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# COVID-19 and the U.S. Economy: Progress on Health and Incomes

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Global Interdependence Center

GIC Executive Briefing

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*Any opinions expressed here are my own and do not necessarily reflect those of the Federal Open Market Committee.*

# Introduction

# Key themes

- There has been substantial progress in managing the global health crisis.
- U.S. macroeconomic news has surprised dramatically to the upside, and economic activity will likely show outsized growth in the third quarter.
- I expect this rebound to continue in the U.S. as businesses learn how to produce products and services safely using simple, existing technology.
- U.S. monetary and fiscal policies have been exceptionally effective and were designed for a larger shock than the one that has occurred.
- Downside risk remains substantial, and continued execution of a granular, risk-based health policy will be critical to maintain economic momentum.

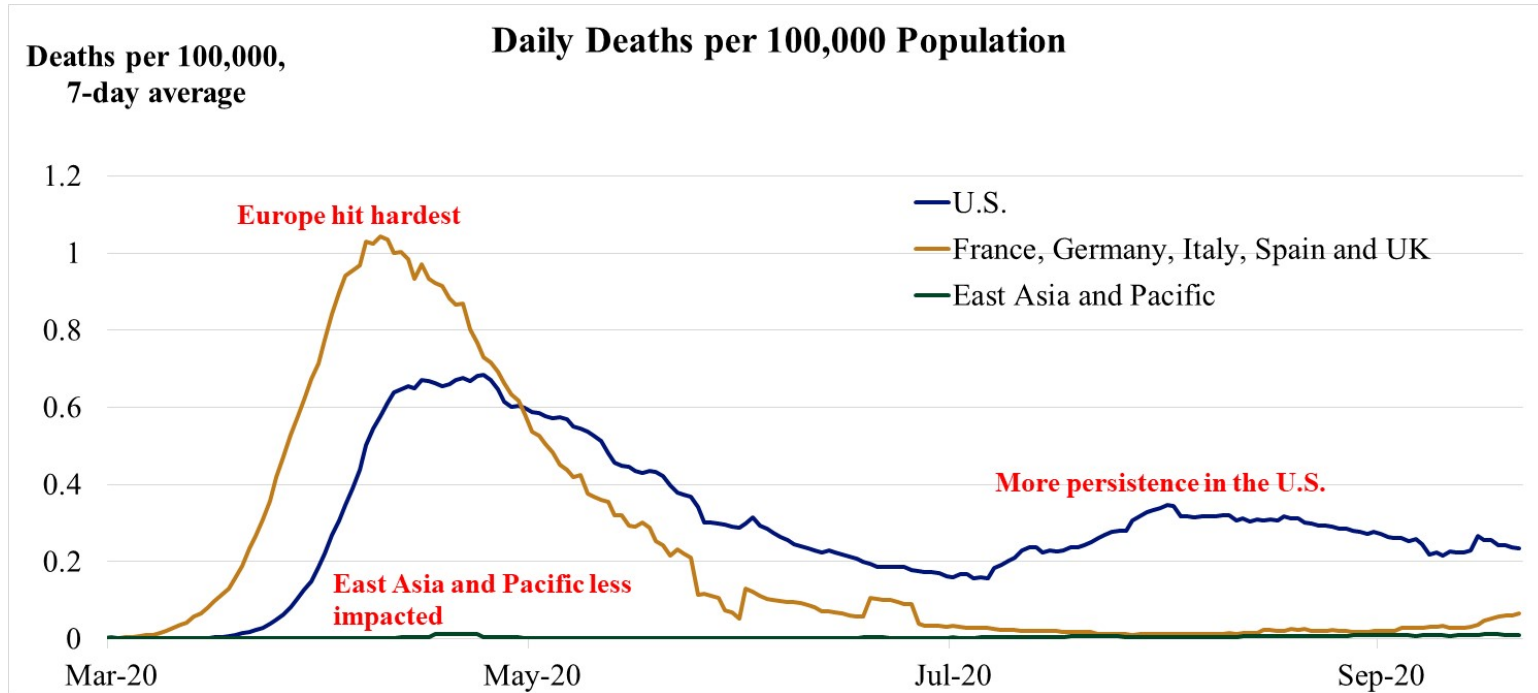
# Substantial Progress in Health Outcomes

