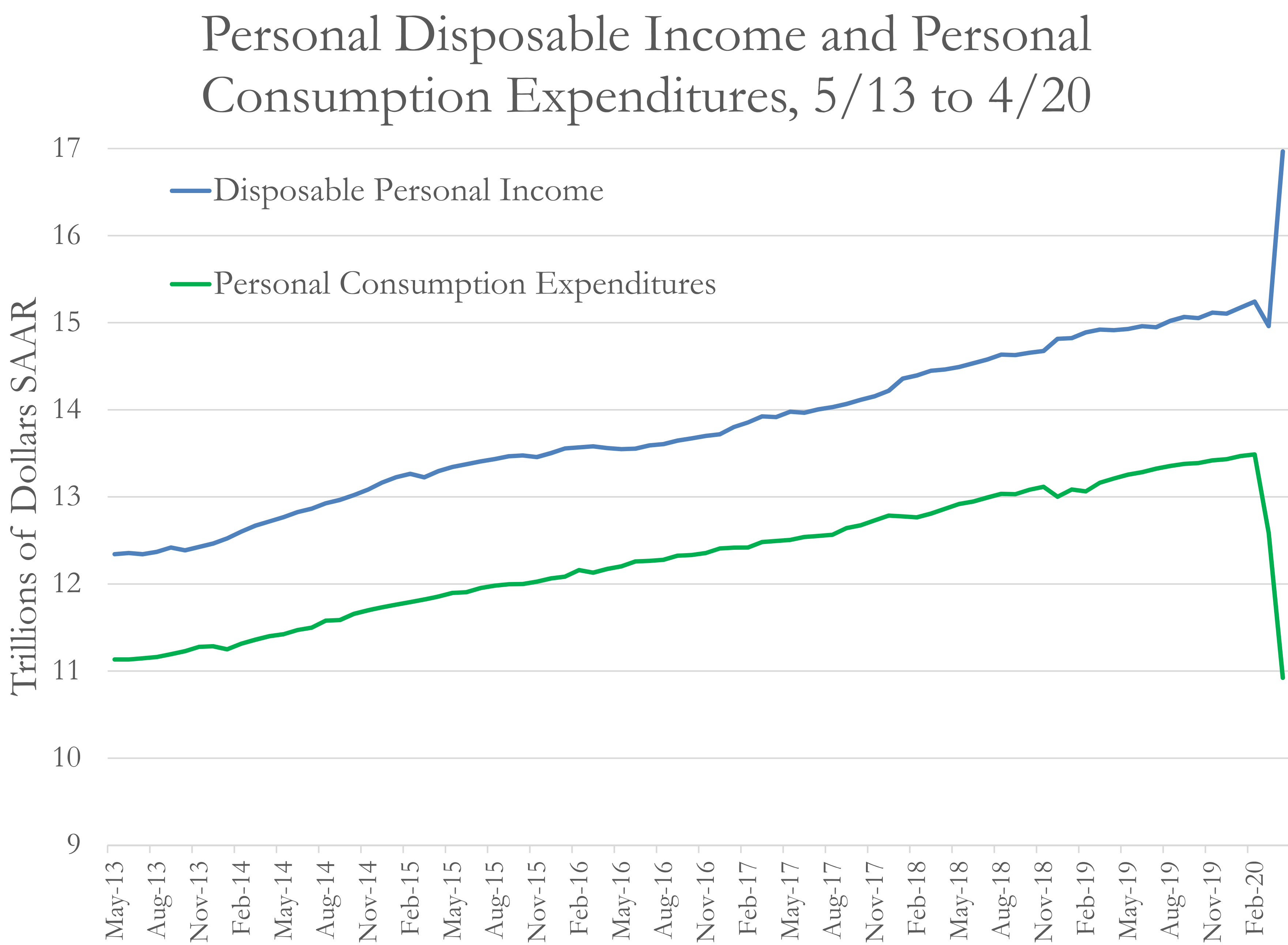
Discussion

"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.

