Kansas

Source: My Calculations using KS and MO Department of Labor Data





Kansas Initial Unemployment Claims by Industry as a Share of Total Employment

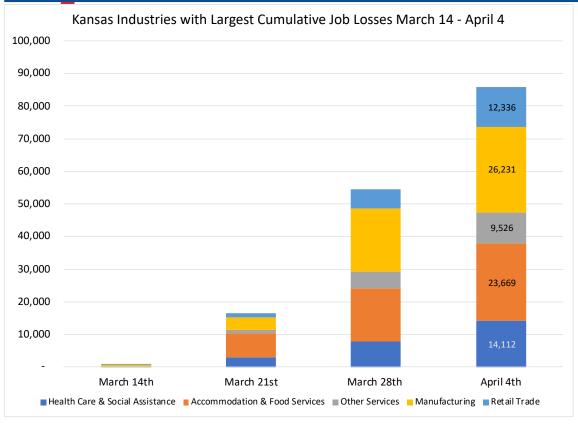
Industry	Share of Total Employment
Mining	10.58%***
Utilities	0.00%
Construction	8.23%
Wholesale Trade	3.32%
Information	8.06%
Finance and Insurance	1.22%
Real Estate and Rental and Leasing	10.02%***
Professional, Scientific, and Tech Ser.	4.37%
Management of Companies	0.47%
Administrative and Waste Services	7.52%
Educational Services	15.07%***
Health Care and Social Assistance	7.60%
Arts, Entertainment and Recreation	29.73%***
Accommodation and Food Services	20.60%***
Other Services (except Government)	18.28%***
Government	0.26%
Manufacturing	15.66%***
Retail Trade	8.51%
Transportation and Warehousing	6.15%

- I calculated the share of initial unemployment claims for all of March and April over total employment by industry in February, 2020
 - The service sector is and will continue to be hammered.
 - Manufacturing, Entertainment, Food Service, Other Services have doubledigit unemployment.





Cumulative Unemployment Claims in Kansas



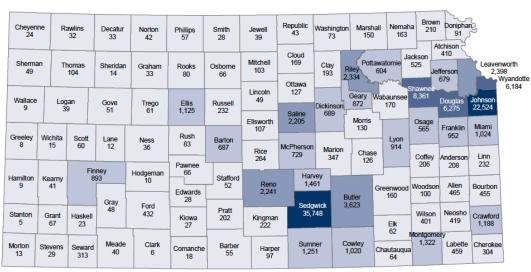
Source: My calculations using Kansas Department of Labor Data

- Top 5 Industries with Cumulative Jobs Lost:
 - Manufacturing 26,231
 - Accommodation & Food Service 23,669
 - Health Care & Social Assistance 14,112
 - Retail Trade 12,336
 - Other Services 9,526



Cumulative Unemployment Claims by County

Initial Jobless Claims in Kansas, by County March 21 - April 4, 2020



Source: Institute for Policy & Social Research, The University of Kansas; data from Kansas Department of Labor, Labor Market Information Services.



Source: IPSR calculations using Kansas Department of Labor Data

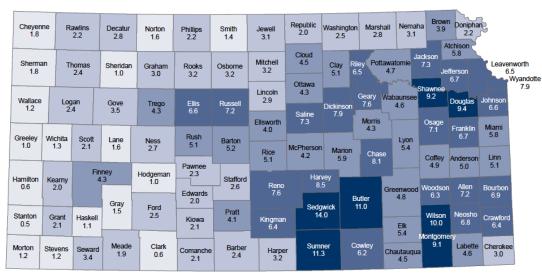
- Top 5 Counties by Cumulative Initial Claims:
 - Sedgwick 35,748
 - Johnson 22,524
 - Shawnee 8,361
 - Douglas 6,275
 - Wyandotte 6,184





Estimated Unemployment Rate by County

Projected Unemployment Rate in Kansas, by County March 2020



Source: Institute for Policy & Social Research, The University of Kansas; data from Kansas Department of Labor, Labor Market Information Services and U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics.

Projected unemployment rate derived using initial jobless claims from March 21 - April 4 and preliminary, not seasonally adjusted, civilian labor force for February 2020.

Projected Unemployment Rate



6.0 - 8.5 8.6 - 14.0

Source: IPSR calculations using Kansas Department of Labor Data

- Estimated Using First Quarter Employment Data
- Top 5 Counties by unemployment rate:
 - Sedgwick 14%
 - Sumner 11.3%
 - Butler 11%
 - Wilson 10%
 - Douglas 9.4%





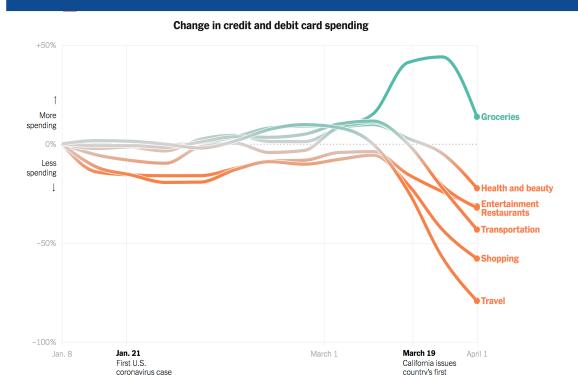
What's Happening to Economic Growth (GDP)

