FEDERAL RESERVE BANK *of* ST. LOUIS

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

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Webinar

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CENTRAL TO AMERICA'S ECONOMY®

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

Introduction

Key themes

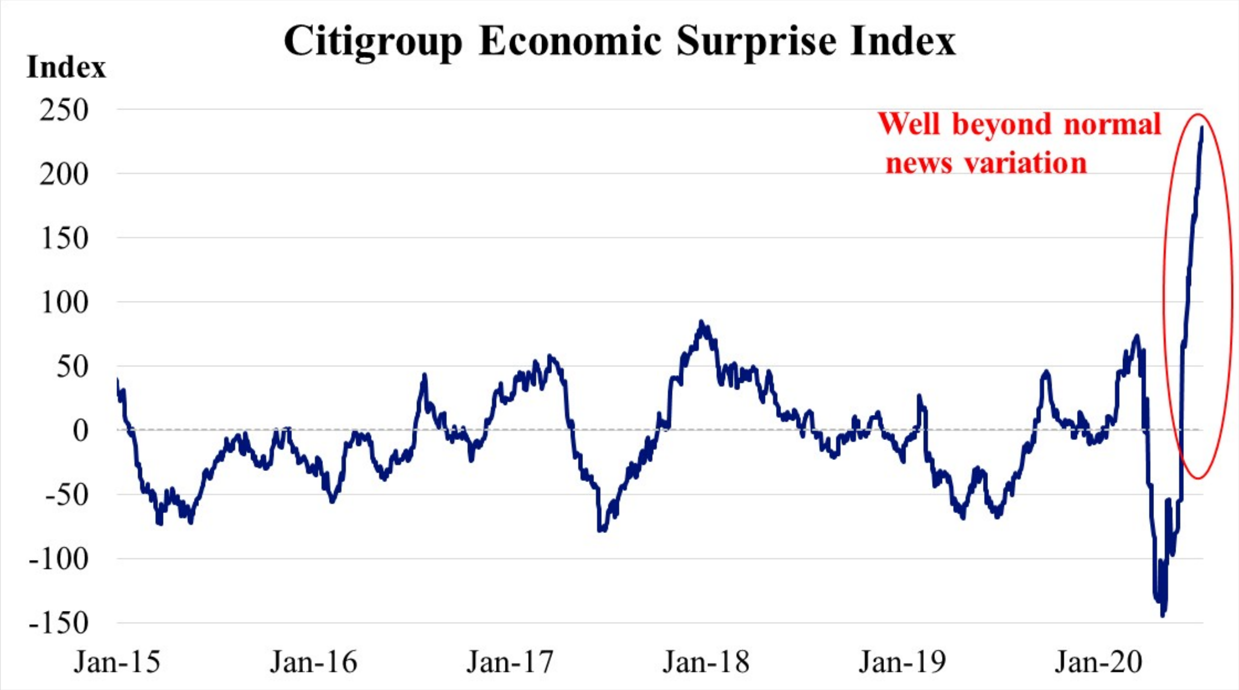
- Macroeconomic news has been stronger than expected in May and June.
- Progress in managing the health crisis has been substantial, but COVID-19 has proven to be more persistent than many expected.
- The second-quarter experience suggests that simple risk mitigation measures, including ubiquitous masks, 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