# Falling fatality rates and rising economic activity

- There has been substantial progress in managing the global health crisis.
- Daily fatalities per 100,000 population have declined substantially from peak levels in March and April in both Europe and the U.S.
- East Asia and Pacific countries continue to report daily fatalities per 100,000 population that are an order of magnitude lower than those of the U.S. and Europe.
- This suggests that key areas of global production are well past the initial phase of the crisis and are likely to continue to increase economic activity under new safety protocols.\*

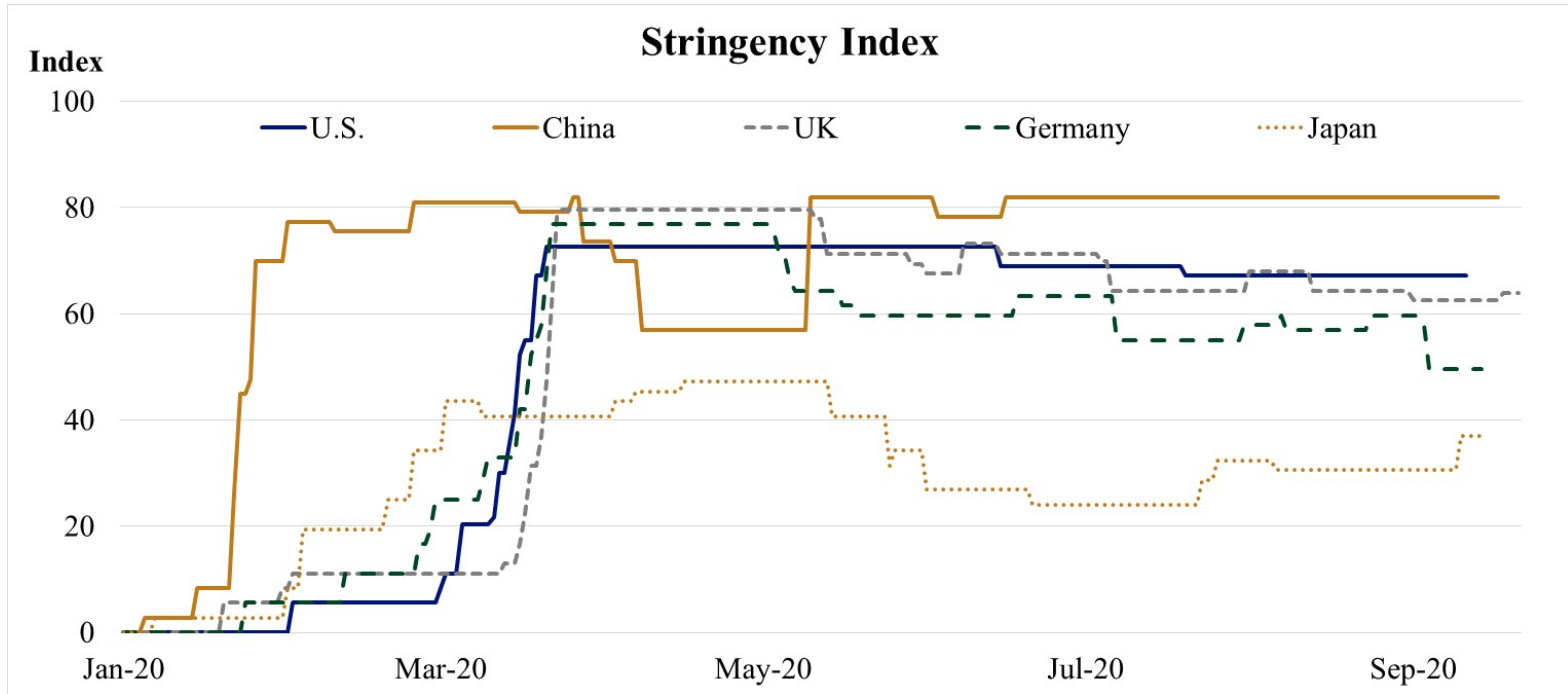
\* For an analysis of fatality rate data worldwide, see A. Atkeson, K. Kopecky and T. Zha, 2020, "[Four Stylized Facts about COVID-19](#)," National Bureau of Economic Research, Working Paper No. 27719.

