



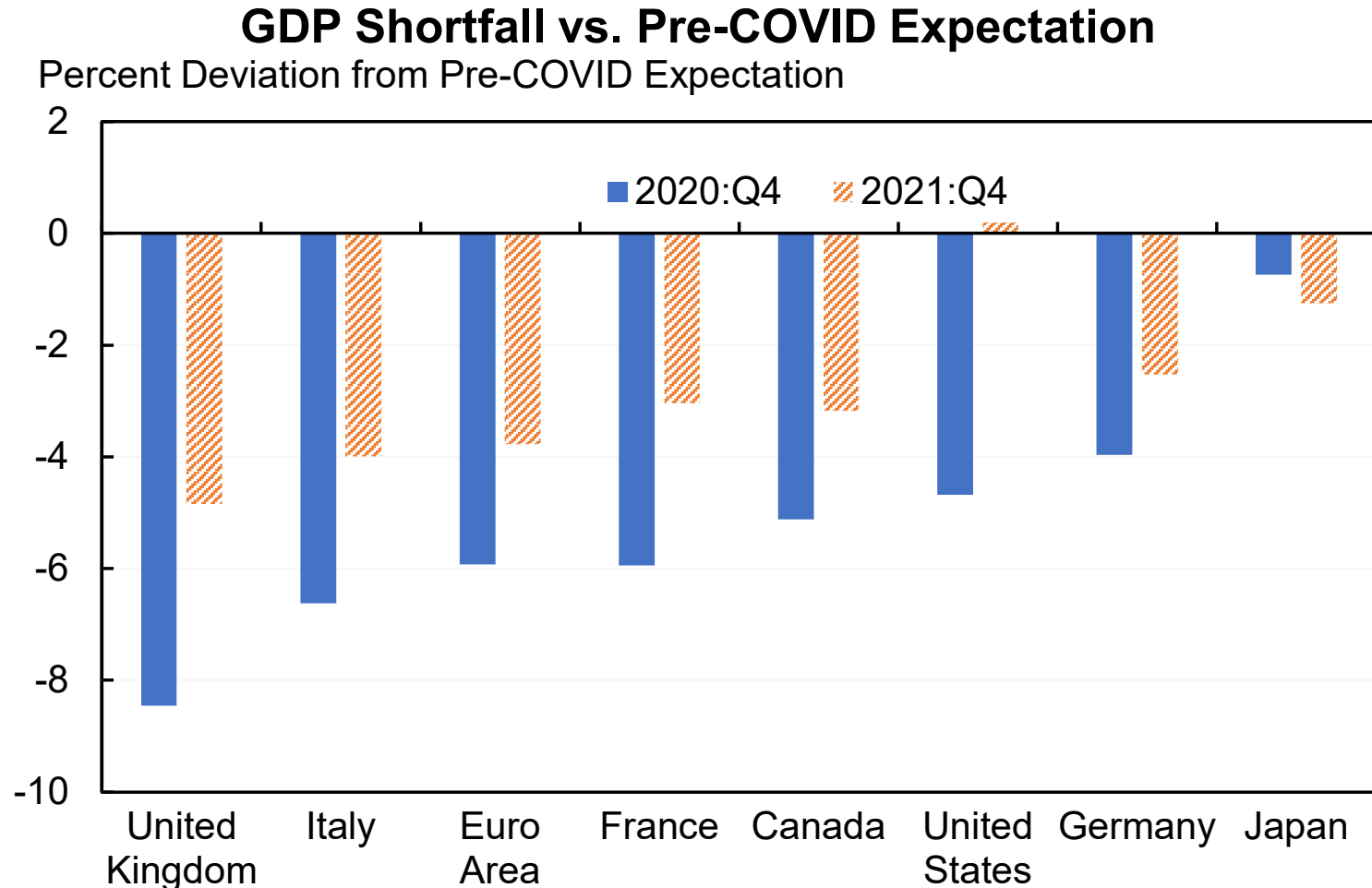
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The Economic Effects of the Pandemic

Jason Furman
Harvard University

Wiener Conference Call
April 29, 2021

The United States has been (and is expected to be) ahead of most advanced economies



Note: Shortfall for 2020:Q4 is actual compared with average growth from 2017:Q4 through 2019:Q4. Shortfall for 2021:Q1 is OECD March 2021 economic outlook vs. OECD November 2019 economic outlook.