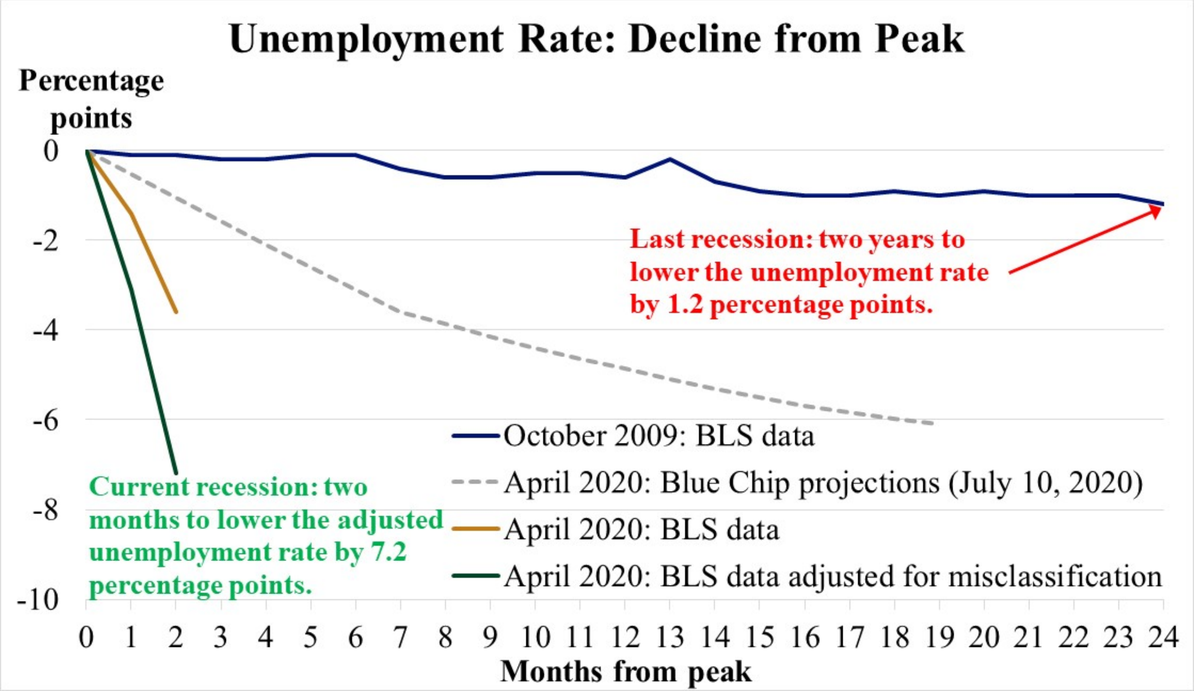
- The macroeconomic news for May and June, reported with a lag, seems to suggest that April will prove to be the lowest point of the crisis.
- The Citi economic surprise index indicates substantial upside surprise in data releases for this time period.
- Employment has rebounded more rapidly than expected, 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



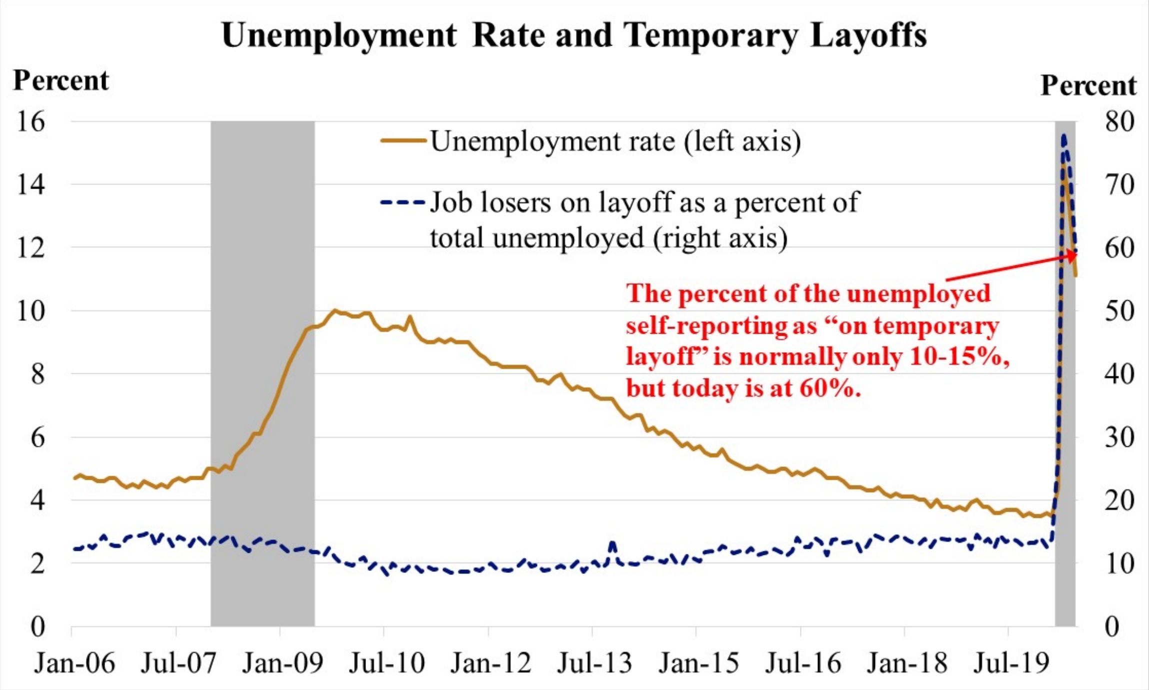
Source: Citigroup. Last observation: July 13, 2020.