# Substantial progress in health outcomes



Sources: Center for Systems Science and Engineering at Johns Hopkins University and author's calculations. Last observation: Sept. 21, 2020. For this chart, the East Asia and Pacific region consists of Australia, China, Indonesia, Japan, Malaysia, Myanmar, New Zealand, Philippines, South Korea, Singapore, Thailand and Taiwan.

# U.S. public health limits remain stringent



Source: University of Oxford's Blavatnik School of Government [COVID-19 Government Response Tracker](#). Last observation: Sept. 21, 2020.

# Upside Surprise in U.S. Macroeconomic Data



# Substantial expansion expected in Q3

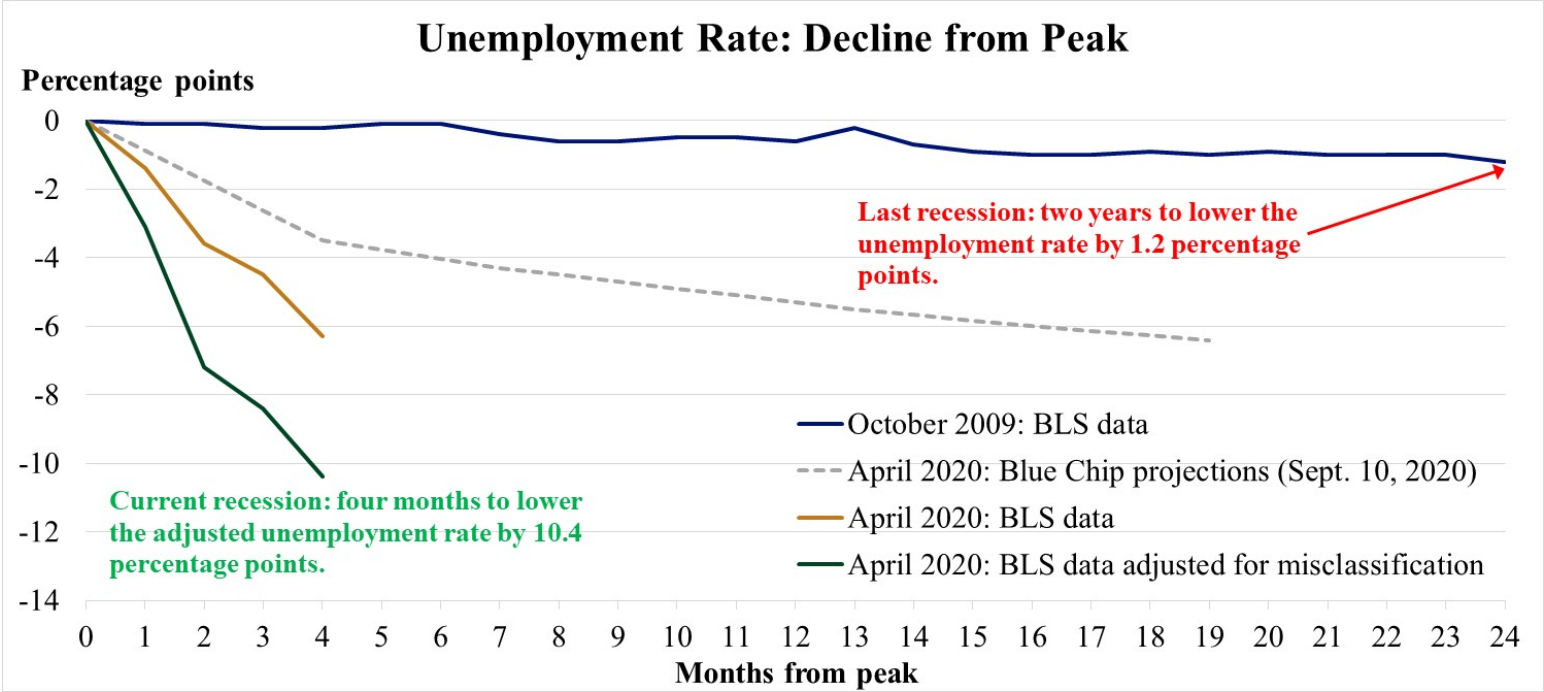
- Current macroeconomic data suggest that April 2020 will prove to be the lowest point of the crisis.
- The Citi economic surprise index indicates substantial upside surprise in macroeconomic data releases in recent months.
- Employment has rebounded more rapidly than expected, supporting the idea that many layoffs were temporary as firms adjusted to the pandemic.
- Third-quarter GDP growth is projected to show substantial expansion.
- There is an outside chance that U.S. GDP could reach the 2019 average level by the end of 2020, a form of “full recovery.”

