

(Economic)Life in the time of the Coronavirus

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Let's start with a little good news.



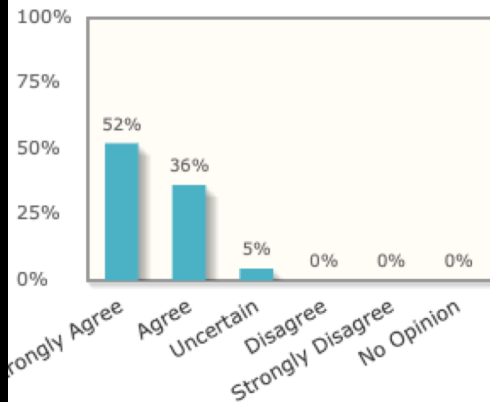


- When the facts change, I change my mind.
- The market can remain irrational longer than you can remain solvent.
- We are all Keynesians in foxholes
-Robert Lucas

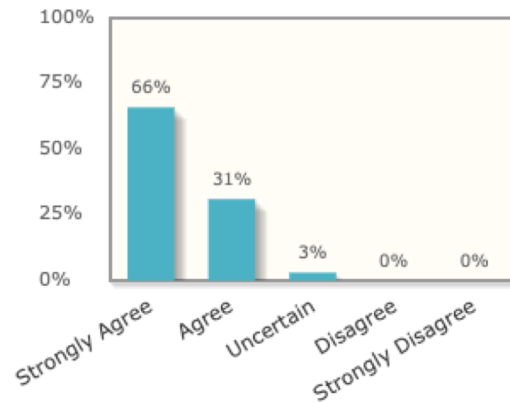
Economists' Views

Question A: A comprehensive policy response to the coronavirus will involve tolerating a very large contraction in economic activity until the spread of infections has dropped significantly.

Responses



Responses weighted by each expert's confidence



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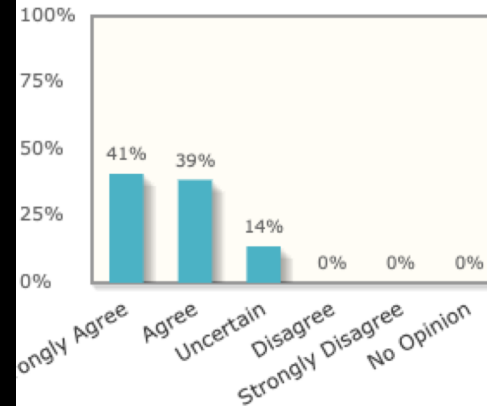
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Question B: Abandoning severe lockdowns at a time when the likelihood of a resurgence in infections remains high will lead to greater total economic damage than sustaining the lockdowns to eliminate the resurgence risk.

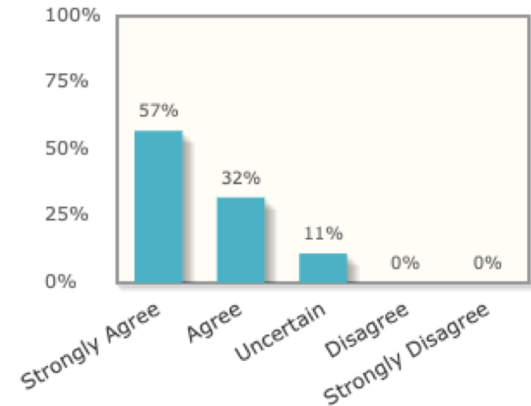
Responses



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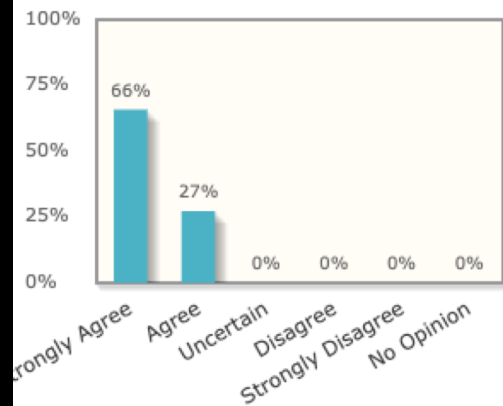
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Economists' Views (cont).

Question C: Optimally, the government would invest more than it is currently doing in expanding treatment capacity through steps such as building temporary hospitals, accelerating testing, making more masks and ventilators, and providing financial incentives for the production of a successful vaccine.

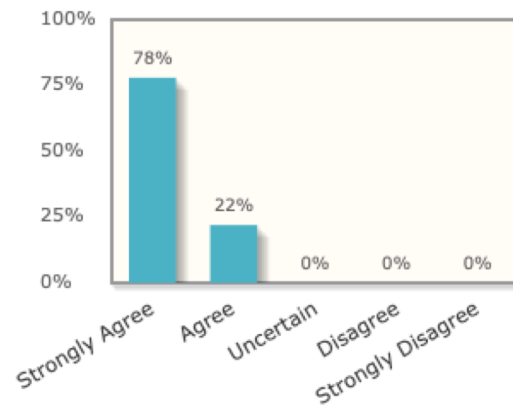
Responses



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- Consider cost of Premature Deaths already
- 13,000 deaths as of this morning
- Suppose 50 percent would have died of a comorbidity (not likely)
- Suppose value of a life is \$7 million (conservative)
- Cost is already > \$45 billion.
- The Y2K analogy

