



Covid, Zooming and Resilience

September 23, 2020

Inland Northwest Partners

Cyberspace

John W. Mitchell

The Way We Were Is Not The Way We Are

- ▶ Sudden Disruption of the Fabric Of Our Lives
- ▶ Remember January/February?
- ▶ Nature, Technology, Policy
- ▶ This is past the Black Swans to the Realm of the Unimaginable.
- ▶ Old Names- Bankrupt or Gone :Brooks Brothers, JC Penny, Hertz, Sweet Tomatoes, Lord and Taylor, J.A. Banks, Pier One, J Crew
- ▶ New Things-Booming- Zoom, Walmart Plus, Hand Sanitizer, TP Hoarding, Dominos, Plexiglass, Peloton, Food Carts
- ▶ West Coast Fires/Urban Disruption

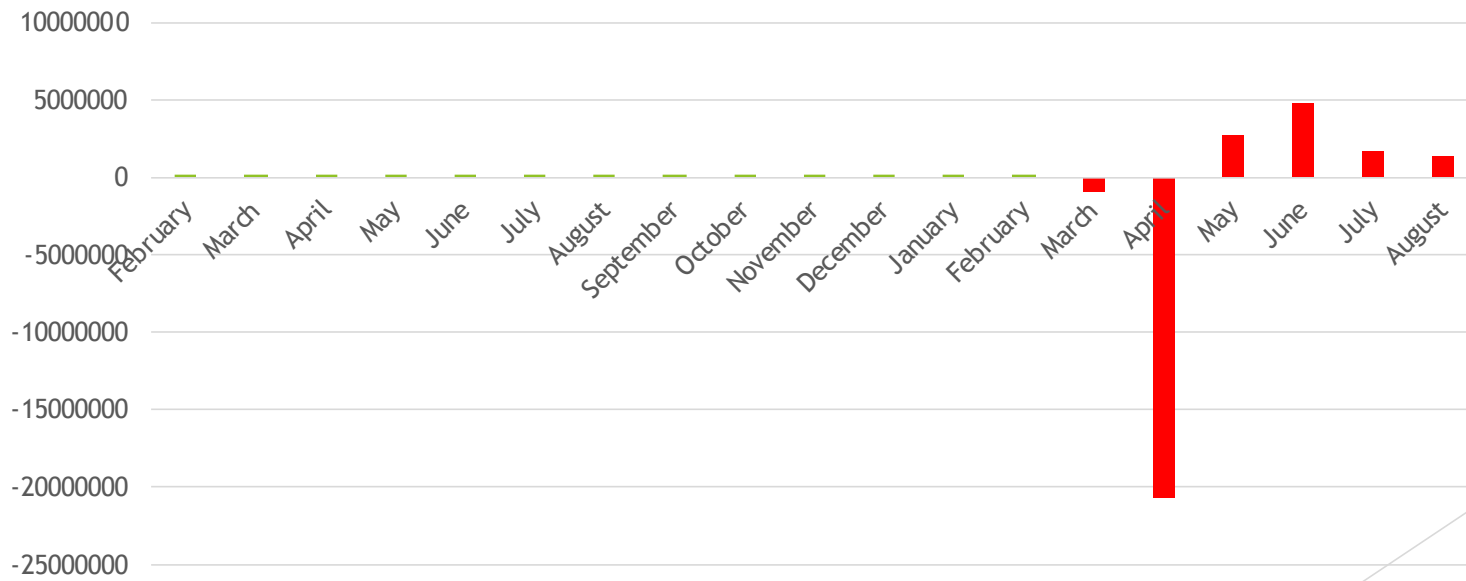
Fall 2020

- ▶ No 12th Year-Sudden Recession Virus/Policy Induced
- ▶ Record Low Interest Rates
- ▶ Fear Stalks the Land-Behavior Changing-Temporary or a New Normal?
- ▶ The Defining Economic Event of Our Lifetime
- ▶ Massive Monetary and Fiscal Support-Not Finished Yet
- ▶ Uneven Pandemic Impacts and Recovery
- ▶ Election Season All Through That Prizm