Brooking Papers on Economic Activity
June 25, 2020

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


Personal Disposable Income and Personal Consumption Expenditures, 5/13 to 4/20
Disposable Personal Income
Personal Consumption Expenditures
Trillions of Dollars SAAR
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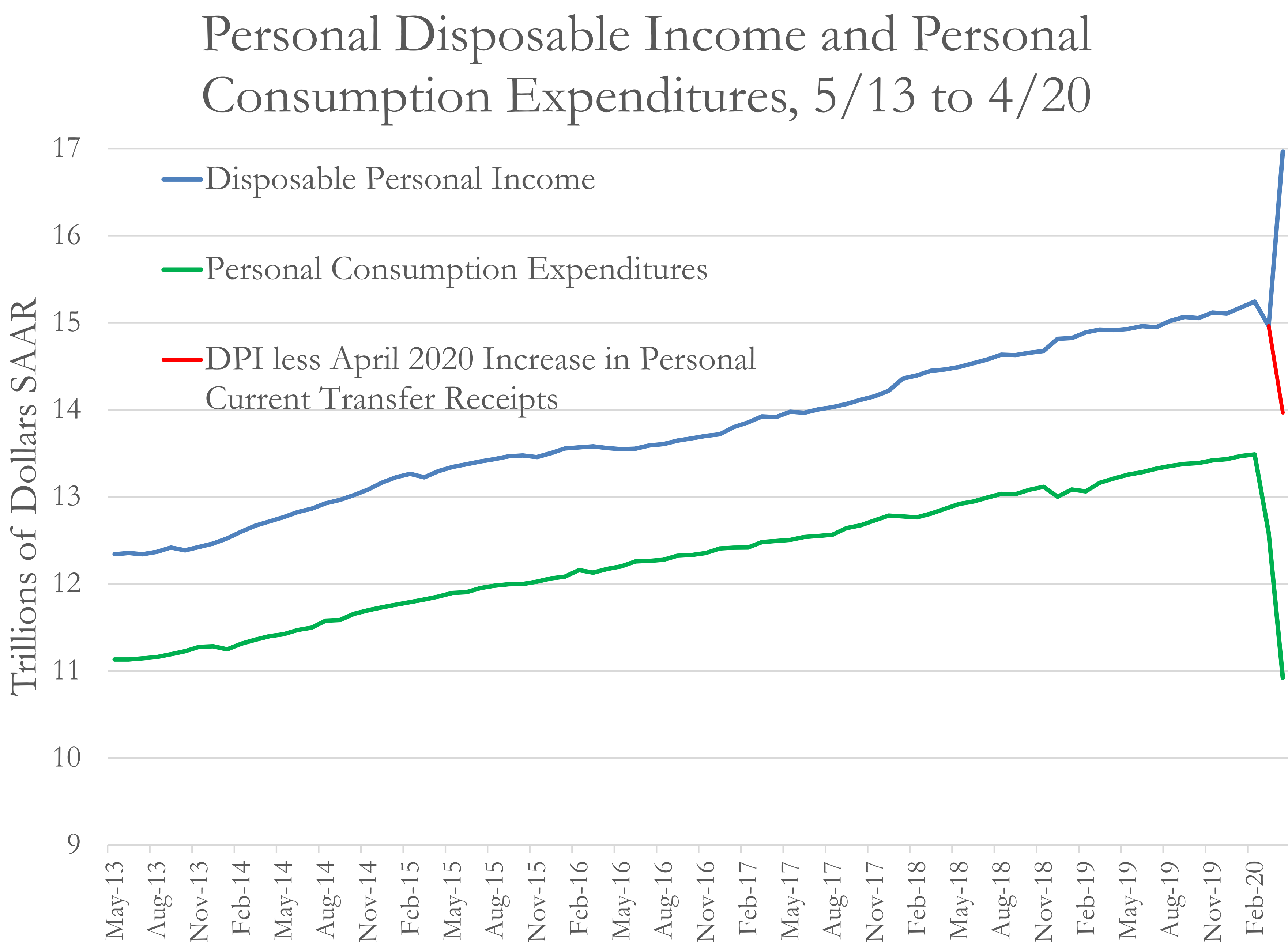
