

“The U.S. Labor Market during the Beginning of the
Pandemic Recession” by Cox et al.
and
“Initial Impacts Of The Pandemic On Consumer
Behavior: Evidence From Linked Income, Spending, And
Savings Data” by Cajner et al.

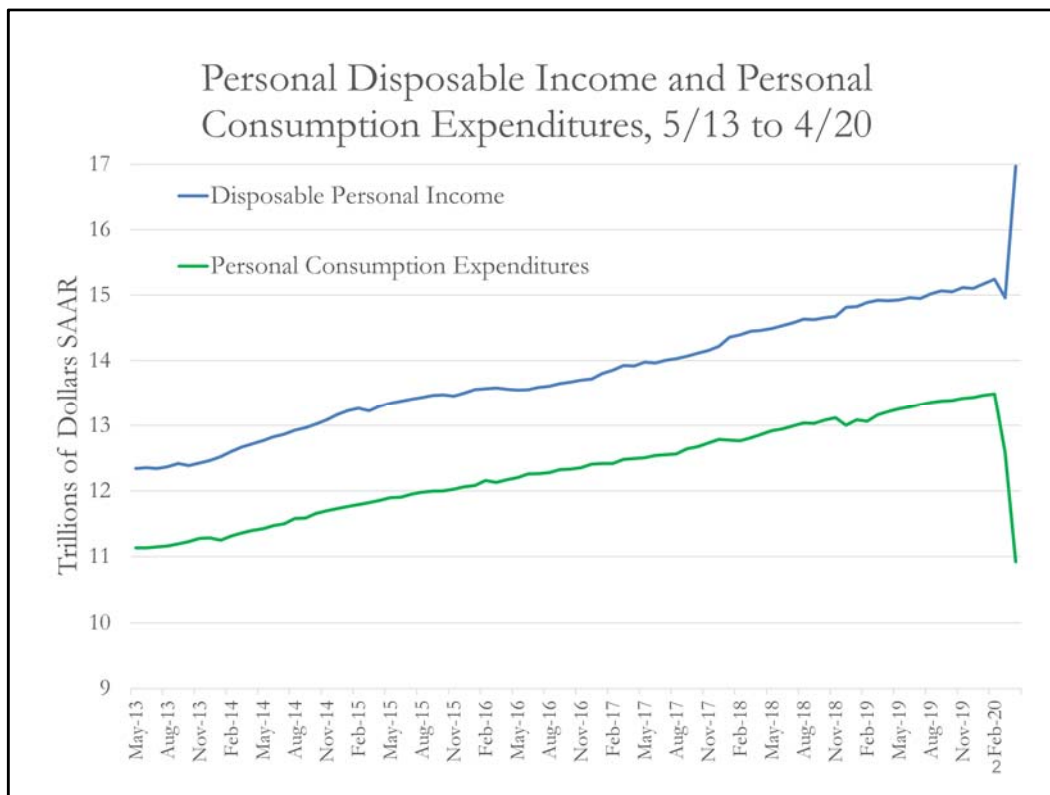
Brookings Papers on Economic Activity
June 25, 2020

Jonathan A. Parker
MIT, NBER, JPMorganChase Institute, et al.