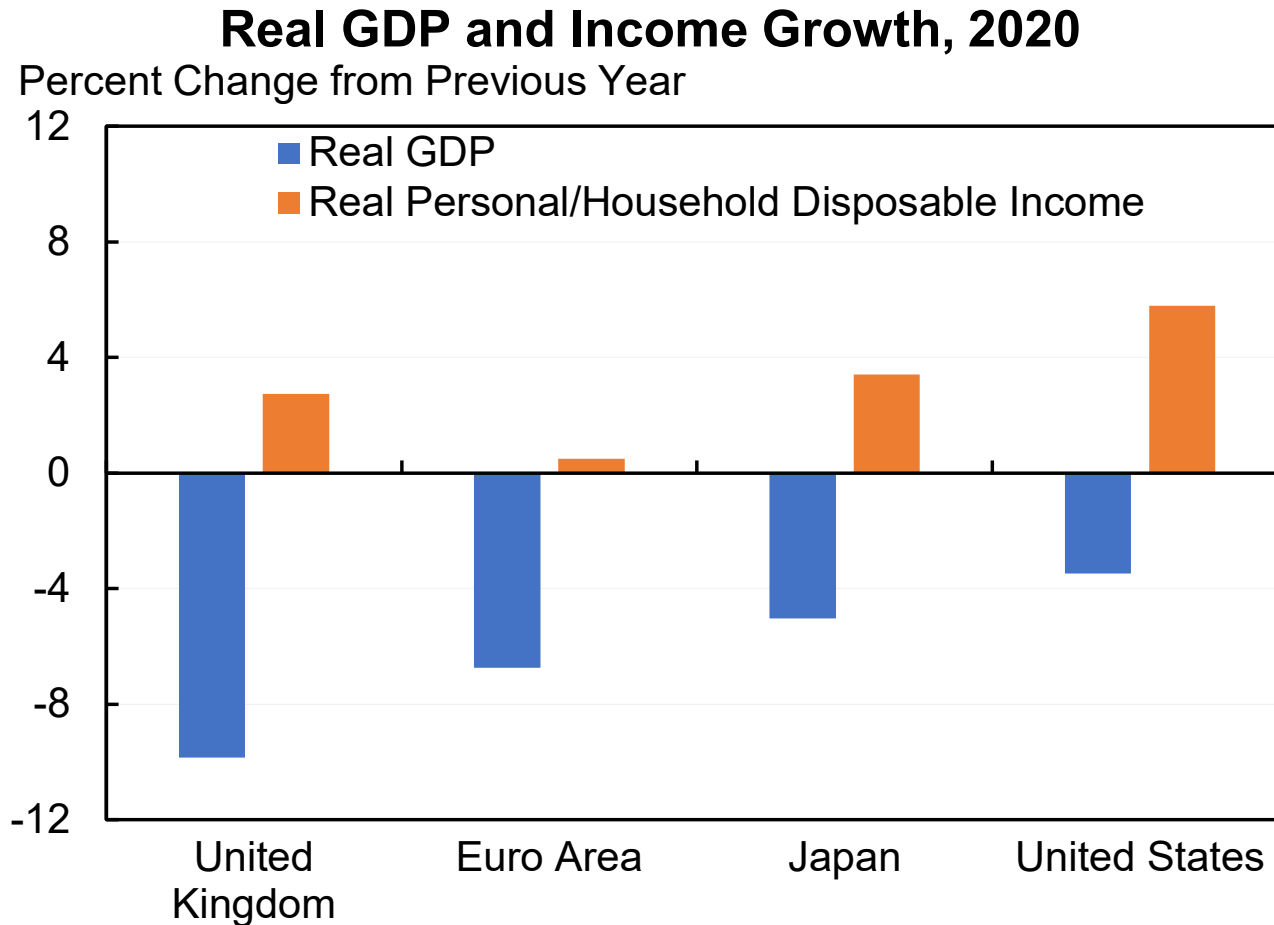
Source: Organisation for Economic Co-operation and Development; World Bank; Macrobond; author's calculations.

The very latest U.S. data on where the economy fell short of trend in 2021-Q1

Percent Difference from Pre-pandemic Trend, 2020:Q1

Consumption	-3.1
Goods	8.0
Services	-8.0
Business Fixed Investment	-3.8
Residential Fixed Investment	19.1
Government	-1.7
<i>Memo:</i>	
<i>Gross Domestic Product</i>	<i>-3.8</i>