# Data releases surprise to the upside



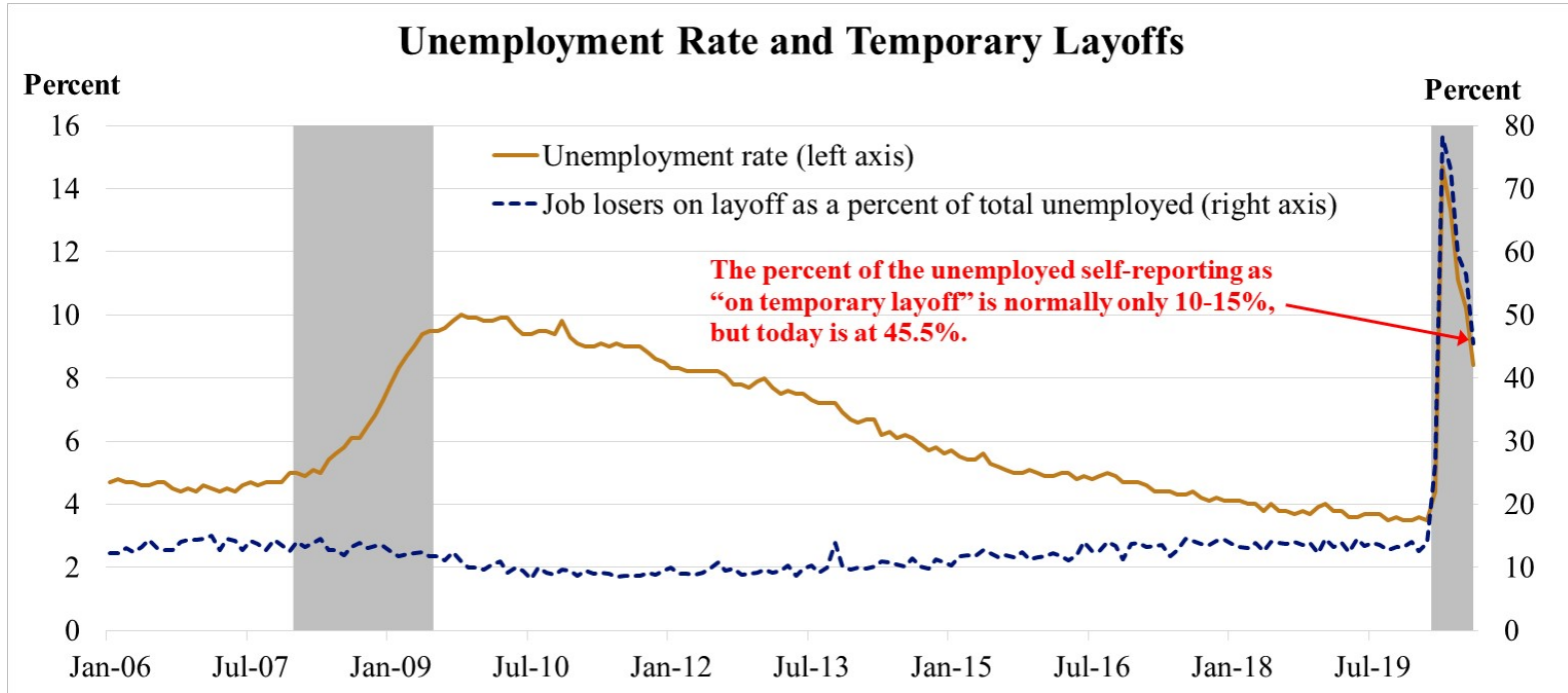
Source: Citigroup. Last observation: Sept. 22, 2020.