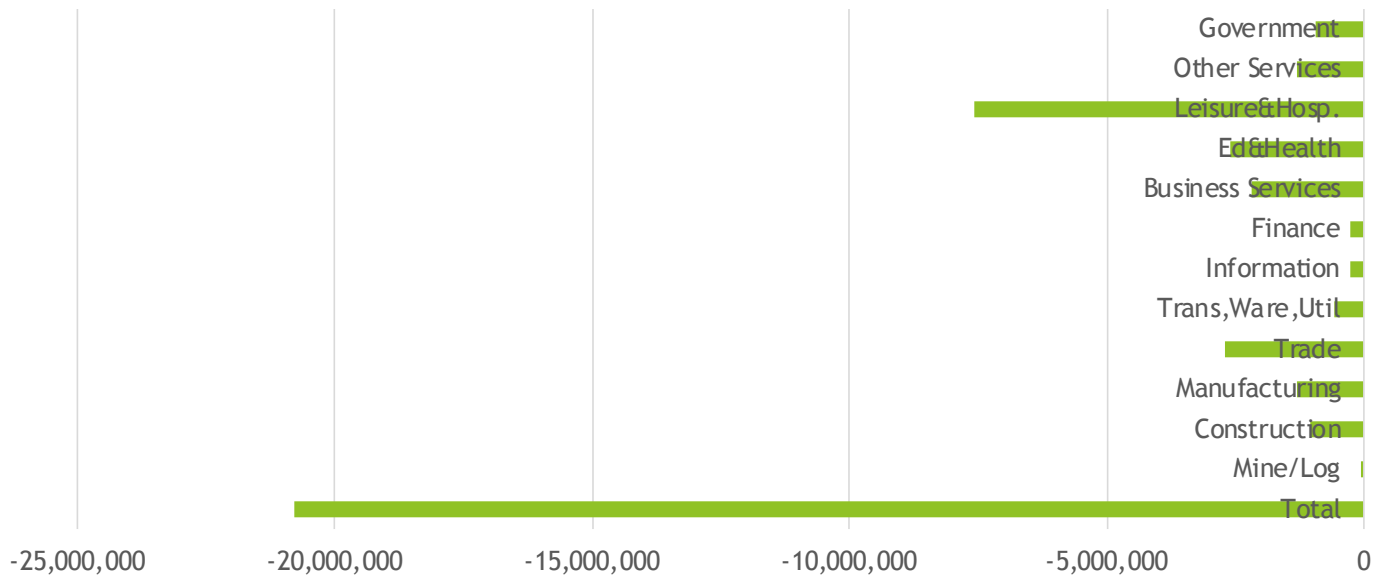


Monthly Changes in Payroll Employment 2019-2020

Source: BLS




Change in Employment March to April 2020 (-20,787,000)



Source: BLS



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- ▶ Lockdown-Stay in Place Orders
 - ▶ Travel Bans
 - ▶ Work from Home Orders
 - ▶ Closures of “Non-Essential” Businesses-Patchwork of Rules-Idaho Different From Washington
 - ▶ Labor Force Fell by 6.4 Million in April and Rose 1.75 Million in May and 1.71 Million in June, Dropped 62,000 in July and Rose 968,00 in August
 - ▶ August Numbers Included 238,000 Census Workers, Unemployment 8.4%

