

(Economic)Life in the time of the Coronavirus: Part 2

Richard K. Green

University of Southern California

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Let's start with a little bad news.

- Washington Model doubled forecast deaths
- Reason: people aren't saying home

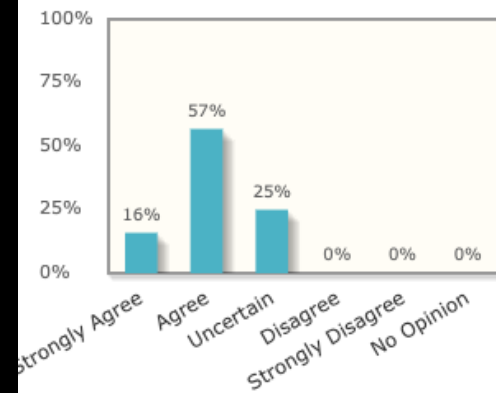


- When the facts change, I change my mind.
- The market can remain irrational longer than you can remain solvent.
- We are all Keynesians in foxholes
-Robert Lucas

Economists' Views

Question B: Government provision of financial support to firms to keep workers on payroll for the duration of the lockdown will make the recovery faster than if the only recourse for workers to replace income were unemployment insurance.

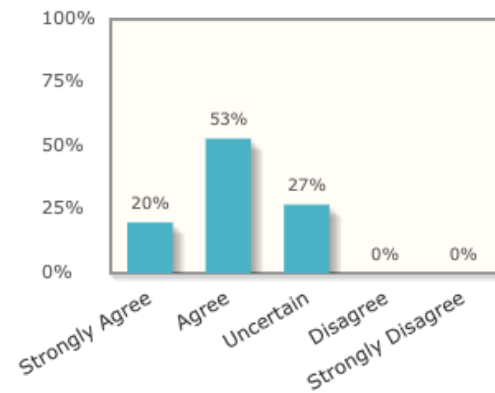
Responses



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Responses weighted by each expert's confidence

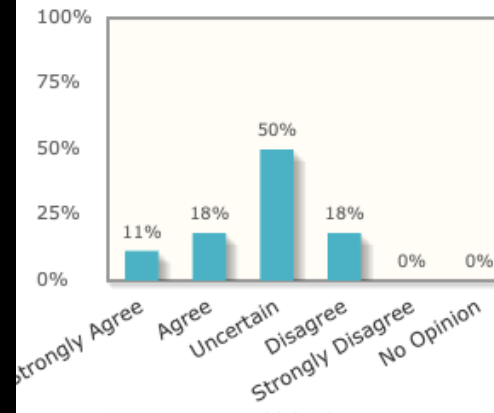


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Question A: The balance of federal and local government support to address the economic impact of the crisis has thus far been tilted too much towards supporting firms rather than individuals.

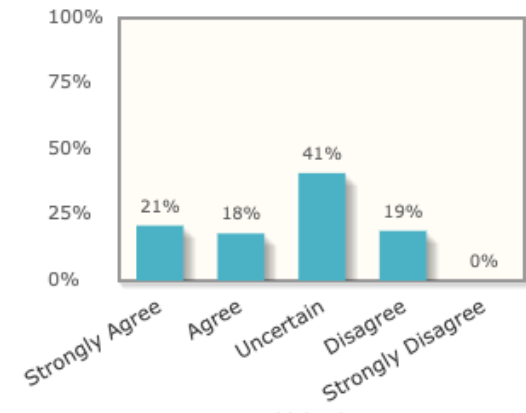
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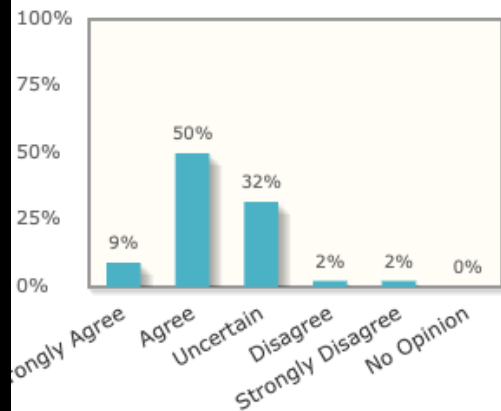
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Economists' Views (cont).