Unemployment declining more rapidly than after the previous peak



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

Unemployment driven by temporary layoffs

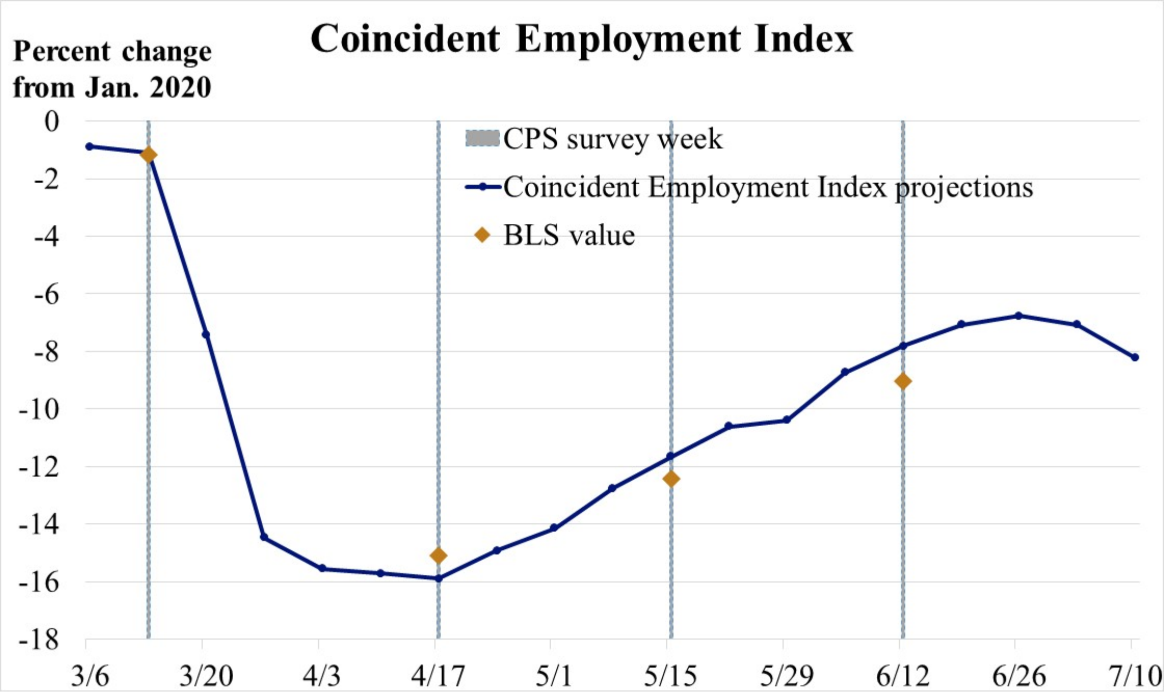


Source: Bureau of Labor Statistics. Shaded areas indicate U.S. recessions. Last observation: June 2020.

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 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



Sources: Homebase, Bureau of Labor Statistics and staff calculations. For details, see M. Dvorkin and A. Bharadwaj, "Reading the Labor Market in Real Time," Federal Reserve Bank of St. Louis On the Economy Blog, *June 9, 2020. Last observation: week of July 10, 2020.*

Forecasts for Q2 revised upward

Source	Date	2020:Q2 forecast	Date	2020:Q2 forecast	Revision
Blue Chip	June 10	−35.7%	July 10	−33.6%	+2.1
IHS Markit	June 8	−41.9%	July 6	−35.5%	+6.4
Atlanta Fed GDPNow	June 10	−48.4%	July 9	−35.5%	+12.9
New York Fed Nowcast	June 12	−25.9%	July 10	−15.3%	+10.6

Growth rates are quarter-over-quarter at annual rates; revisions are expressed in percentage points.