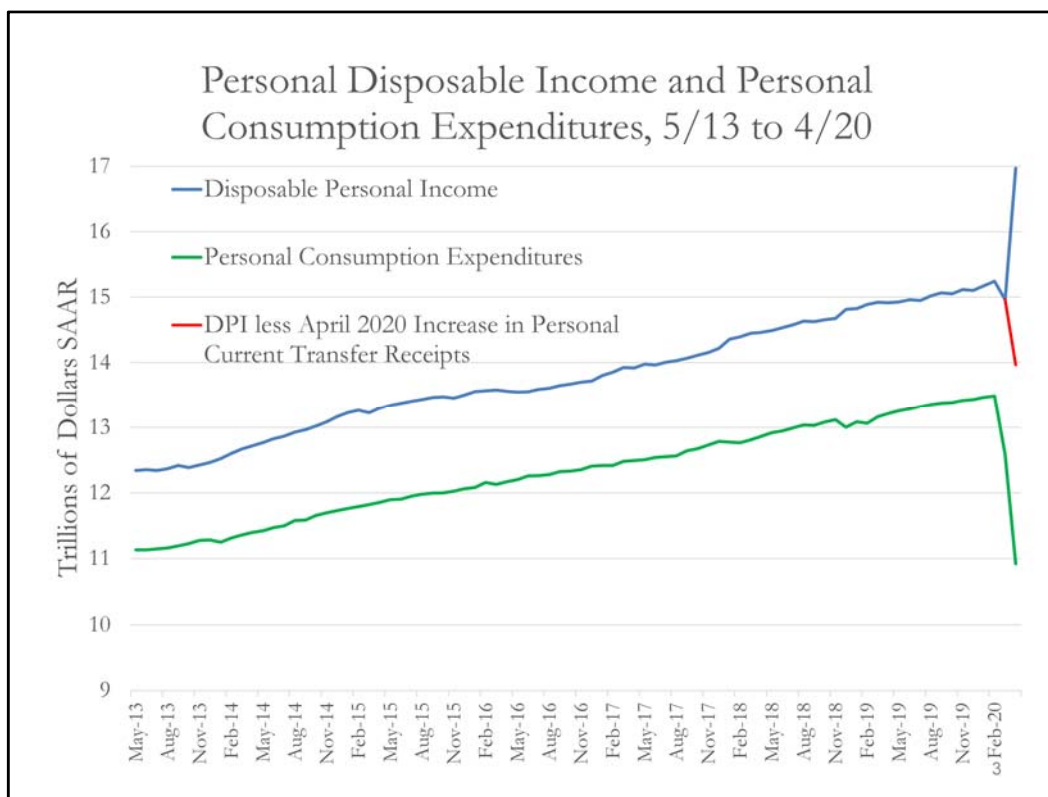
Thank you for asking me to discuss these papers on the economic impact of the pandemic, but let me start by saying that the economic costs of the pandemic pale compared to the human toll, but following these papers, and what I know more about, my discussion will focus just on the economic fallout.

When I agreed to do a discussion, I did not realize that I would have only 12 minutes and have to discuss the papers of 15 authors, leaving me less than 45 seconds per author after this comment. So rather than walk through the large number of results in each paper, I am going to pull out one main point I see in the combination of the papers, and then make some comments about a couple of the most important findings in each paper.



These two papers are about these two lines, DPI and PCE, monthly. The rise in DPI and the fall in PCE are consistent with the unprecedented use of the word unprecedented we have seen throughout this crisis. The personal saving rate rose by 26 percentage points to 30% of DPI from March to April, roughly evenly split, 13% percent increase in DPI and 14% percent decline in PCE.

But the increases in DPI more than entirely due to govt transfers, which increased by 3 trillion March to April at annual rate (DPI was up by 2t), so about \$167b actually, and mostly economic relief payments.

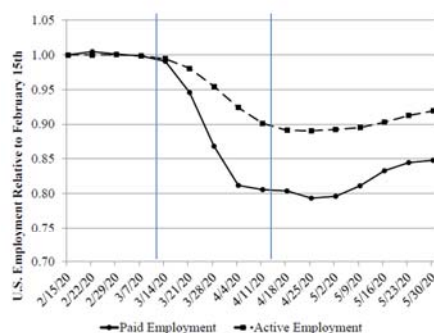


If I remove the increase in transfers from March to April, now we see the decline in DPI – the blue then red line, the topic of the Cajner et al paper – about 7%. This appears smaller than implied by the paper. Why? Because DPI includes federal govt workers, retirees, etc.. Highlights that the two papers cover different populations – workers vs. everyone (in Chase).

I want to highlight thinking about the relation between these two lines. While it is tempting to think that the decline in income causes a decline in consumption, I am going to argue that the papers show that the decline in consumption is to a first approximation completely causing the decline in income IN APRIL (the BEA data only get to April at this point, the papers go through May).

Aggregate Employment and Spending

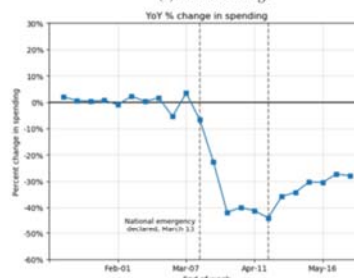
(Contribution: high frequency)



1. Spending spikes before national emergency & employment decline
2. Spending & employment fall together mid-March to mid-April
3. Spending recovers earlier (mid-April) & more (pandemic relief payments?)

