Comments on “Recovery from Covid” by James Stock and Mark Watson

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BEPA Conference
March 2025

COVID Recession

Figure 1: OpenTable Restaurant Reservations

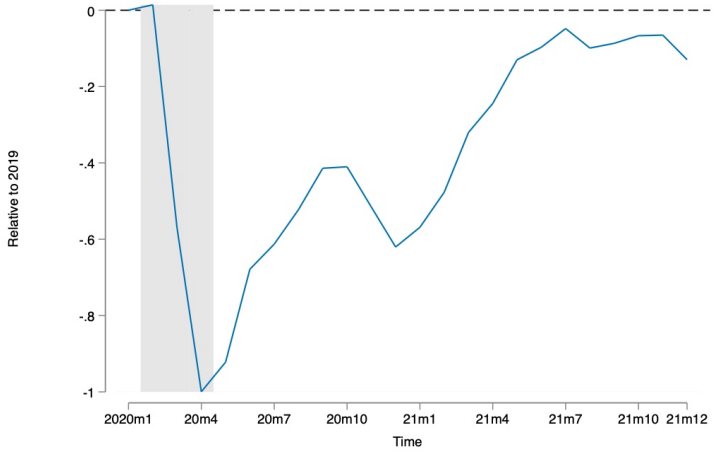
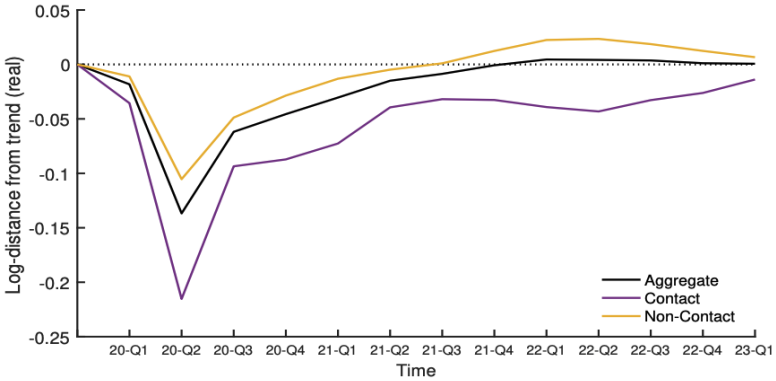


Figure 2: Contact versus Non-Contact Sectors



Econometric Framework

- Dynamic Factor Model

$$Y_t = \Lambda F_t + \Gamma C_t + u_t$$

- Equations of motion for F_t and C_t: Factors depend on
  - Own lags and lags of other factors
  - Structural shocks: ε_t^F, ε_t^C
- Identification of factor shocks via timing restrictions
  - COVID shock ε_t^C affects conventional factors F_t within the month
  - Conventional shocks affect COVID factor C_t only with a lag

Key Conclusions

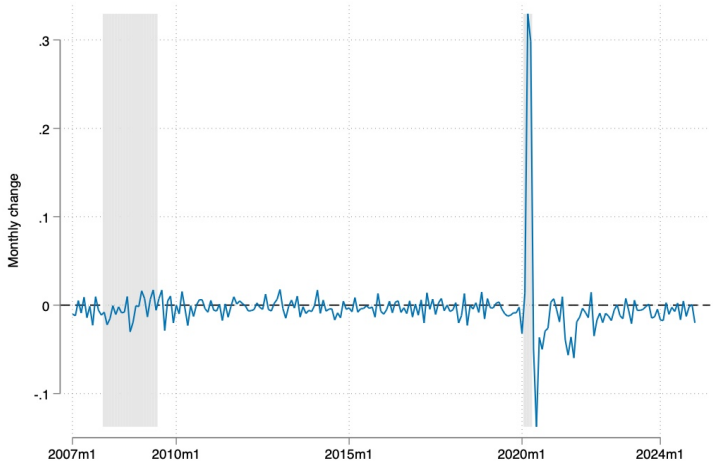
1. COVID Shock ε_t^C covaries with:
   - COVID deaths
   - Weighted spread between goods and service output

2. ε_t^C accounts for most of variation thru mid 2021 (both aggregate and cross-sectional)

3. No persistent COVID-induced business cycle dynamics
   - After mid 2021, pre-COVID dynamics resumed
   - A few changes (e.g., remote work), but economy mostly resiliant

COVID Shocks & Goods/Services Spread

Figure 3: $\Delta \ln(\text{PCE-goods}) - 3.8\Delta \ln(\text{PCE-services})$



My Comments

1. The Inflation Surge
   - Also distinctive feature of COVID Recession/Recovery
   - Relation to COVID versus Conventional Factors

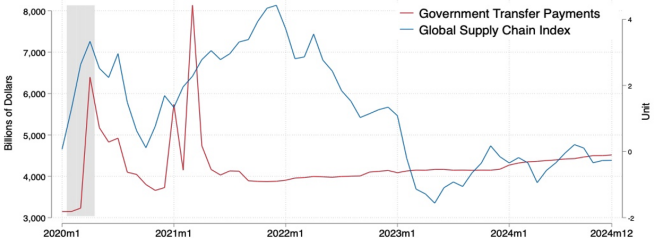
2. COVID-induced increases in “Costs”
   - e.g. Food, Housing