Personal Disposable Income and Personal Consumption Expenditures, 5/13 to 4/20
Disposable Personal Income
Personal Consumption Expenditures
DPI less April 2020 Increase in Personal Current Transfer Receipts
Trillions of Dollars SAAR
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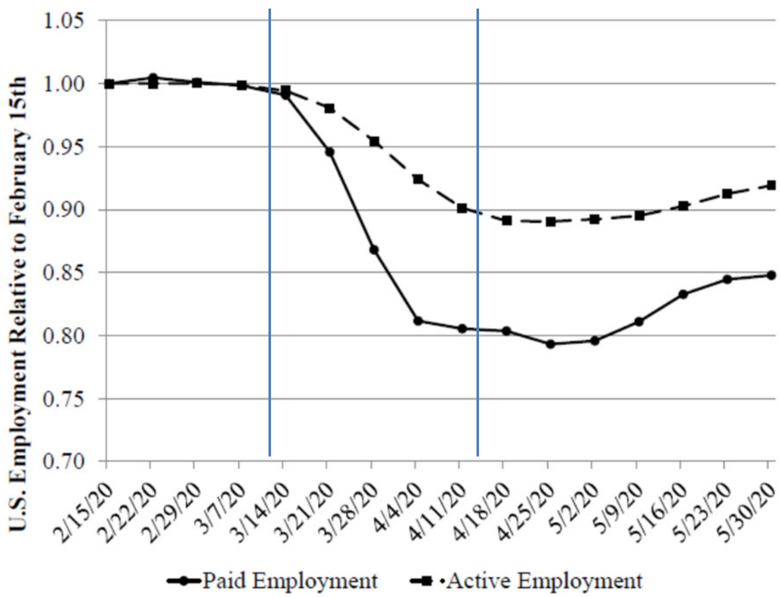
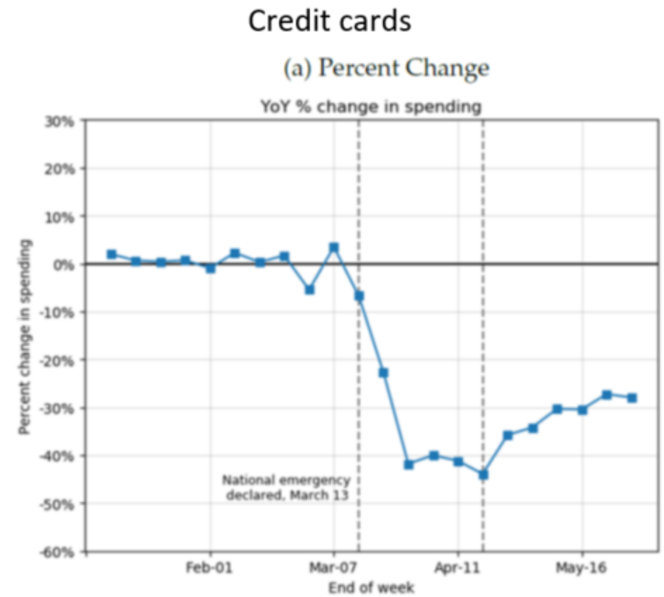
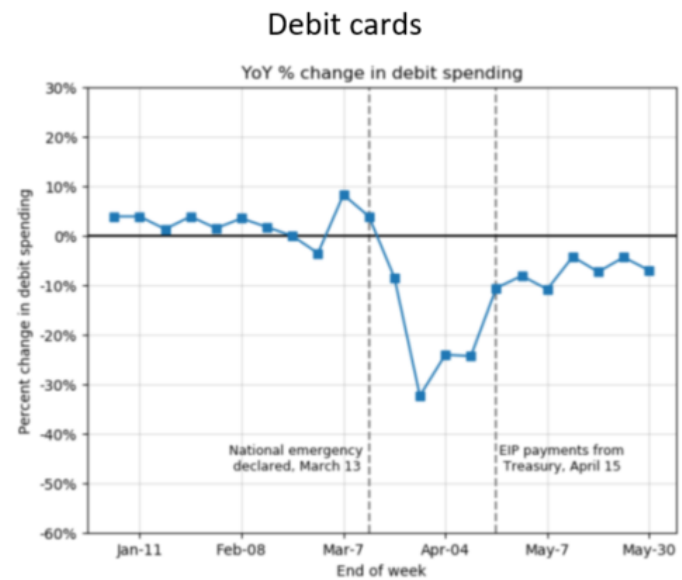
Aggregate Employment and Spending