# Unemployment declining more rapidly than after the previous peak



Sources: Bureau of Labor Statistics, Blue Chip and author's calculations. Last observation: August 2020.

# Unemployment driven by temporary layoffs



Source: Bureau of Labor Statistics. Shaded areas indicate U.S. recessions. Last observation: August 2020.

# Potential unemployment declines

- A back-of-the-envelope calculation suggests that there is room for a substantial decline in the official unemployment rate in the months ahead.
- If all those unemployed identifying as “on temporary layoff” are simply recalled and nothing else changes, the official unemployment rate would decline to a shocking 4.6%.
- If the “on temporary layoff” category returns to a normal value (e.g., 1 million workers) and nothing else changes, the official unemployment rate would still decline to 5.2%.

# Outsized U.S. GDP growth forecasts for Q3

Source	Date	2020:Q3 forecast
Blue Chip	Sept. 10	24.0%
IHS Markit	Sept. 8	29.6%
Atlanta Fed GDPNow	Sept. 17	32.0%
New York Fed Nowcast	Sept. 18	14.3%

*Growth rates are quarter-over-quarter at annual rates.*

# Potential for recovery in 2020

- Very rapid third-quarter GDP growth may put the U.S. economy within reach of a sort of “full recovery” by the end of 2020.
- The average level of aggregate national income in 2019 was \$19.1 trillion in inflation-adjusted 2012 dollars. This is the average level, not the peak level.
- We could reach the average of 2019 by the end of 2020.
- For this to happen, real GDP would have to grow 35% at an annual rate in the third quarter, followed by about 10.3% at an annual rate in the fourth quarter.
- These are big numbers, but not outside the realm of possibility.