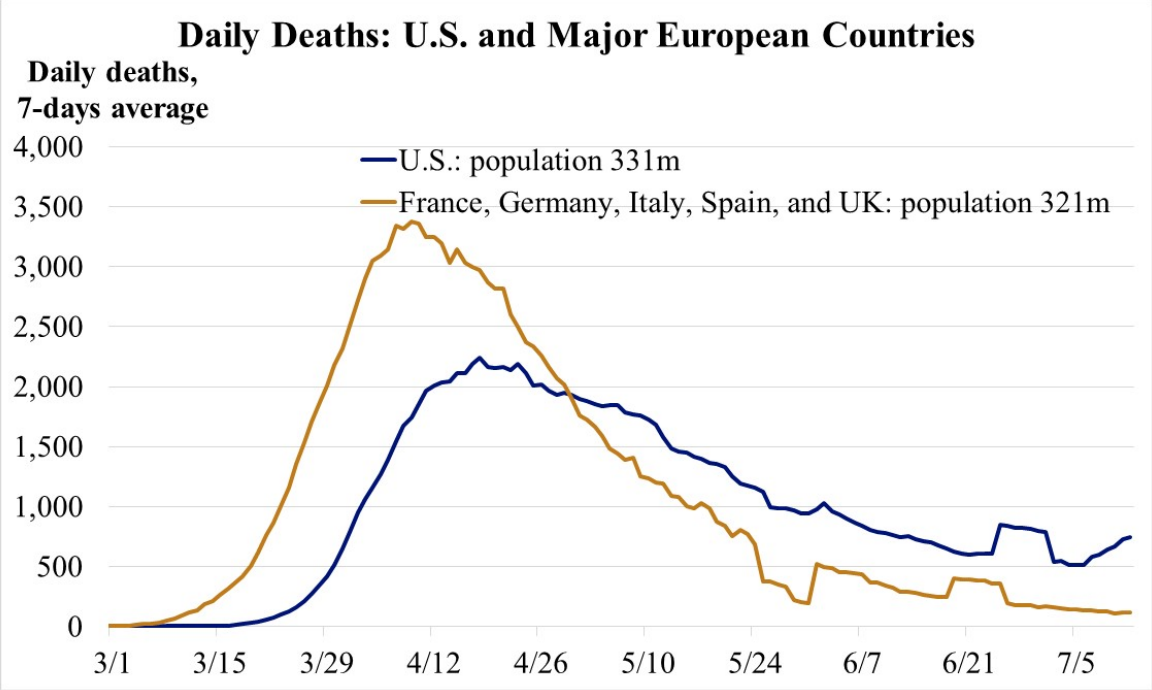
Successes in Health Policy

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.

** See N.M. Ferguson, D. Laydon, G. Nedjati-Gilani et al. "Impact of non-pharmaceutical interventions (NPIs) to reduce COVID-19 mortality and healthcare demand," Imperial College London, March 16. 2020.*