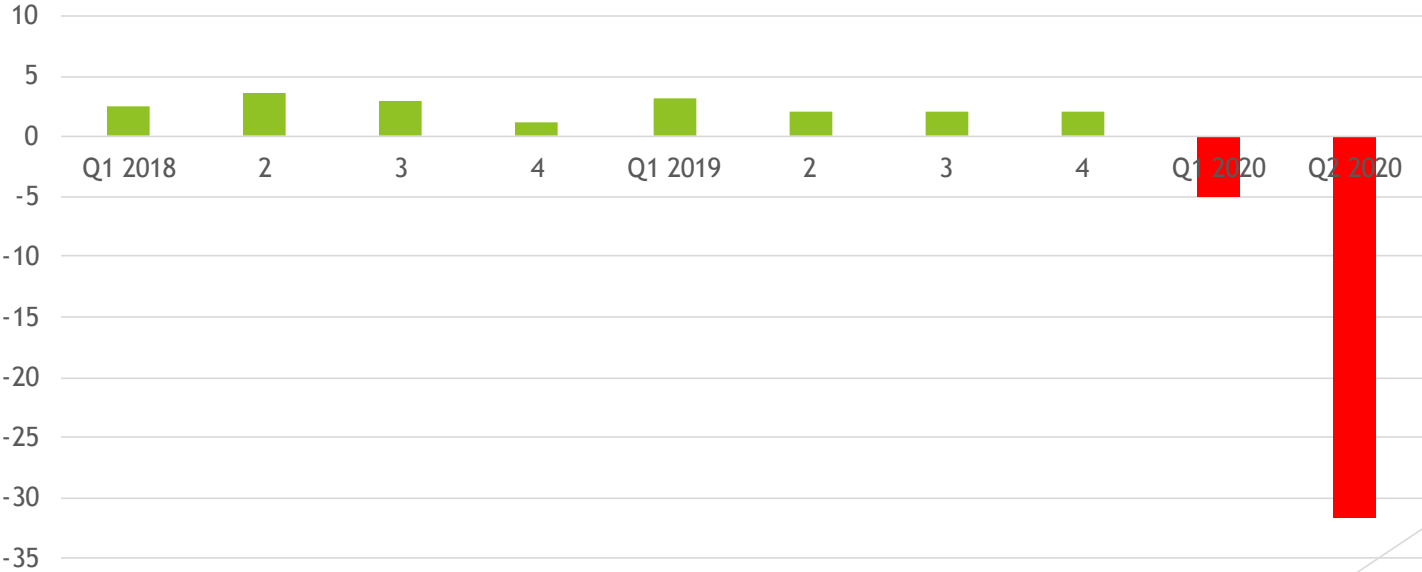
Job Growth Update **July 2020** Data
Year over Year Change - **50** States Down
Source: BLS, ASU

- ▶ **Idaho 1**
- ▶ Utah 2
- ▶ Mississippi 3
- ▶ Arizona 4
- ▶ Nebraska 5
- ▶ Indiana 6
- ▶ Georgia 7
- ▶ Arkansas 8
- ▶ **South Dakota 9**
- ▶ Montana 10
- ▶ Kansas 11
- ▶ Missouri 12
- ▶ Alabama 13
- ▶ Tennessee 14
- ▶ Oklahoma 15
- ▶ South Carolina 16
- ▶ Texas 17
- ▶ Florida 18
- ▶ Iowa 19
- ▶ North Carolina 20
- ▶ Colorado 21
- ▶ Wyoming 22
- ▶ **Washington 23**
- ▶ Virginia 24
- ▶ Louisiana 25
- ▶ OREGON 26
- ▶ Maryland 27
- ▶ West Virginia 28
- ▶ Kentucky 29
- ▶ North Dakota 30
- ▶ Illinois 31
- ▶ New Mexico 32
- ▶ Rhode Island 33
- ▶ Connecticut 34
- ▶ Minnesota 35
- ▶ Ohio 36
- ▶ Wisconsin 37
- ▶ Pennsylvania 38
- ▶ Delaware 39
- ▶ Maine 40
- ▶ New Hampshire 41
- ▶ California 42
- ▶ Nevada 43
- ▶ New Jersey 44
- ▶ *Michigan 45*
- ▶ *Vermont 46*
- ▶ *Massachusetts 47*
- ▶ *Alaska 48*
- ▶ *New York 49*
- ▶ *Hawaii 50*