# COVID-19: Mortality Risk Management



# Learning to run a business in a pandemic

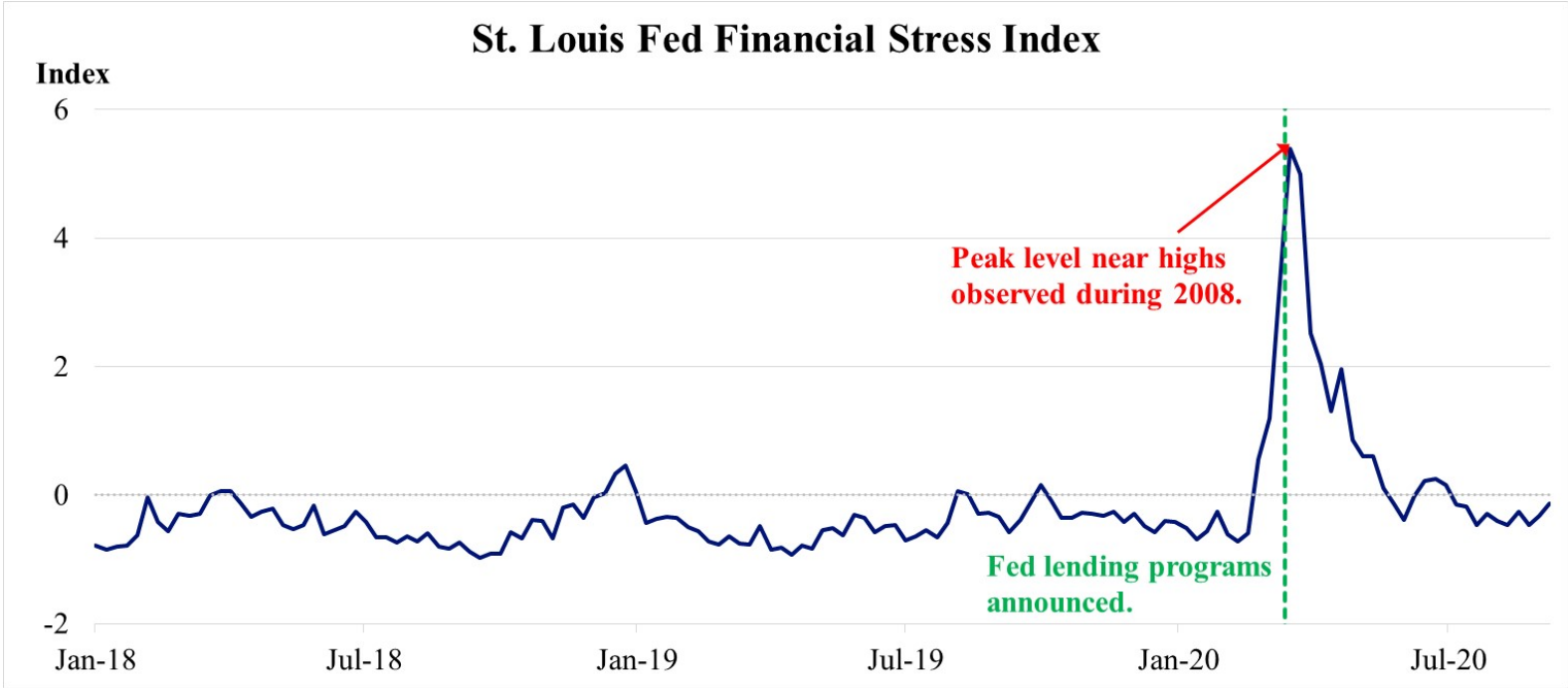
- U.S. citizens face many types of mortality risk.
- Households and businesses have developed strategies for mortality risk mitigation. This crisis is no different.
- For many businesses, work from home has proven to be a viable and powerful strategy.
- The second-quarter results show that essential retail services can be provided with low risk, so long as simple precautions are taken.
- This suggests that during the third quarter many firms have simply adopted proven, simple risk mitigation activities pioneered by the essential services industries in the second quarter.

# Effective Monetary and Fiscal Policies

# A policy rate cut and increased liquidity

- U.S. monetary and fiscal policies have been effective during the initial phase of the crisis.
- Monetary policy included lowering the policy rate to the effective lower bound and providing liquidity to financial markets through a variety of lending programs supported by the U.S. Treasury.
- The backstop lending programs stemmed an incipient financial crisis during the March-April time frame, to the point where current levels of financial stress are near pre-pandemic levels.