Question B: A program that allows small businesses to skip rent and utilities during the lockdown, but repay them slowly over time afterwards, would be a net benefit to the economy.

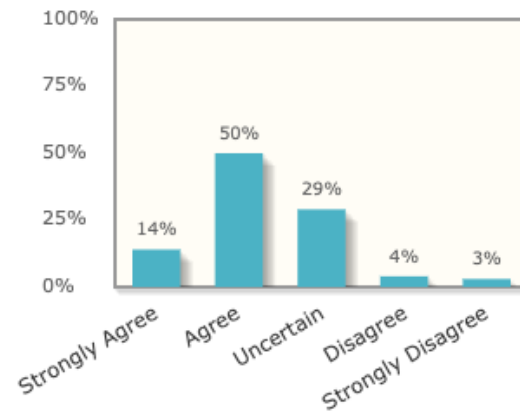
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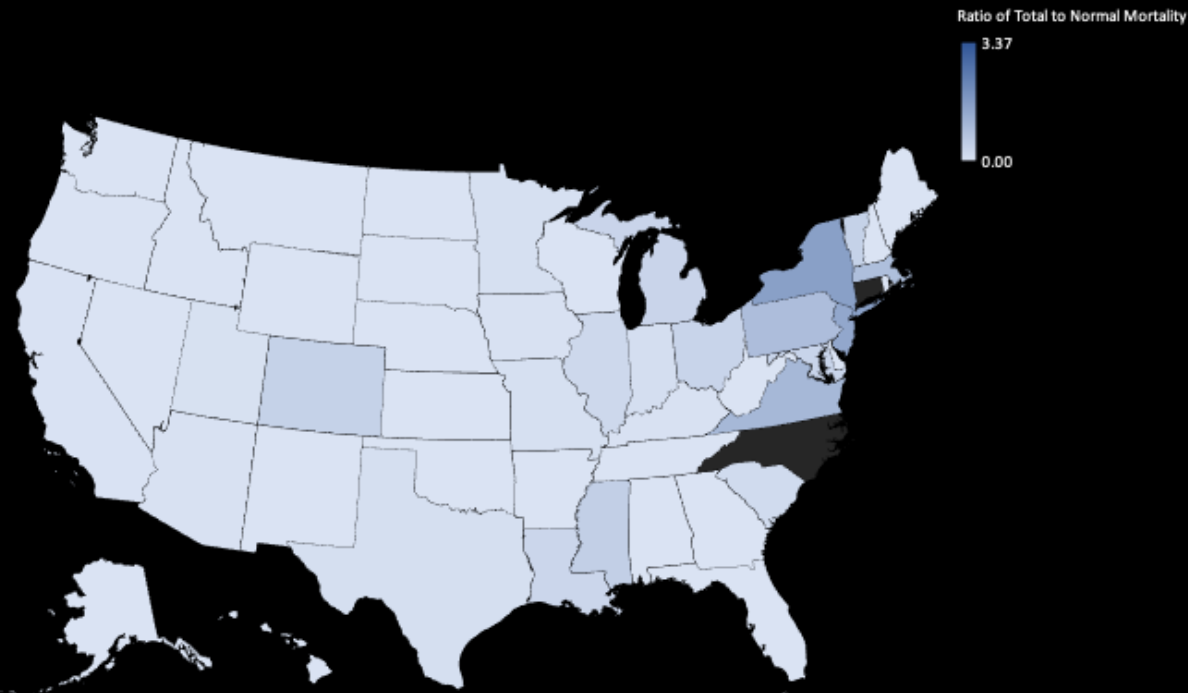
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- Keep solvent firms solvent
- What happens to value of a firm when it shuts down?
- Value falls immediately
- As it gets closer to anticipated opening date, value rises
- The fundamental value of many firms should be the same at reopening as it was at closing
- Big exceptions to this

Contrasts (cont.)