Real GDP Growth Rate Annualized 2018-2020

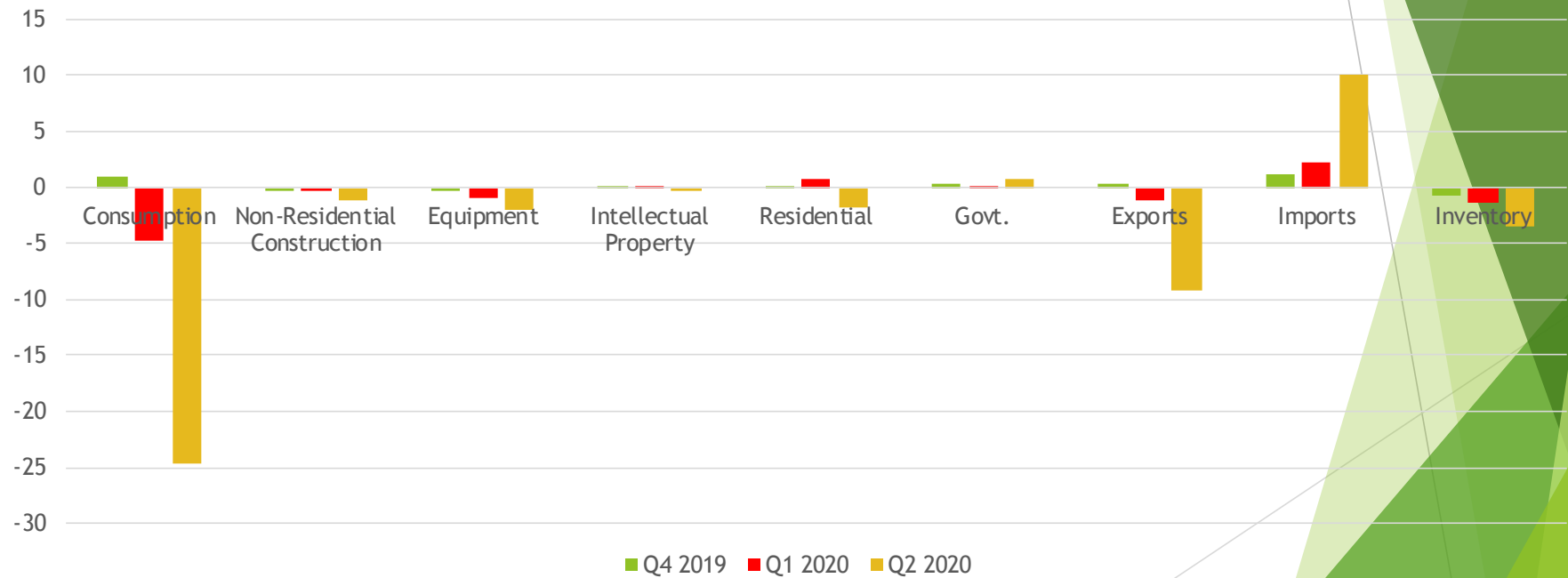
The Trough Was June 2009

Source: BEA



Percentage Point Contributions to Real GDP Growth Q4 19, Q1 2020 and Q2 2020

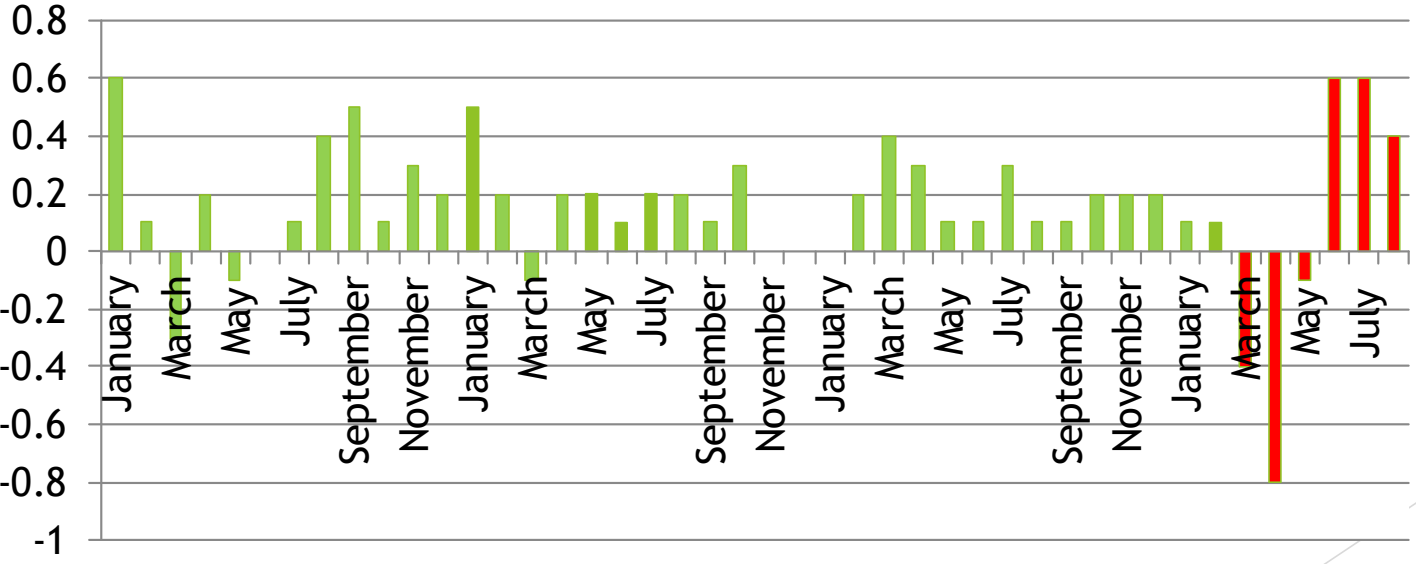
Source: BEA



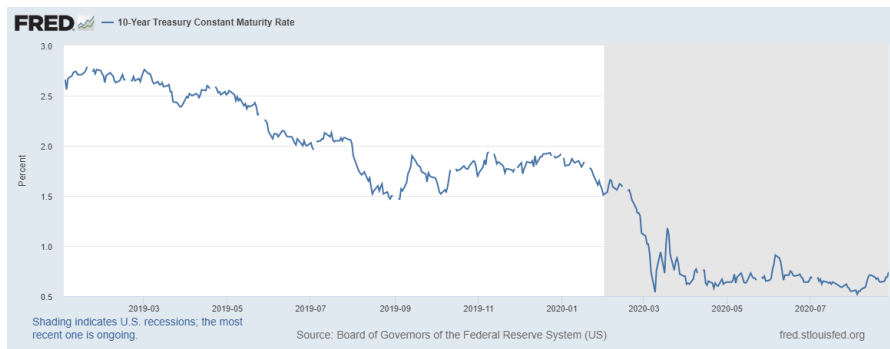
Monthly Change in the CPI 2017-20

Year over Year August 1.3% Total and 1.7% Core

Source: BLS



Monetary Policy, Flight to Safety, Low Inflation The 10 Year Treasury



- ▶ Record Low Mortgage Rates
- ▶ Soaring Prices of Equities and Bonds
- ▶ Horrified Risk Averse Savers

Monetary Policy In Action

- ▶ Funds Rate to 0-.25%
- ▶ Provide Liquidity- 2007-09 Lessons
- ▶ Main Street Lending
- ▶ Commercial Paper Funding
- ▶ Paycheck Protection Liquidity Program
- ▶ Support Muni Bond Market
- ▶ Fed Funds Rate Flat at least Through 2023-Life at Zero Bound
- ▶ Fed has Bought Over \$2.7 Trillion in Government Securities in the Last Year
- ▶ New Strategy-If inflation has been below target will tolerate above 2%-Changing View of Relationship between Inflation and Unemployment
- ▶ "expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time." 9/16/20 Fed Statement

Fiscal Policy Response

- ▶ Four Corona Virus Bills Passed
- ▶ Coronavirus Preparedness and Response Act
- ▶ Families First Coronavirus Response Act
- ▶ CARES Act
- ▶ Paycheck Protection and Health Care Enhancement