# Financial stress has abated



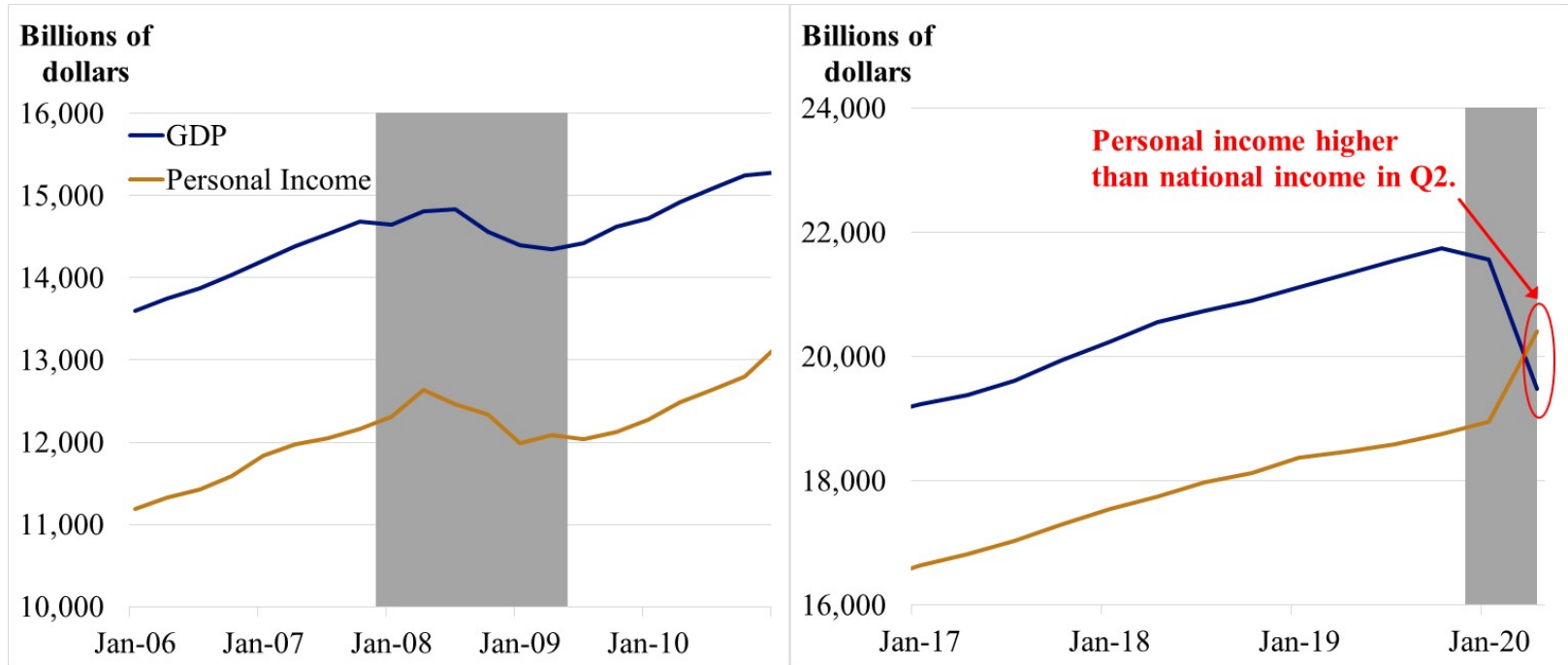
Source: Federal Reserve Bank of St. Louis. Last observation: Week of Sept. 11, 2020.

# Fiscal policy

- U.S. fiscal policy included the CARES Act along with additional legislation.
- The CARES Act is often valued at \$2.3 trillion.\*
- Other legislation is valued at \$848 billion.\*
- The total value would be about 14.5% of U.S. nominal GDP in the fourth quarter of 2019.
- The actual shortfall in U.S. real GDP in 2020, according to forecasters, will likely be 3% to 4% of GDP, and so in an aggregate sense there are considerable resources pledged to combat the crisis.
- The fiscal response drove personal income up to an all-time high in the second quarter, the opposite of normal recession dynamics.

\* See the International Monetary Fund's [Policy Responses to COVID-19](#) and the Committee for a Responsible Federal Budget's [estimates of the cost of President Trump's executive orders](#).

# GDP and personal income



Source: Bureau of Economic Analysis. Last observation: 2020-Q2.

# Conclusion

# Adapting to the pandemic

- The global health policy response has managed to contain the pandemic in terms of health outcomes relative to the March-April 2020 period.
- The second half of 2020 is a period of continued learning and adaptation to the new mortality risk in the economy.
- Simple mortality risk mitigation strategies hold the promise of delivering higher household incomes along with lower fatalities from COVID-19, thus improving outcomes along both dimensions.
- The downside risk remains substantial and continued execution of a granular, risk-based health policy will be critical in the months ahead.



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