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

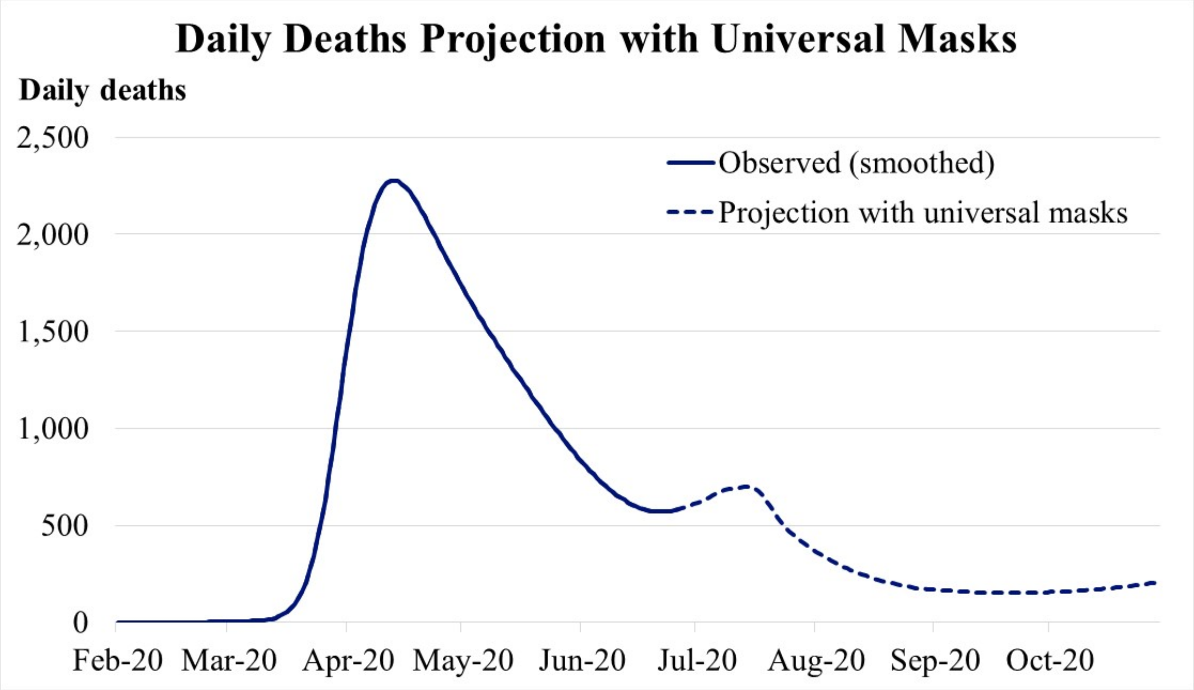


Sources: Center for System Science and Engineering at Johns Hopkins University and author's calculations. Last observation: July 13, 2020.

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



Source: Institute for Health Metrics and Evaluation, University of Washington. Last observation: June 29, 2020.

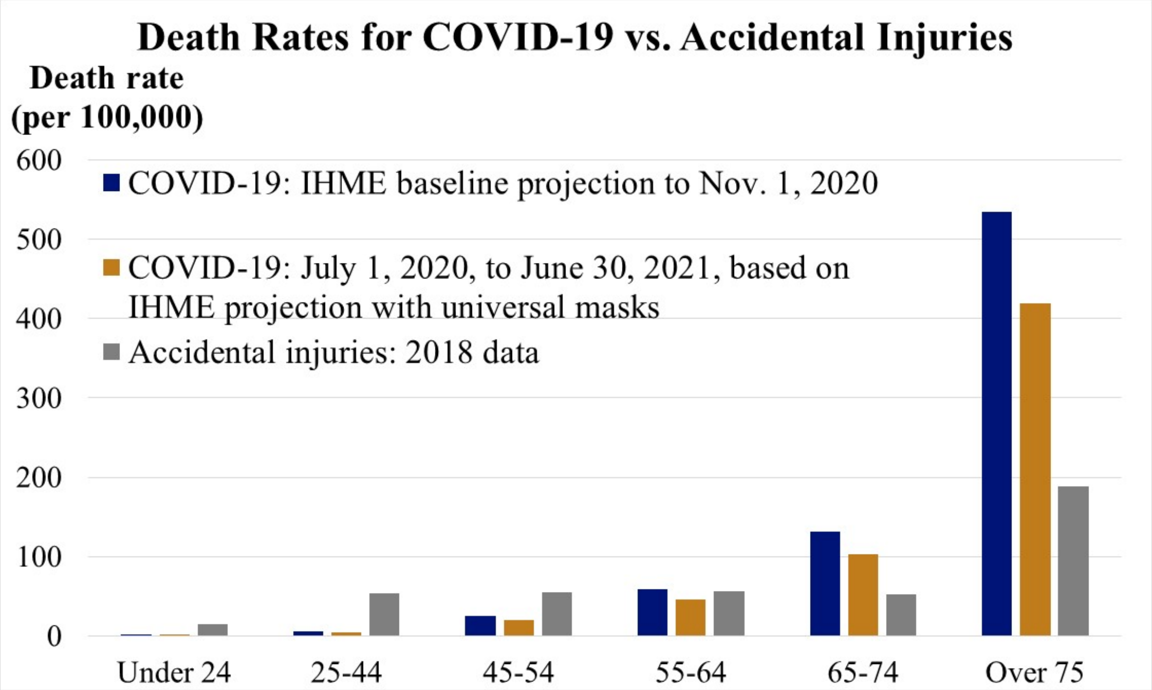
COVID-19: Mortality Risk Management

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.*

** See D. Baqaee, E. Farhi, M.J. Mina, and J.H. Stock, "Reopening Scenarios," NBER Working Paper No. 27244, May 2020, and D. Acemoglu, V. Chernozhukov, I. Werning, and M.D. Whinston, "Optimal Targeted Lockdowns in a Multi-Group SIR Model," NBER Working Paper No. 27102, June 2020.*

Fatalities by age group



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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