- ▶ Stimulus Checks, Forgivable Loans, Boosted Unemployment Compensation, Help to Hospitals, States and Cities. Testing Funds, Expanded Sick Leave etc.

- ▶ Near \$3 Trillion in New Spending
- ▶ Preserve the Firms/ Employee/Employer Relationship

More To Come?

- ▶ Funds to State and Local Governments in the Next Round ?
- ▶ The Extra Unemployment Funds ended in July-Executive Order State can get \$300 and Put in \$100 of Own
- ▶ Political Paralysis
- ▶ Back to Immediate Postwar Period in terms of Debt Levels-Not a Focus Now
- ▶ Through August Revenues \$3,048 B and Spending \$6,054B-Up 46% over 2019
CBO \$3.3 Trillion Deficit in 2020
- ▶ Driven by Automatic Stabilizers and Discretionary Covid Actions, Deadline Changes and \$1 Trillion Going In


Modern Monetary Theory

- ▶ Remember Fiscal Basics-Keynes-Stimulate when Private Demand Deficient-Temporary
- ▶ Traditional Concerns about Deficits: Crowding Out Private Investment, Inflation, Inability to React to Downturns, Loss of Faith in Asset
- ▶ MMT Says Use Fiscal Policy to Move to Full Employment-Deficits Not a Problem Borrowing in Own Currency which we Create-Want to Spend-Tax, Borrow, or Create Money
- ▶ Remember Most Money is a Computer Entry
- ▶ Can Tighten if Pressing on Capacity
- ▶ Deficit Rising-No Problem Selling-Inflation Low
- ▶ Have You Heard Much about Deficit Concerns Lately? At the Conventions?
- ▶ Defense, Green New Deal, Infrastructure etc.
- ▶ This is an MMT Experiment We Are Living In