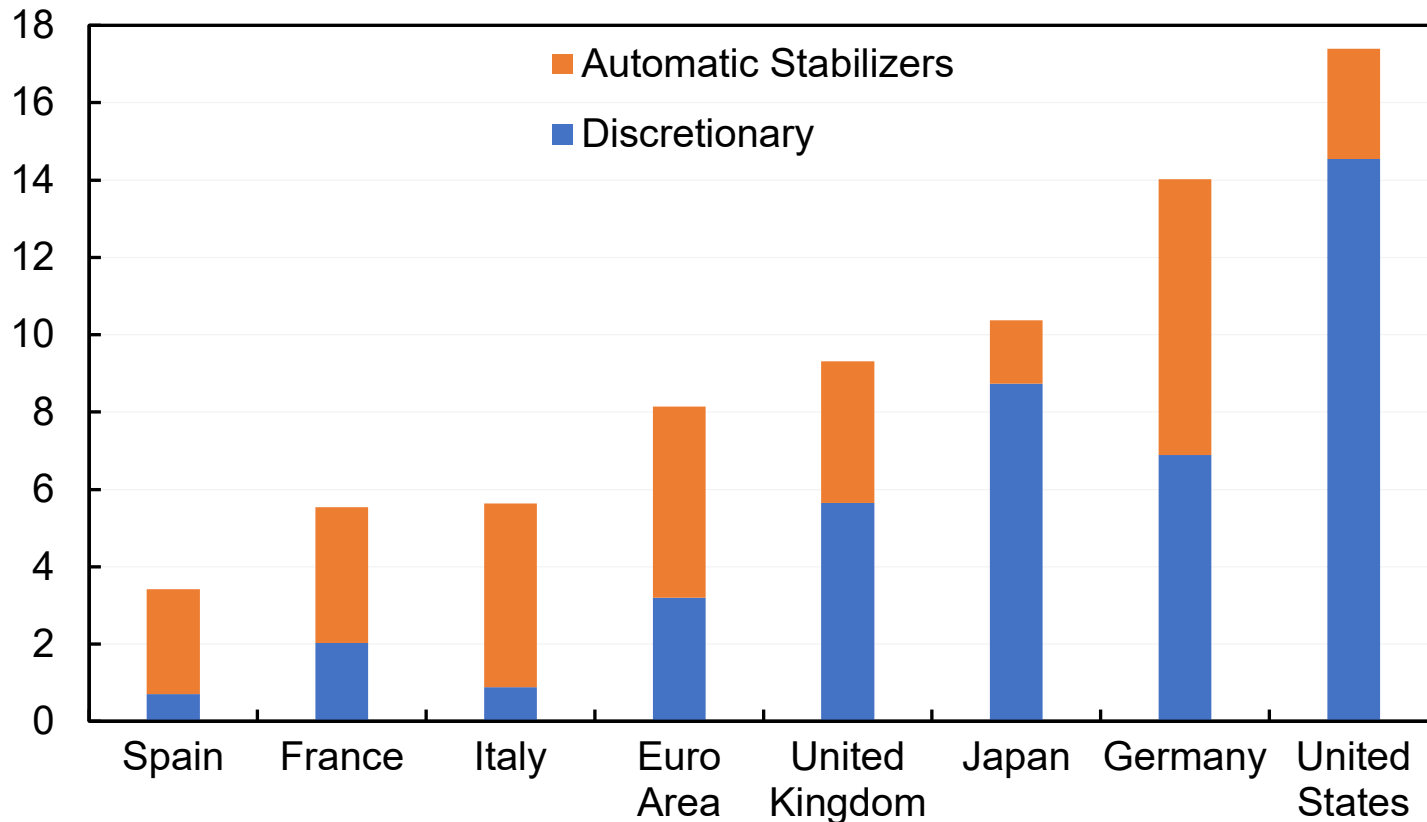
The remarkable policy innovation: GDP was down but disposable incomes were up