(Contribution: high frequency)

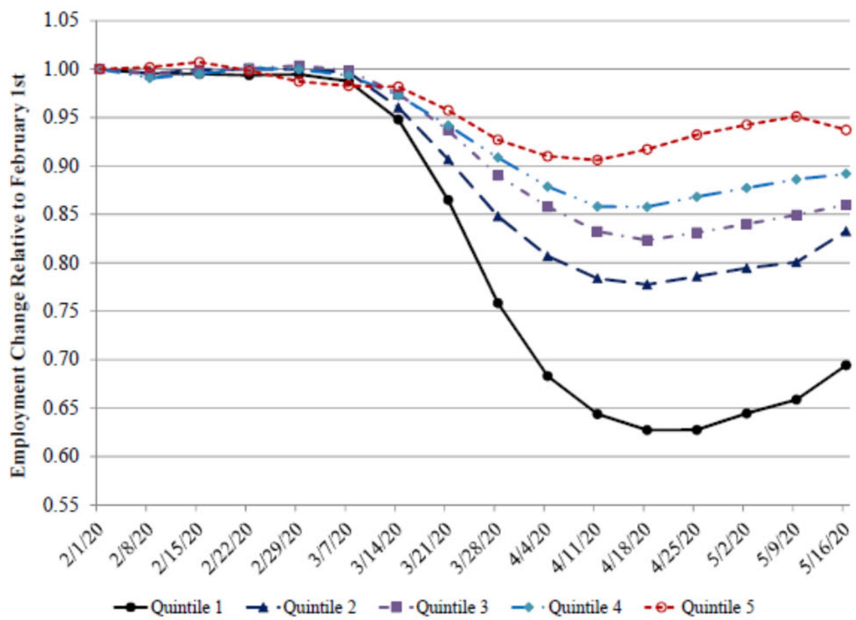


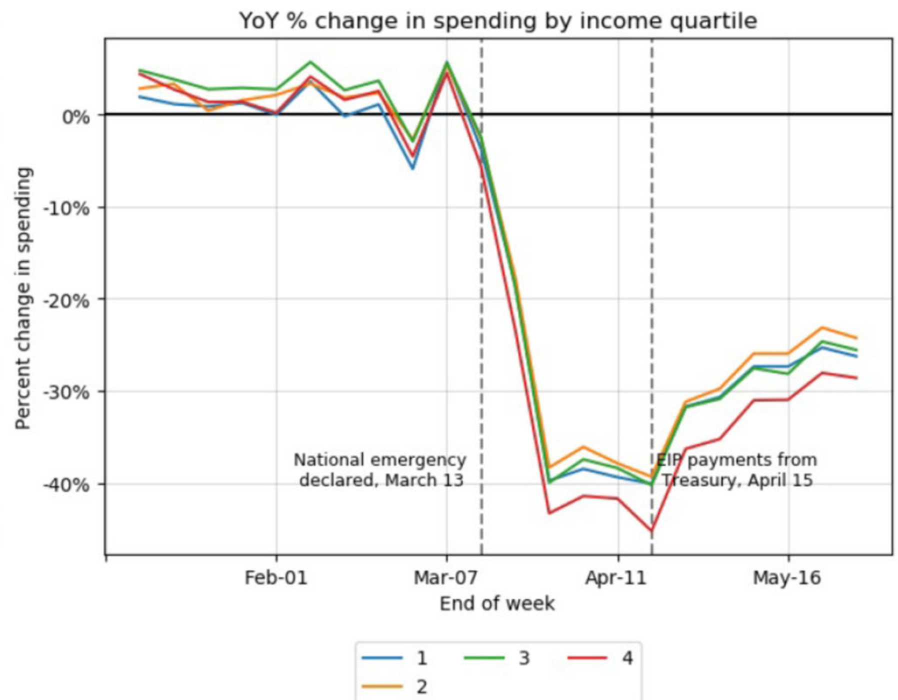




1. Spending spikes before national emergency & employment decline
2. Spending & employment fall together mid-March to mid-April
3. Spending recovers earlier (mid-April) & more (pandemic relief payments)