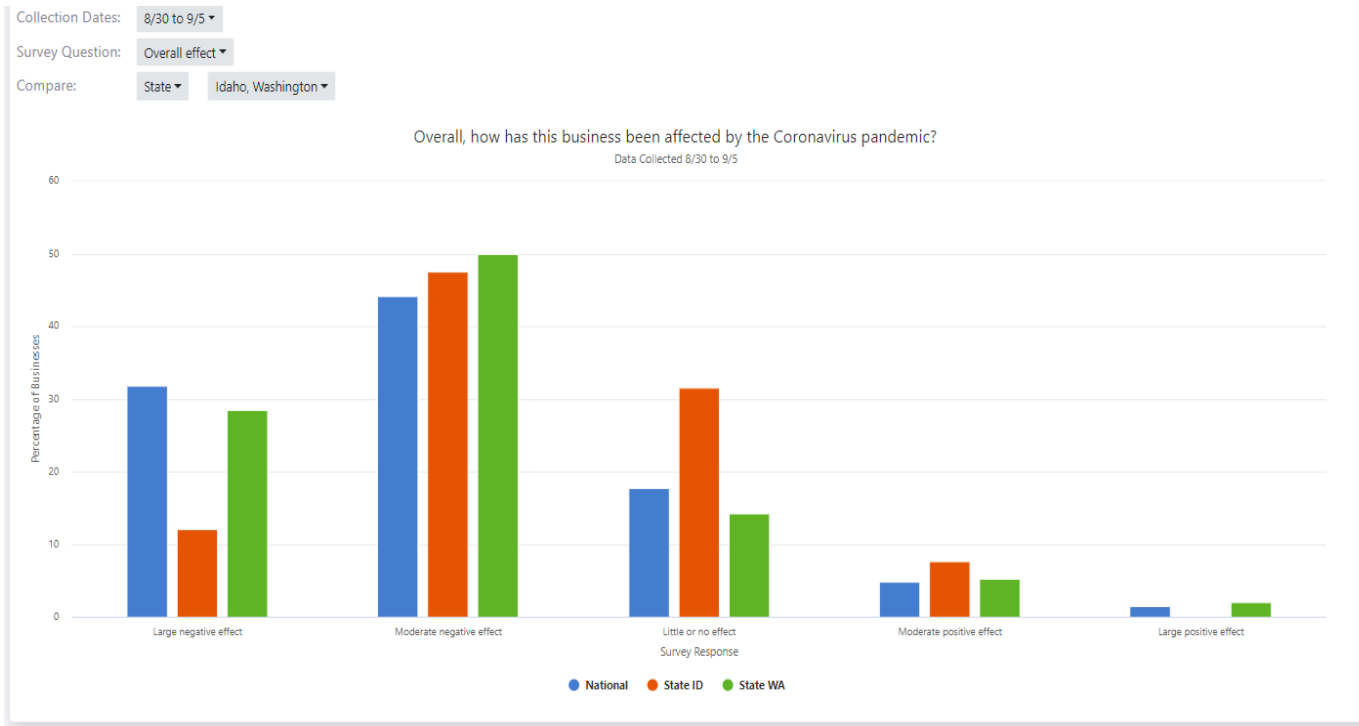
The Pandemic Disruption

- ▶ The Deaths
- ▶ The Economic Shock-Unemployment, Financial Losses, Closures, etc.
- ▶ Differential Impacts-Stressing the Social Bonds
- ▶ Work From Home or Not
- ▶ Families With Young Children in Household
- ▶ Millennials
- ▶ Pre-Retirees
- ▶ Lower Income-Less Education
- ▶ New Entrants into the Labor Force
- ▶ Retirees



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- ▶ Industrial Impacts: Winners and Losers: Airlines, Hotels, Restaurants, Mall Operators, Hospitals, Aircraft Producers, Grocery Stores, Home Improvement Stores, Bicycle Industry, Tech Firms, RV Industry, ETC.
 - ▶ Education Disruption and Learning Losses
 - ▶ State and Local Governments-Revenue/Cost Impacts Washington State GF -7% in Fiscal 2021, Idaho GF Revenues up 2%-Revenue Impacts and Cost Impacts
 - ▶ Increase in Global Poverty