Varying fiscal responses among the advanced economies—the US is notably large

International Fiscal Response to COVID-19

Percent of 2019 GDP

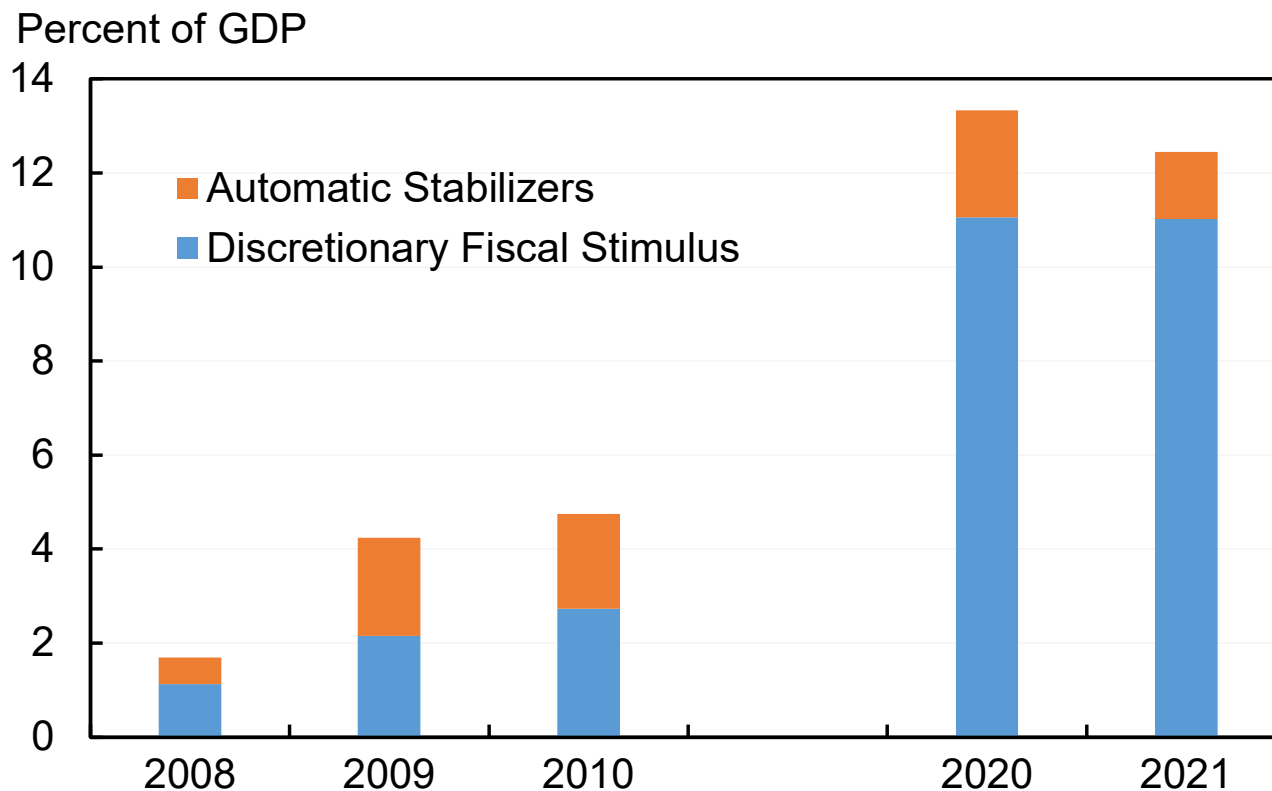


Note: United States includes American Rescue Plan and PPP extension; others as of January 26, 2021.

Source: Calculations based on Evercore ESI; Congressional Budget Office.

Largest fiscal response to an economic crisis ever in the United States

Fiscal Stimulus as a Percent of GDP, 2008-2010 and 2020-2021

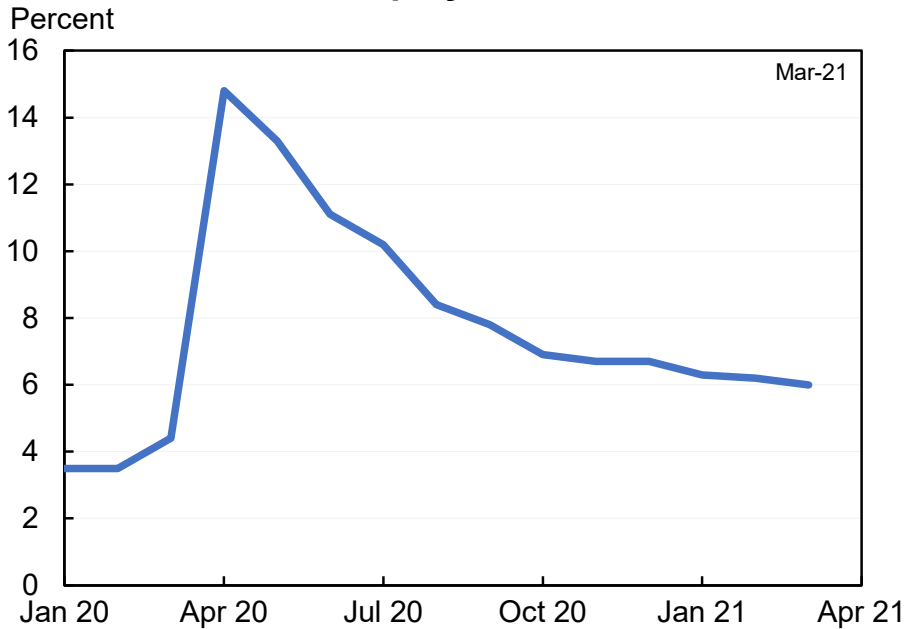


Note: Calendar year.

