The State of the COVID-19 Crisis in the U.S.

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The Economic Club of New York
Webinar
July 14, 2020

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

• Macroeconomic news has been stronger than expected in May and June.
• Progress in managing the health crisis has been substantial, but COVID-19 has proven to be more persistent than many expected.
• The second-quarter experience suggests that simple risk mitigation measures, including ubiquitous masks, may be used to effectively manage the disease.
• This suggests a base case in which the macroeconomy will continue to build on its momentum from May and June in the second half of 2020.
• The downside risk is nevertheless substantial, and better execution of a granular, risk-based health policy will be critical to keep the economy out of depression.
Upside Surprise in May and June
Upside surprise for macroeconomy

• The macroeconomic news for May and June, reported with a lag, seems to suggest that April will prove to be the lowest point of the crisis.

• The Citi economic surprise index indicates substantial upside surprise in data releases for this time period.

• Employment has rebounded more rapidly than expected, supporting the idea that many layoffs were temporary as firms adjusted to the pandemic.

• While second-quarter growth is projected to show substantial contraction, forecasts have become less negative in recent weeks.
Data releases surprise to the upside

Unemployment declining more rapidly than after the previous peak

Unemployment driven by temporary layoffs

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 in the next six months and nothing else changes, the official unemployment rate would decline to a shocking 4.5%.

• 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 5.1%.

• If this type of dynamic occurs in the months ahead, it is likely to be uneven, as the next chart suggests.
St. Louis CEI predicts slowing BLS job gains

Forecasts for Q2 revised upward

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<th>2020:Q2 forecast</th>
<th>Date</th>
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Growth rates are quarter-over-quarter at annual rates; revisions are expressed in percentage points.
Declining U.S. deaths

• Initial projections from Imperial College suggested the human tragedy of COVID-19 in the U.S. would be as high as 2.2 million fatalities this year if nothing were done to curtail the pandemic.*

• However, current projections from the University of Washington’s Institute for Health Metrics and Evaluation suggest less than one-tenth of that level through October 2020.

• Daily fatalities in the U.S. have declined about 70% from the peak level in April.

• COVID-19 is proving to be a persistent threat, so continuing risk mitigation is required to keep the disease under control.

Daily deaths in the U.S. much lower than April peak

Sources: Center for System Science and Engineering at Johns Hopkins University and author’s calculations. Last observation: July 13, 2020.
Learning to run a business in a pandemic

• For many businesses, work from home has proven to be a viable and powerful strategy.

• The second-quarter results seem to show that essential retail services can be provided with low risk, as long as simple precautions are taken.

• Firms and other economic entities have strong incentives to restore revenue streams and deliver products and services safely.

• This suggests that during the third quarter many firms will adopt proven risk mitigation activities pioneered by the essential services industries in the second quarter, including ubiquitous mask usage in contact situations.

• This may bring the disease under control in the second half of 2020.
Ubiquitous masks to mitigate risk

COVID-19: Mortality Risk Management
Mitigating mortality risks

• U.S. citizens face many types of mortality risk, including the third largest cause of death, “accidental injury.”

• Currently COVID-19 deaths are approaching the typical annual total for accidental injury.

• Accidents of all types are associated with significant risk mitigation activities, including air bags, traffic regulations and fire codes—the deaths we witness occur even with those mitigation strategies in place.

• Similar risk mitigation is not yet fully in place for COVID-19, but it appears that ubiquitous masks would provide one important component.

• Appropriate risk mitigation can reduce deaths and increase output, thus offering better outcomes on both health and economic dimensions.*

Fatalities by age group

Death Rates for COVID-19 vs. Accidental Injuries

Death rate (per 100,000)

- COVID-19: IHME baseline projection to Nov. 1, 2020
- COVID-19: July 1, 2020, to June 30, 2021, based on IHME projection with universal masks
- Accidental injuries: 2018 data

Sources: Institute for Health Metrics and Evaluation, University of Washington; Centers for Disease Control and Prevention; and author’s calculations. Last observations: June 29, 2020, and July 4, 2020.
COVID-19 at midyear

• There have been successes in the health policy response to the pandemic, but COVID-19 has proven to be a persistent threat.
• The second half of 2020 will be a period of continued learning and adaptation to the new mortality risk in the economy.
• Simple risk mitigation strategies, including ubiquitous masks, hold the promise of delivering higher household incomes along with lower fatalities from COVID-19, thus improving along both dimensions.
• The downside risk remains substantial and better execution of a granular, risk-based health policy will be critical to keep the economy out of depression.
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