

Minutes of the Economic Advisory Panel Meeting

April 17, 2020

Present: Chair: John Williams. External Panelists: Julia Coronado, Kathryn Dominguez, Janice Eberly, Michael Feroli, Kristin Forbes, Simon Gilchrist, Austan Goolsbee, Lisa Lynch, Carmen Reinhart, Laura Veldkamp, Ellen Zentner. New York Fed staff: Jaison Abel, Sushant Acharya, Olivier Armantier, Gianluca Benigno, Nina Boyarchenko, Rajashri Chakrabarti, Christopher Duffy, Richard Crump, Richard Deitz, Fernando Duarte, Thomas Eisenbach, Andrew Haughwout, Sebastian Heise, Beverly Hirtle, Fatih Karahan, Gizem Kosar, Anna Kovner, Antoine Martin, Jonathan McCarthy, Neil Mehrotra, Matthew Plosser, Paolo Pesenti, Maxim Pinkovskiy, Asani Sarkar, Argia Sbordone, Angela Sun, Andrea Tambalotti, Giorgio Topa, Desi Volker.

Following introductory remarks by Pres. Williams, Ellen Zentner presented on "[COVID-19 and Its Effects on the US Economic Outlook](#)". She expects a gradual opening up of the economy, with work from home arrangements continuing until the spring of 2021. She forecasts a sharp drop into recession followed by a V-shaped recovery, a considerably faster recovery path than during the Great Recession, and no balance sheet recession, unlike during the Great Recession. She added that Morgan Stanley forecasts point to a higher savings rate and a 75-90% drop in discretionary spending. In response to a question on how consumption patterns may change due to social distancing and telework, panelists said that there will be shifts in consumption patterns and preferences and an elevated savings rate. Panelists said there will be less spending on gas, lower demand for commercial space because of increases in telework and a general decrease in consumer spending. Several panelists observed that their forecasts are more pessimistic and that there may be a balance sheet recession even if the crisis did not begin that way. Panelists pointed out the possibility of second round effects, layoffs from dampened demand, damages to supply networks and corresponding negative effects on productivity, hits to small and medium-sized businesses, state and local government layoffs, and negative effects on household formation.

The second presentation was on "[COVID-19 and Extraordinary Changes in the Labor Market](#)" by Lisa Lynch. She highlighted that the extension of unemployment benefits under the Federal Pandemic Unemployment Compensation program (FPUC) may incentivize companies to reduce work hours so their employees qualify for FPUC, and that workers might earn more with FPUC and hence stay at home to be safe. She also pointed out several measurement issues in the Current Population Survey (CPS): a drop in response rates as CPS call centers are closed, BLS's method of categorizing workers working from home as unemployed, and BLS not measuring telework historically. She said that colleges and universities will be adversely affected, with

large drops in revenue, prolonged online instruction, and families unable or reluctant to pay full tuition for online education. Following the presentation, the panelists pointed out the importance of re-opening sectors in a way that is responsive to demand, the possibility of major sectoral shifts, such as increases in demand in sectors such as videoconferencing services and food delivery and decreases in demand in other sectors, such as leisure and hospitality. Some panelists viewed the measurement issues as potentially second order. They added that it is not clear that workers would earn more through FPUC and that there are incentives for separation and reduced work hours. Panelists pointed out that other factors, such as health insurance, may affect workers' incentives, and financial incentives (such as forgivable loans, tax credits and deferrals) may incentivize small businesses to keep their employees. One panelist highlighted the heterogeneous impact of the COVID-19 shock, with data pointing to disproportionately large negative effects on black and Latino communities. That panelist pointed out that these effects might lead to negative supply shocks in some sectors, such as essential services, and it is important to understand and quantify these effects.

The third presentation was on "[Selected Development in Global Financial Markets](#)" by Carmen Reinhart. She emphasized how current events should be compared to the Great Depression of the 1930s rather than the more recent global financial crisis, for the following reasons. There is a synchronized recession across advanced and emerging economies, and there is a potential for a trade implosion that could resemble the one observed in the 1930s. Developments in commodity prices, particularly oil, are creating strains not only in commodity-exporting countries, but also in the U.S. economy, which is different from what happened in 2008-2009, when China's growth and policy stimulus sustained commodity demand. In terms of financial markets, volatility as measured by RRT's VIX proxy (Reinhart, Reinhart and Trebesch 2020) has reached levels comparable to those in the 1930s and higher than in 2007-2008. The spike in downgrades of sovereign and corporate bonds could trigger further crises, especially in the European Union. A further source of vulnerability noted by another participant is the reliance of the corporate bond sector on dollar debt, relative to the sovereign bond sector, which is higher than in the past.