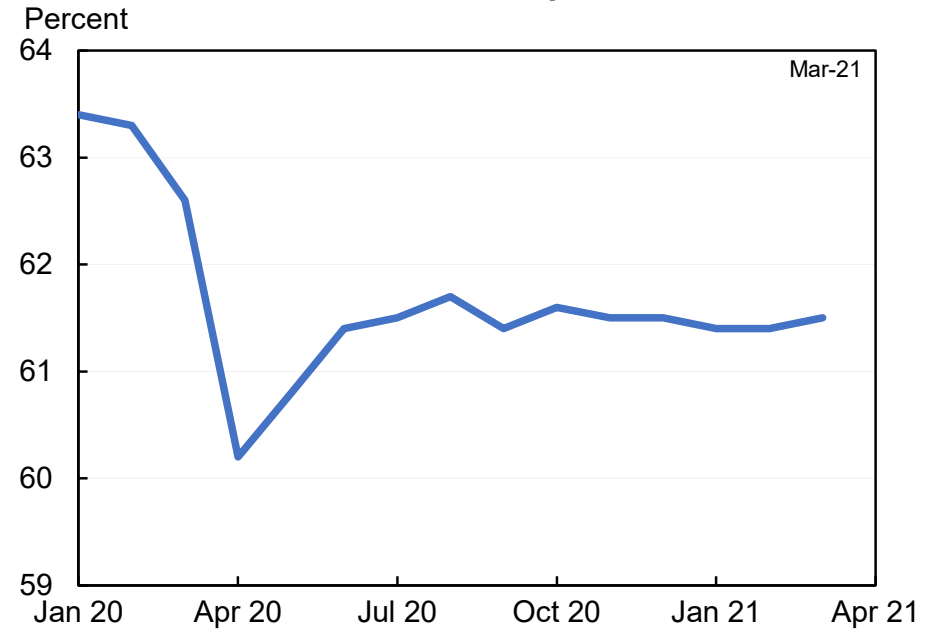
Source: Calculations based on Council of Economic Advisers (2014); Congressional Budget Office; Office of Management and Budget; Bureau of Economic Analysis.

Unemployment is falling but still elevated while people are not returning to the workforce...

Unemployment Rate



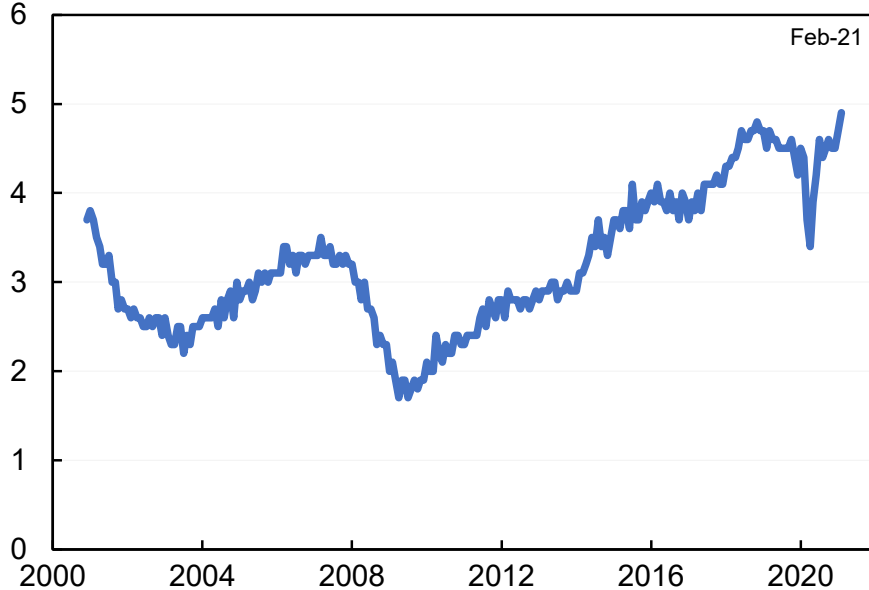
Labor Force Participation Rate



...Openings and quits raise the possibility that the labor market is actually very tight already