Changes by Wage Quintile/Income Quartile





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

Changes by Industry

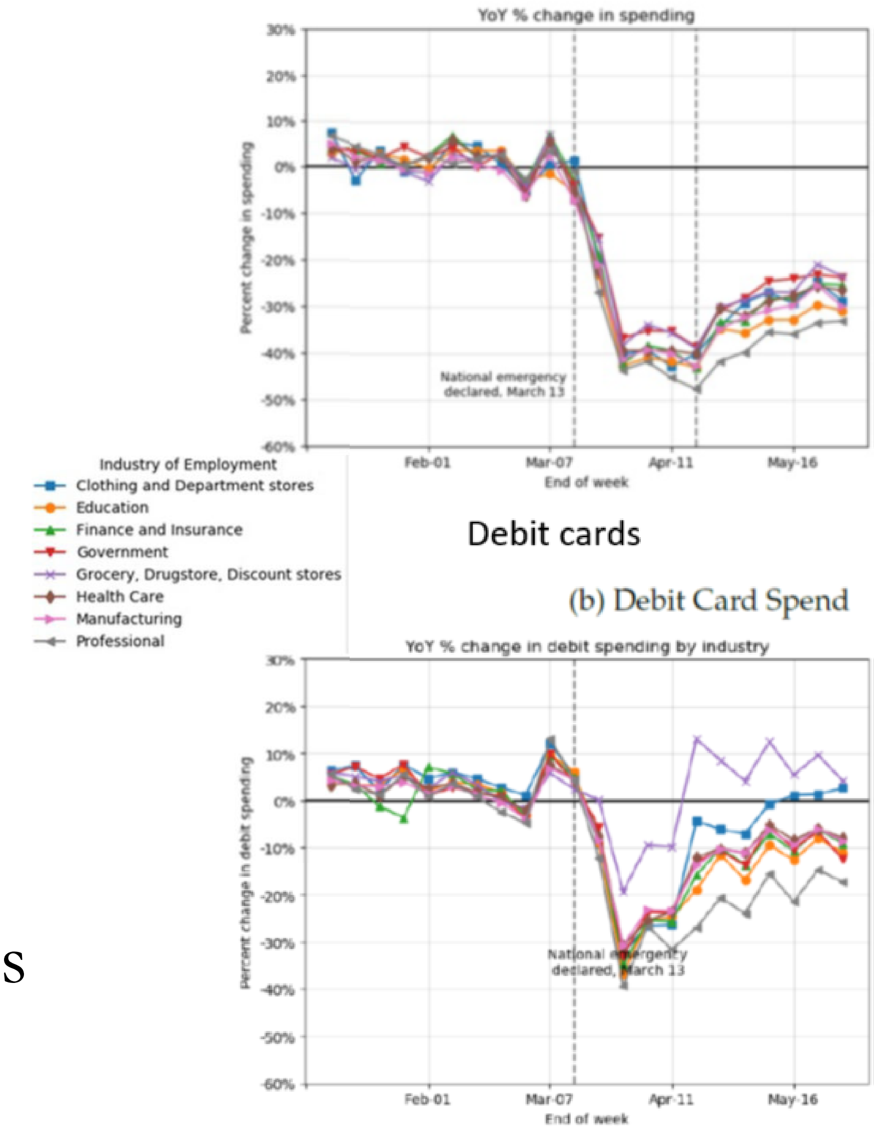
Table 1: Paid Employment Changes By 2-Digit Industry

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

Credit cards

(a) Credit Card Spend



Concerns

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

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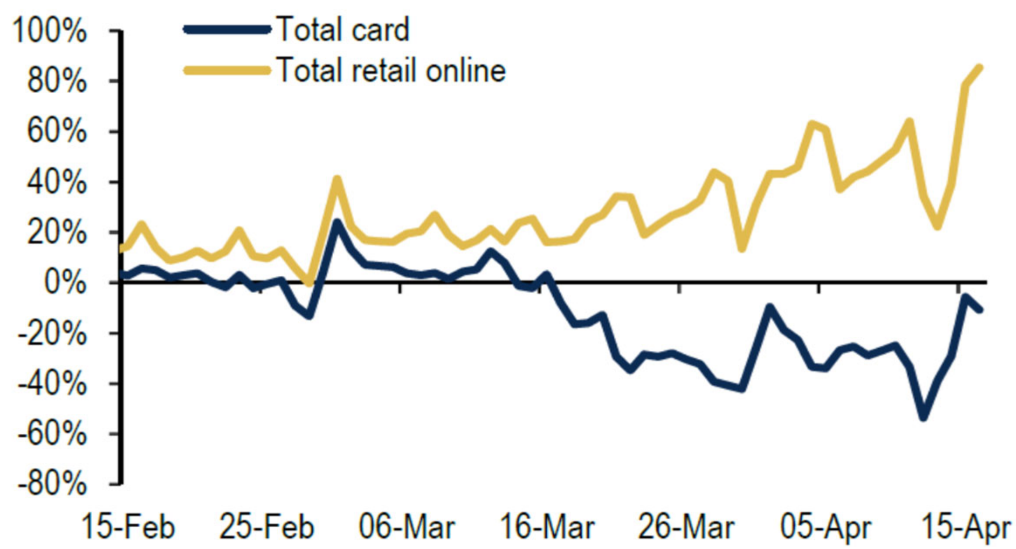
Chart 11: Aggregated daily total card spending vs. total online retail spending(% yoy)



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

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 loses 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?

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 across all income groups
   - Given higher share of necessities for low income groups, their utility from consumption may have fallen more
3. Spending recovers more rapidly for low income groups from mid-April into May
4. Consumption declines largely unrelated to industry of employment
5. Liquid wealth rises for all income groups, but remains higher for high income households

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