3. COVID contribution to Fiscal (un)Sustainability

The Inflation Surge

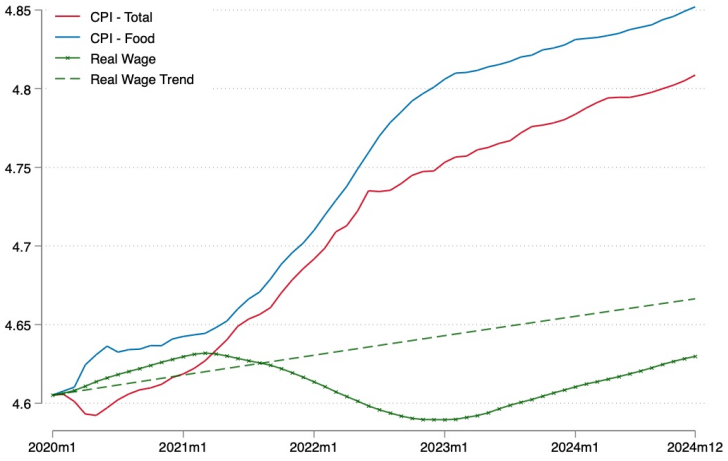
PCE Inflation: Goods versus Services

Demand (Fiscal) & Supply shocks



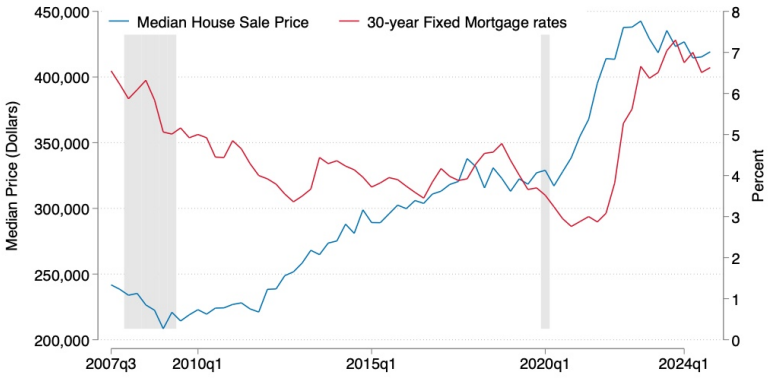
Increases in “Costs”

Figure 5: Prices, Real Wages, and Food Prices

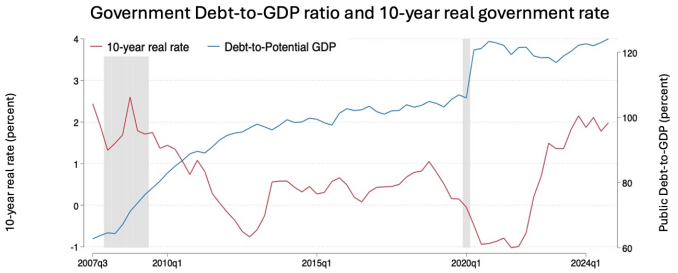


Housing Costs

Figure 6: Housing Prices and Mortgage Rates



Fiscal (Un)sustainability



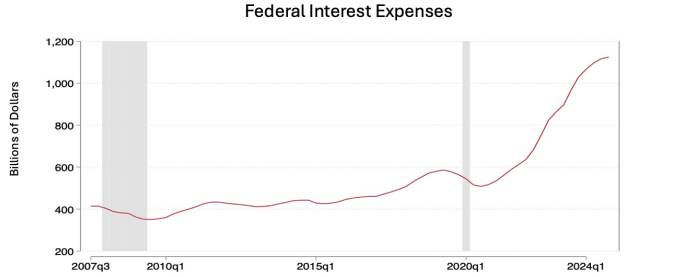
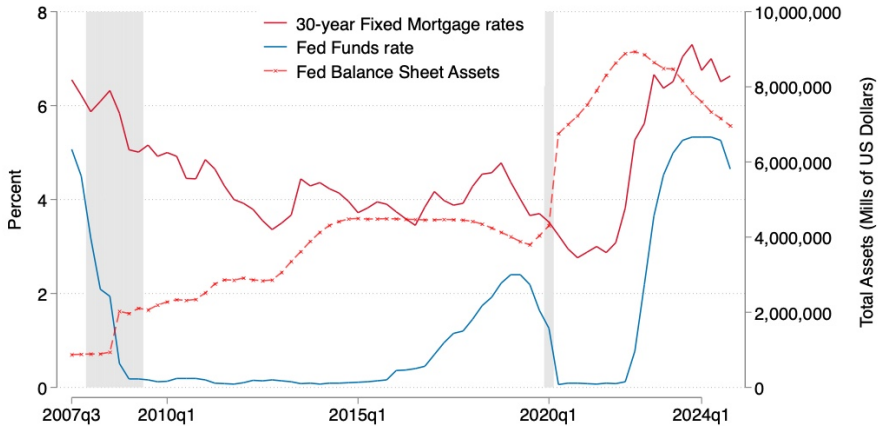


Figure 8: Mortgage Rates, Fed Balance sheets, and Monetary Policy



Concluding Remarks

- Great Paper !!!
- Follow Up? DMF with COVID Inflation and Relative “Costs”