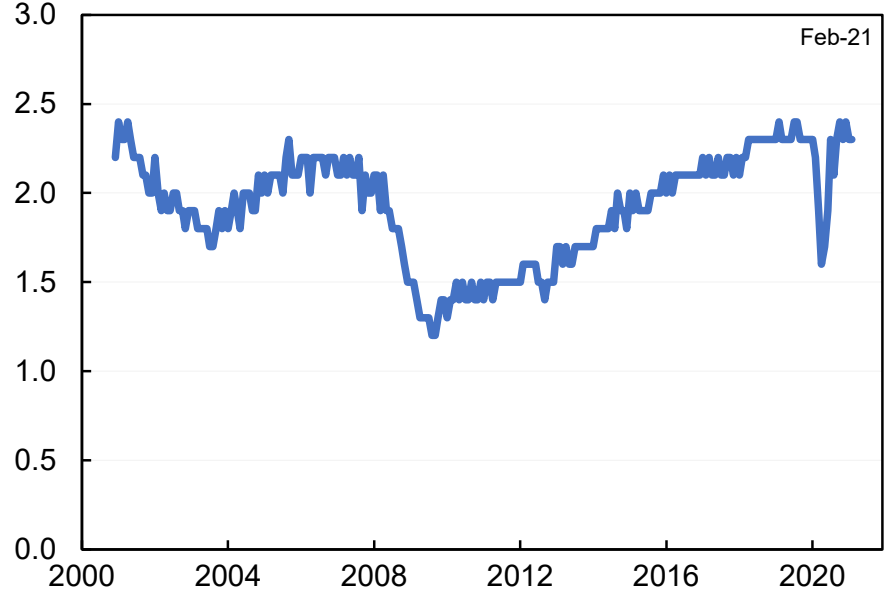
Job Openings Rate

Percent of total employment plus job openings



Job Quits Rate

Percent of total employment



The big questions for the U.S. economic outlook

How much will supply increase?

- Will workers want to return to the labor force?
- Will there be jobs for them?
- Pandemic scarring or creative destruction?

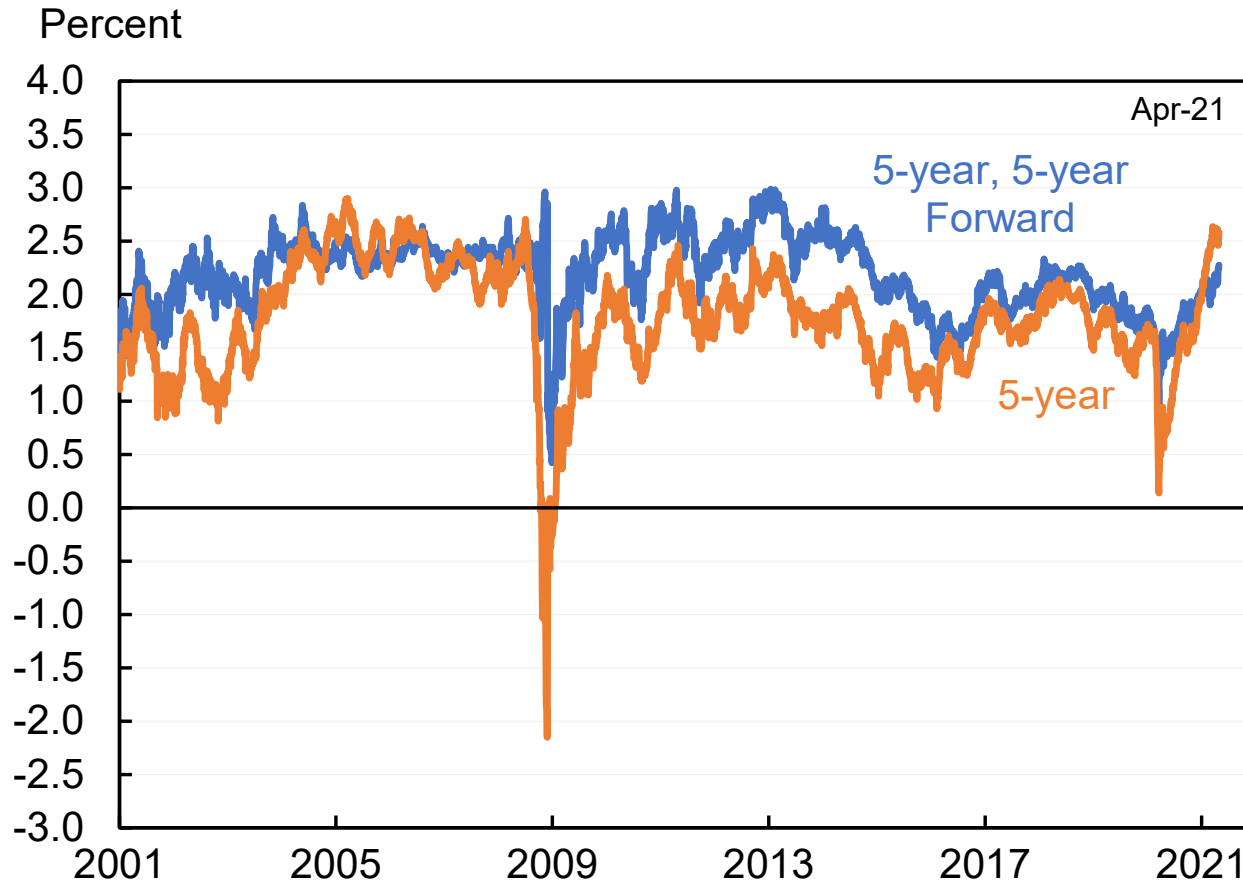
How much will demand increase?