Contrasts

New York

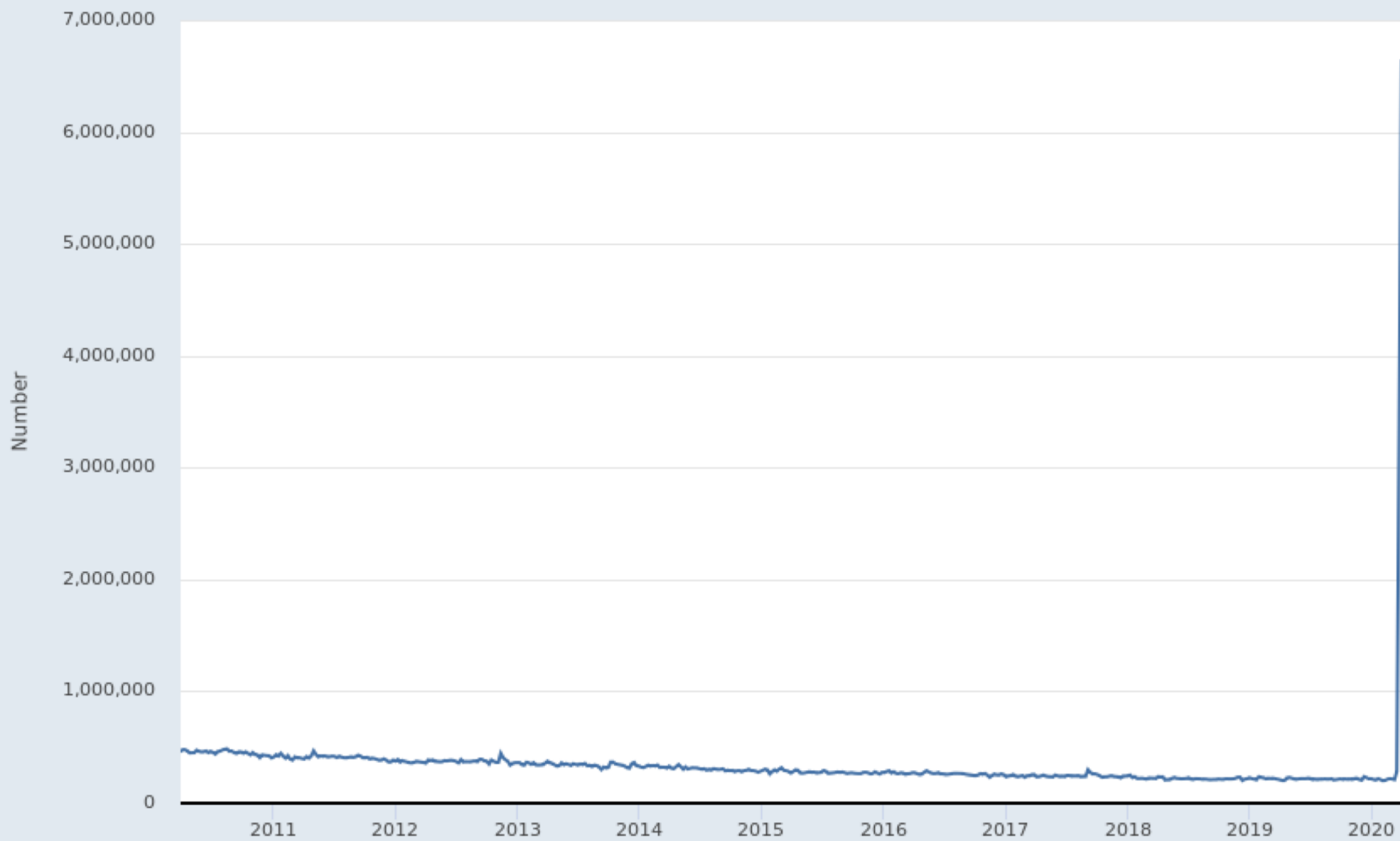
- New York State had more than 800 reported deaths today
- In a normal day, New York has 425 deaths.
- New York is resilient, but...

California

- California has had a total of fewer than 800 reported deaths
- California's population is double New York's
- No time to be smug, we know virus can bite quickly, so this could change
- But....important implications for economy going forward

Impact on GDP

- Range of forecasts right now is between – 20 and – 40 percent *annualized* growth in Q2. This is between roughly \$1 trillion and \$2 trillion
- CARES Act is \$2 trillion. Consensus multiplier is .6, meaning that it would restore about \$1.2 trillion in economic activity
- Federal Reserve has ramped up facilities to inject liquidity into the economy (more on this later)
- How much this lingers depends on unemployment peak and plumbing



Unemployment

- 10 million people filed unemployment claims in last to weeks. This is around six percent of US labor force, and implies current unemployment is around 10 percent.
- History tells us unemployment is traumatizing.
 - Great recession
 - Global Financial Crisis
- Key is keeping people employed. SBA package in CARES might help.
 - Forgivable loans for businesses that keep people on payroll
 - Currently funded at \$350 billion; discussion of more to come

Plumbing

- Solvency vs liquidity
- Think about tenants who have good businesses
 - Value of business is positive
 - Cash flow dries up for three months
 - Present value of business falls, but remains positive
 - Key is getting them through this period
- Whether we have to stay inside for 2, 4, or 6 months will matter a lot
- Businesses are the plumbing of the US economy
- What about moral hazard? To me it is not currently an important concern.

Real Estate

- Apartments. Rent collections are down, but this is temporary.
- Industrial. Probably sees an increase in demand at end of crisis.
- Office
 - Are people going to want to continue to socially distance?
 - Do people miss seeing other people at work?
- Retail
 - Lots of comorbidities already
 - This could push more shopping centers to close
 - Grocery anchored places the exception
- Hotels???

And this worries me