The Region Small Business Survey Census Bureau 8/30-9/5



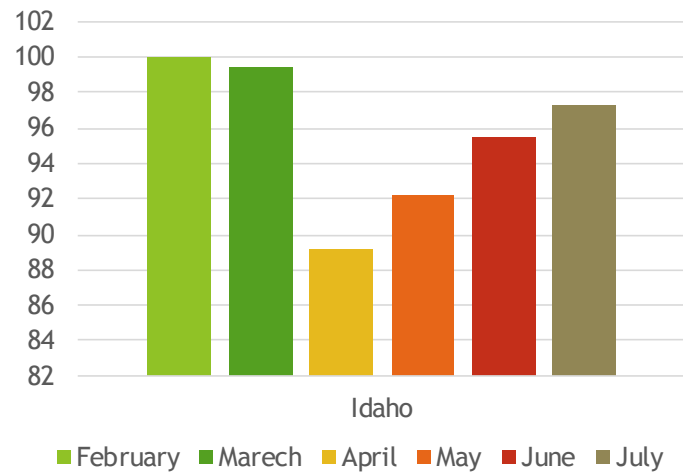
The Endgame

- ▶ Lessening of Restrictions-Reopening
- ▶ Recovery Likely Started Late in Second Quarter (NBER Dating Committee Peak in February)
- ▶ Outbreaks-Some Re imposition of Restrictions?
- ▶ The Development of a Vaccine? Global Race-Then the Allocation System?

The Plunge and Rebound

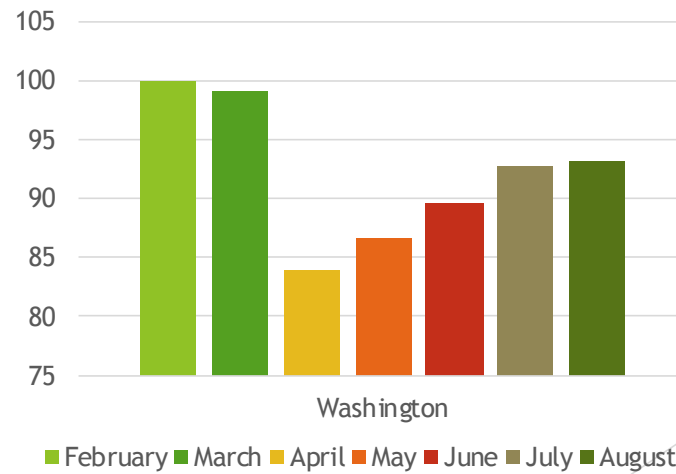
Idaho February=100

Source: Dept. of Labor



Washington February=100

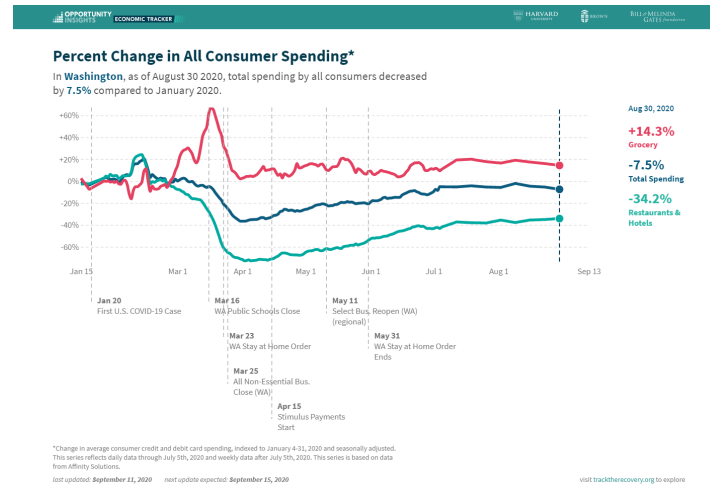
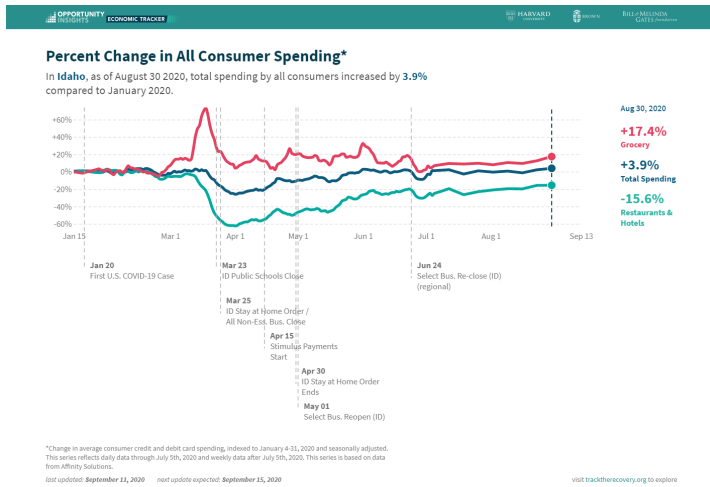
Source: Employment Security