- Will fiscal stimulus and excess saving be spent?
- Will there be pent up demand

If supply increases less than demand what does that mean for inflation?

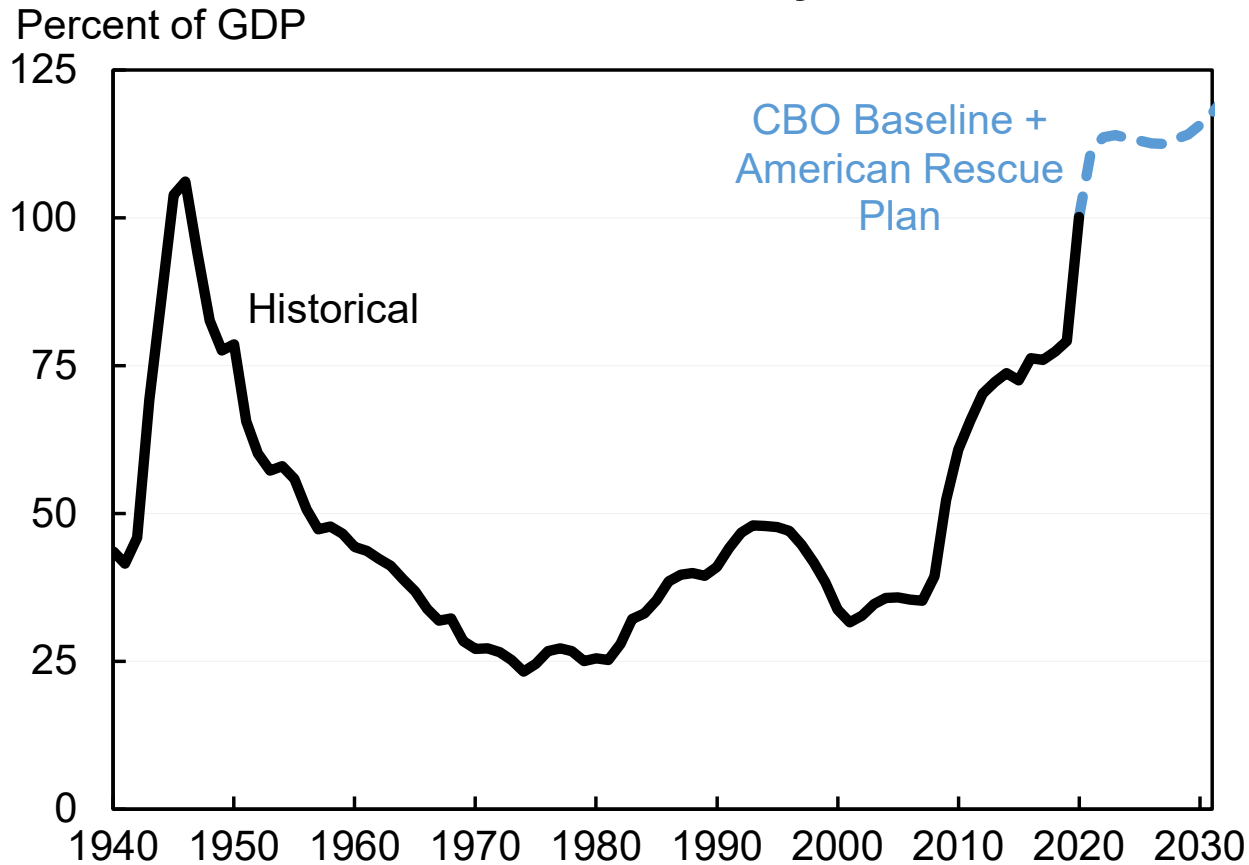
Market inflation expectations have gone up but remain consistent with the Fed's goals

Inflation Expectations



US debt is plateauing a high level over the next decade, is this a worry?