- GDP = C + I + G + (X-M)
 - C = Consumption (68%)
 - I = Investment (17%)
 - G = Government (18%)
 - X M = Net Exports (-2.9%)
- Consumption patterns have changed dramatically
- Government Expenditures will increase
- Trade is falling





Consumption Patterns Have Changed



- New York Times reported changes in credit card expenditures by category
- The only category of spending that has significantly increased is that spent on groceries
 - Consumption has fallen for many sectors.

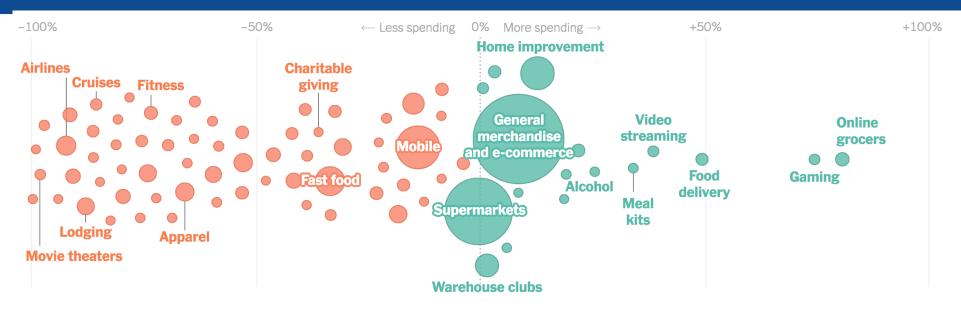
The chart shows the percentage change in spending from the beginning of the year. Each line is an average of the previous two weeks, which smooths out weekly anomalies. | Source: Earnest Research

Sourcehttps https://www.nytimes.com/interactive/2020/04/11/

business/economy/coronavirus-us-economy-spending.html?action=click&module=Top%20Stories&pgtype=Homepage



Consumption Patterns Have Changed



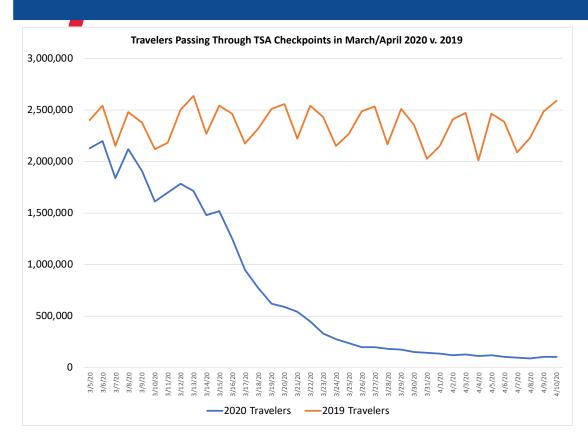
Change in spending from 2019 for the week ending April 1. Bubbles are sized by industry sales.

Spending on digital goods, food delivery and home improvement have also increased compared with 2019

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Air Travel has been Grounded



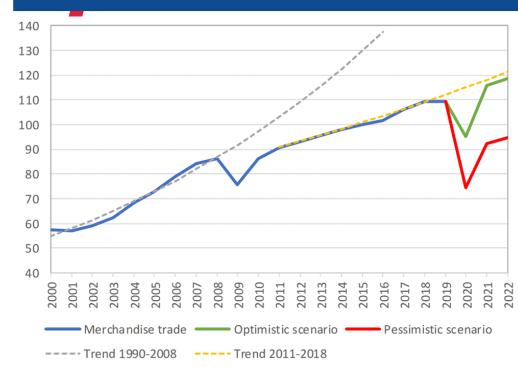
- In 2019 over 2.5 million people traveled by air per day in the US.
- On April 10th, only 108,000 people traveled by air.
 - This is a 96% decrease in air travel.

Sourcehttps://www.tsa.gov/coronavirus/passenger-throughput





Trade is Projected to Fall



Source: WTO:

https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

- The World Trade Organization (WTO) predicts that trade will drop by 13 – 32% in 2020
- Exports from North America and Asia will be hardest hit
- Trade will fall the most in sectors such as:
 - Electronics
 - Auto parts





22 Donna K. Ginther, PhD

Are we in a Depression?

The Washington Post

Democracy Dies in Darkness

America is in a depression. The challenge now is to make it short-lived.

Economists say the U.S. unemployment rate is now 13 percent, the worst since the Great Depression.

By Heather Long and Andrew Van Dam

April 9, 2020 at 6:07 p.m. CDT

- "We have never seen anything like this," said Princeton University economist Alan Blinder. "This looks likely to be deep enough to qualify as a depression."
- JPMorgan Chase predicts the unemployment rate will hit 20 percent and the economy will shrink by 40 percent in the second quarter, which runs from April through June.