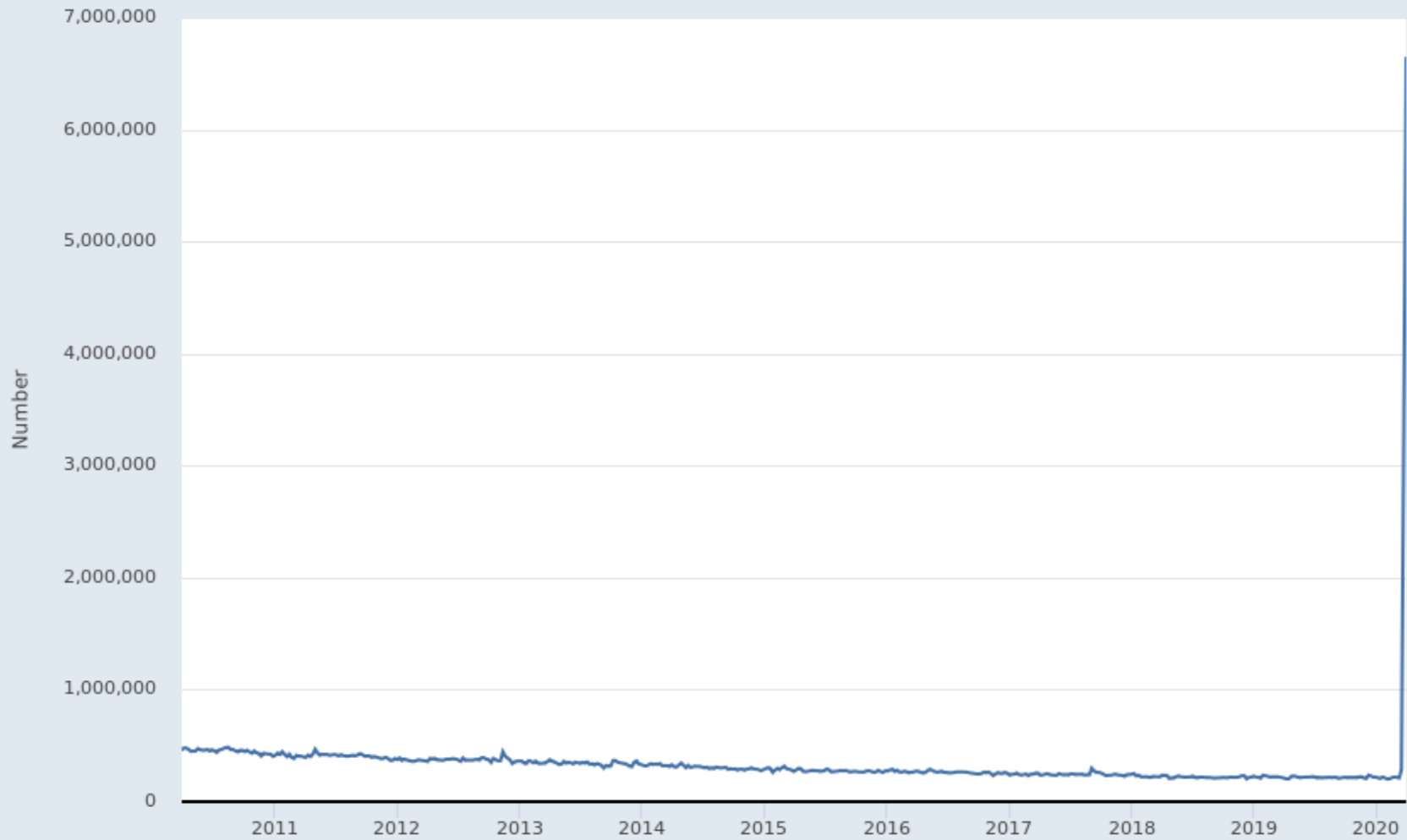
Excess Death Rate, Week Ending April 18, 2020
Source: CDC



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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 and Other Acts are up to \$3 trillion. Consensus multiplier is .6, meaning that it would restore about \$1.8 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

- 30 million people filed unemployment claims in last to weeks. This is around 18 percent of US labor force, and implies current unemployment is more than 20 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 \$830 billion;

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

- Owner housing?
- 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???

Mortgages

- Rates
- Refinance
- FICO



— 30-Year Fixed Rate Mortgage Average in the United States-10-Year Treasury Constant Maturity Rate



Shaded areas indicate U.S. recessions

Sources: Board of Governors, FHLMC

myf.red/g/qTmt