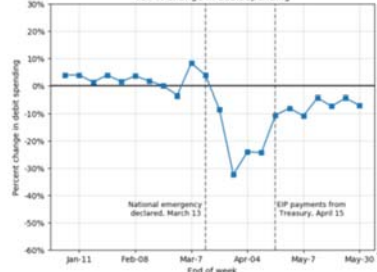
Credit cards

(a) Percent Change



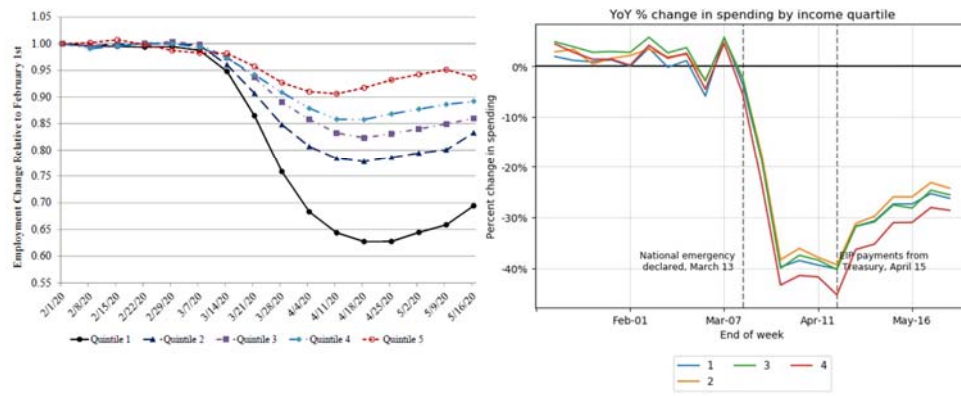
Debit cards

YoY % change in debit spending



Two different very large but non-randomly selected proprietary datasets, from Chase Bank and from ADP payroll processor. Start by checking that their aggregate measures match representative samples from govt surveys, and then look a month farther into the present and at high-frequency patterns not visible in the aggregated data.

Changes by Wage Quintile/Income Quartile



Appears that government assistance and other is insuring spending levels across income groups

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Largest declines in employment for lowest ex ante wage workers.

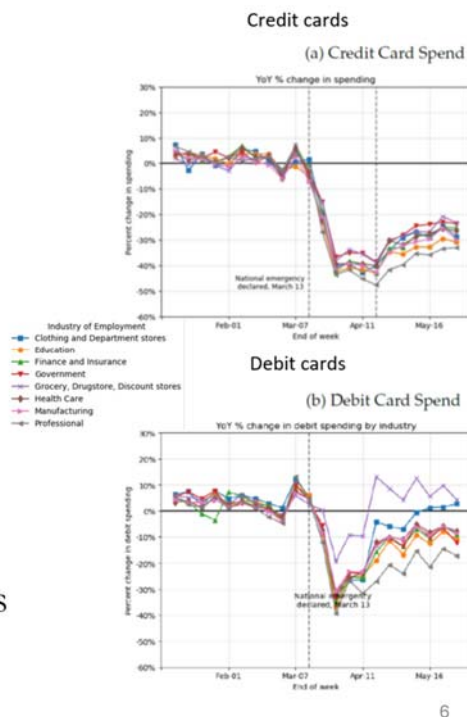
Declines in employment by income group completely unrelated to declines in credit card consumption by income group.

Changes by Industry

Table 1: Paid Employment Changes By 2-Digit Industry

Industry	Feb 15 - April 25	Feb 15 - May 30
Arts, Entertainment and Recreation	-50.7%	-41.5%
Accommodation and Food Services	-45.5%	-34.1%
Retail Trade	-28.7%	-18.5%
Other Services	-25.0%	-17.1%
Transportation and Warehousing	-21.7%	-23.2%
Real Estate, Rental and Leasing	-20.9%	-19.6%
Information Services	-18.2%	-4.0%
Wholesale Trade	-17.6%	-12.3%
Administrative and Support	-17.0%	-17.1%
Educational Services	-16.6%	-17.5%
Health Care and Social Assistance	-16.5%	-8.8%
Construction	-13.5%	-4.5%
Manufacturing	-12.4%	-8.6%
Professional, Scientific, and Tech Services	-12.1%	-9.1%
Finance and Insurance	-1.3%	-0.7%

Again: government assistance is insuring spending, but a few industries are booming



Declines by industry also largely unrelated. Note here that debit card spending recovers and credit card spending does not. Could this be because people move spending from cash or checks to debit cards rather than real increases? Certainly consumption growth differs by means of payment.