Spending Trends From Opportunity Insights (Chetty, Friedman, Hendren, Stepner)


Idaho

Washington



How Will This Change Us and the System In All the Roles We Play?

- ▶ Increased Savings-Happened after the Depression and the Great Recession
- ▶ How long for People to Emerge from Trauma? Going Out? Movies, Crowds, Trips?
- ▶ Time Around the House-Remodel, Size?
- ▶ Supply Chain Importance, Location, More Inventory-Just in Time to Just in Case, Regional Networks-Lots More Attention-Alternatives
- ▶ Remote Work-Blip or Sea Change? CRE?
- ▶ Geographic Implications of the Trauma? The Plural of Anecdotes is Data-Stigler

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- ▶ Digital Access-Broadband for Educational Disruption
 - ▶ Medical System with Medical Insurance Tied to Employment for Many-Mandate to Have was Repealed ? Safety Net Post CV? Paid Sick Leave
 - ▶ Lost Learning-Parental Experience, Earnings Loss, Participation Rates
 - ▶ Labor Market Hysteresis
 - ▶ Debt Burdens-Forbearance, Deferred, Risk Perception-Financial Institutions Reserving Billions for Losses
 - ▶ Role and Size of Government-Independence of Federal Reserve
 - ▶ Inequality Implications
 - ▶ Revised Expectations-Pandemic Worries? Animal Spirits? Risk Considerations?
 - ▶ Global Co-Operation-Remember Trade War Before-Stepping Back from Trade-Altering Relationships
 - ▶ Long Lasting Impacts on Performance? Altering Beliefs about the Future

Creative Destruction

- ▶ New Replaces Old-New Ways of Doing Things, Technology, Policy Shocks, Pandemic
- ▶ Capital Stock Obsolescence-Remember Energy Shocks-Big Cars Now Malls-Office Space? Public Transit?
- ▶ Demand /Employment Shifts
- ▶ Reallocation is Difficult-Talking About People's Lives-Expectations-Valuations



Outlook

- ▶ CBO 2020 GDP -5.8%-Second Quarter Declined at Annual Rate of 31.7%-Rebound in Q3 4% Growth in 2021
- ▶ Idaho Employment Down 2.1% in 2020 up 4.1% in 2021 Washington Down 3.1% in 2020 and up 4% in 2021
- ▶ Recovery Signs: Employment, Retail Sales, ISM Indices, Initial Claims, Driving Activity, TSA Counts, Beige Book, Housing
- ▶ The Virus/ The Pandemic Policy Response, and Behavior will Determine the Trajectory of the Upturn with the Possibility of Policy Changes in 2021

How Will We (You) Look Back on This Interlude in 2030?

- ▶ Did the Safety Net Change?
- ▶ How Did we Deal with the Inequality Revealed by the Pandemic, The Social Turmoil?
- ▶ The Re-allocation of Labor and Capital?
- ▶ How Did the MMT Experiment Work?
- ▶ Changes in the Role and Size of Government?
- ▶ Changes in Your Business and Life?
- ▶ How Resilient was the System?
- ▶ Regional Perspective-Rapid Population and Economic Growth in Recent Years-Will it Continue? Issues to the West and South, More Remote Possibilities, Lower Cost Housing, Less Density, Region that has Touted its International Connections in a More Protectionist World