This is Just the Tip of the Iceberg: The US Economy is Rapidly Closing Down

- Stock Market is Volatile
- Unemployment Claims hit Historic Highs
 - Service & Manufacturing sectors are hurting
- What Does the Future Hold?
 - Is it a Recession?
 - Or a Depression?





The Policy Response

Expanded Help for Small Business



Coronavirus Aid, Relief and Economic Security (CARES) Act

- CARES Act allocated \$377 million for Small Business Lending
- Paycheck Protection Program lends money to small businesses via banks.
 - Loan forgiveness if the small business keeps workers on the payroll
 - Many problems reported with getting access to money
 - Not enough money to meet the need
 - Congress at loggerheads trying to add funds





The Fed and Small Businesses

- Fed will support Paycheck Protection Program
 - Announced April 6th: Federal Reserve will establish a facility to facilitate lending to small businesses via the Small Business Administration's Paycheck Protection Program (PPP) by providing term financing backed by PPP loans.







Mortgage Market Problems

- Mortgage Companies were required to allow homeowners to delay payments for up to a year.
- However, mortgage servicers are still on the hook to make payments.
 - Banks who service mortgages have the capital to make payments.
 - Mortgage service companies do not.
- Mortgage markets may not have sufficient liquidity. If the Fed doesn't step in, we could have a financial crisis.
 - Read more at: https://www.politico.com/news/2020/03/27/mortgage-system-collapse-coronavirus-pandemic-152338



Still Needing CARE

- Health Coverage for Growing Numbers of Uninsured
- Additional SNAP Benefits
- State and Local Governments





Economic Research on COVID-19

- Chiou & Tucker (2020) tracked cell phones and found that income and access to high speed internet promoted social distancing.
 - Source: https://www.nber.org/papers/w26982
- Allcott et al (2020) use cell phone data to show that areas with more Republicans engage in less social distancing.
 - Source: https://www.nber.org/papers/w26946
- Bartik et al (2020) surveyed small businesses and found that 43% are temporarily closed, have reduced employment by 40%, and do not have sufficient cash on hand to meet monthly expenses.

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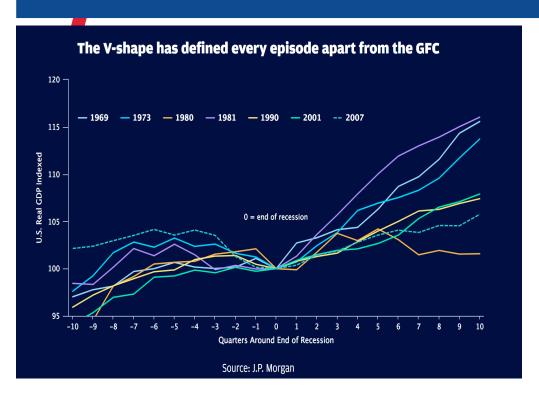
Source: https://www.nber.org/papers/w26989

The Shape of the Recovery

V or U?



Past Recoveries from Recessions



Source: JP Morgan https://www.jpmorgan.com/global/research/ 2020-covid19-recession-recovery

- This event study shows the index of GDP 10 quarters before and after the end of a recession.
 - V-shaped recessions prior to 1990s
 - U-shaped or jobless recovery recessions since 1990





The Argument for V

- The CARES Act works as planned and people have the resources to shelter in place until the worst of the pandemic is over.
- Social distancing works and successfully bends the curve.
- We have increased testing to determine:
 - Who has had the virus and is immune.
 - Who gets the virus and the contacts so they can be quarantined
- The economy bounces back from this natural disaster





The Argument for U

- The CARES Act does not provide sufficient resources for businesses to remain afloat.
 - Supply chains are destroyed
- Compliance with social distancing is imperfect and the pandemic takes longer to end.
- Testing remains in short supply.
- We can only gradually open up selected areas / sectors depending on the pandemic.





The Argument for U

The New York Times

Business leaders and the C.D.C. warn the economy will recover slowly, even as pressure grows to reopen it. April 13, 2020

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- Dr. Robert Redfield, the director of the Centers for Disease Control and Prevention, said Monday that he expected the reopening to play out "community by community, county by county" but that the U.S. would first need to "substantially augment our public health capacity to do early case identification, isolation and contact tracing.
- "There's no doubt that we have to reopen correctly," Dr. Redfield said. . . " "It's going to be a step-by-step, gradual process. It's got to be data-driven.

It All Comes Down to Testing

We need reliable and widespread testing

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- For COVID-19
- For COVID-19 Antibodies
- Without testing we're in economic purgatory.

Economic Impacts of COVID-19

- In future lectures we will continue to monitor the economic fallout from the COVID-19 epidemic.
- We will also monitor the policy responses.
- I hope that you all stay healthy!





Thank You!