U.S. Federal Debt Held by The Public



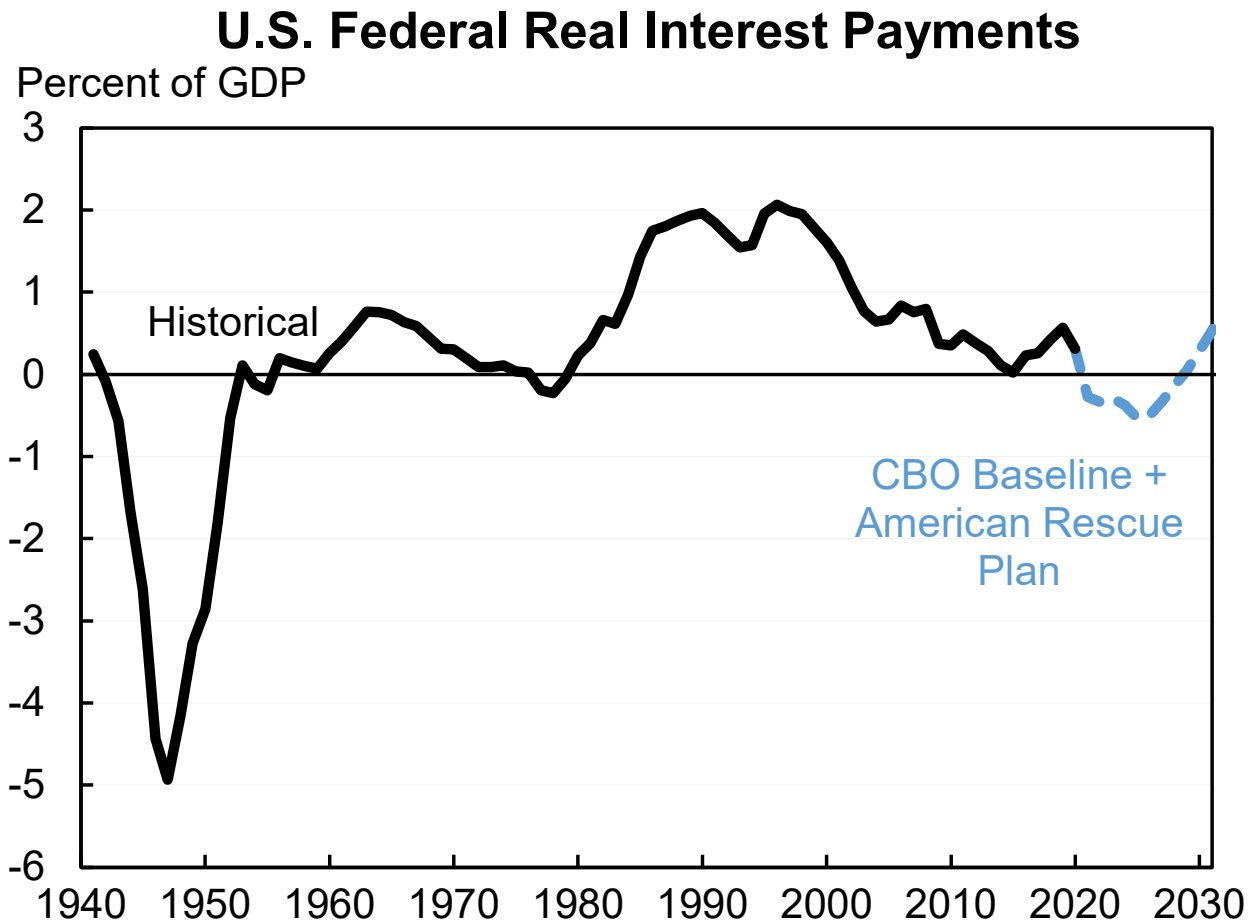
Interest rates have fallen dramatically and are expected to remain historically low

Ten-Year Treasury Rate



Note: CBO forecast as of February 2021. Market-implied forecast as of April 14, 2021.
Source: Congressional Budget Office.

U.S. debt service costs remain low—this is the better metric for assessing fiscal sustainability



The Biden agenda going forward

	10-year Cost (\$b)
<u>Spending (including tax expenditures)</u>	<u>\$4,500</u>
Physical Infrastructure	\$900
Green Investments	\$800
Manufacturing, Research & Development, Job Training	\$500
Caregiving	\$700
Education	\$500
Poverty and Paid Leave	\$1,200
<u>Tax Increases</u>	<u>\$3,300</u>
Corporate	\$1,800
Individual Enforcement	\$700
Capital Gains	\$400
Other Individual	\$400



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APPENDIX - The U.S. fiscal response to COVID

	Enacted (\$b)
COVID Response (testing, vaccines, etc.)	556
Stimulus Checks	867
Unemployment Insurance	599
Paycheck Protection Program	1,019
Federal Reserve Lending Programs	0*
Aid to State and Local Governments	942
Other (Business tax cuts, paid leave, children, etc.)	1,660
TOTAL	5,131

*Up to \$454 billion available but is likely to not have any net losses.

Note: Cost through end of budget window.

Source: Calculations based on Congressional Budget Office.