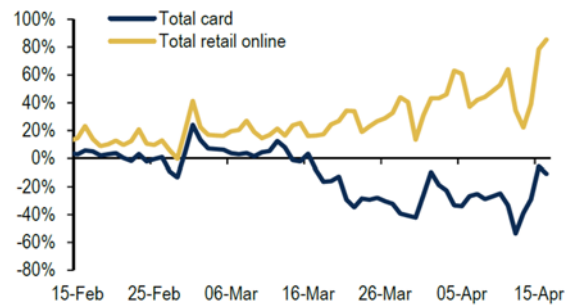
Concerns

- Cash and checks vs. credit and debit cards
 - Credit cards may be quite unreliable

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Chart 11: Aggregated daily total card spending vs. total online retail spending(% yoy)



Source: BAC internal data. Note: online retail spending makes up about 11% of total card spending

Concerns

- Cash and checks vs. credit and debit cards
 - Credit cards may be quite unreliable
- Worker or employer movement in/out of ADP
- Representativeness of ADP/Chase customer base
 - More concerning for aggregate statistics (means)
 - E.g. errors in employment forecasts from UI claims, CES vs. ADP employment at continuing businesses April to May
 - Ultimately we can validate with representative data from CPS, LRD, retail sales data etc., but then we should just use
 - Less concerning for the relationship between individual-level variables (slopes)
 - But we cannot generally validate with representative data
- Real-time analysis as vetted, “academic” work

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End: One of the contributions of these papers is economists stepping into real-time data analysis, usually the purview of media, bank research departments, industry chief economists, etc. These institutions produce good work and should be thought of as the existing literature. Academia is terrible at citing and acknowledging what is new and what is not, which is fine if you are proving equilibrium existence, but not if you are confirming a media/industry story. The benefits of this type of work: academic economists bring extra labor and have a particular set of skills that can make the studies, better, faster, stronger. But there are dangers: we need to be very careful establishing both popular narratives through the media and also academic narratives through publication. We are trusted because we are usually slow and correct. We can leverage that for attention. But we have to do better than we did with the subprime crisis, which did not cause the Great Recession, and really understanding the role of housing didn't just take a decade, it is ongoing.

A few highlights: employment (blue new)

1. Confirming: most layoffs where producing/consuming is risky
2. Much greater job losses for low (ex ante) income
3. Most job losses at surviving employers: business closures account for 20% of employment declines
4. Job gains in May disproportionately from re-opening
5. Employment declines concentrated at small businesses
 - Is PPP doing much for \$377b in CARES?
6. 50% of businesses reduced employment, 10% grew
7. Businesses cutting wages at 2x rate of Great Recession
 - (e.g. me) Wage cuts limit declines in employment?

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A few highlights: consumption (blue new)

1. Confirming: most consumption declines for goods where producing or consuming is risky (e.g. restaurants, travel accommodations, personal services)
 - Non-essential spending is 84% of total declines in credit card spending
2. Similar percent declines in consumption largely unrelated to income group and industry of employment
 - Slightly higher declines for higher income, but probably lower than their share of shut-down consumption
 - Given higher share of necessities for low income groups, their utility from consumption may have fallen more
 - Spending recovers more rapidly for low income groups from mid-April into May
3. Liquid wealth rises for all income groups, but remains higher for high income households

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Conclusion

- Consumption decline appears largely by choice, and some employment and consumption declines are socially optimal, therefore no need for stimulus now as we don't need extra supermarket and Netflix spending
- But we need insurance. Economic Relief Payments have been critical. Is UI now able to stepping into that role? Is the coverage wide enough?
- We will need stimulus once we want to open (e.g. COVID-19 is contained or vaccine), supply shock becomes a demand shock (Guerrieri et al. 2020)
- Given the enormity of shock and evidence on wage cuts, maybe wages and prices are more flexible in this recession
- Given the oversized impact on small businesses, we are likely to have more industry concentration and lost output due to higher markups