

Thoughts on the Economy

Paul Willen

Federal Reserve Bank of Boston and NBER

Vermont Bankers' Women in Leadership
Montpelier, March 5, 2020

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Disclaimer

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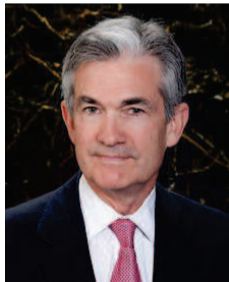
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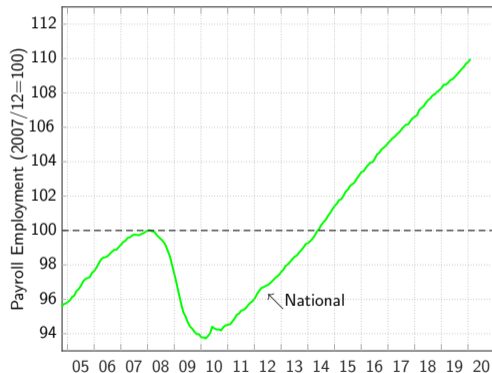
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- When I say “we”, I don’t mean Jay and me.

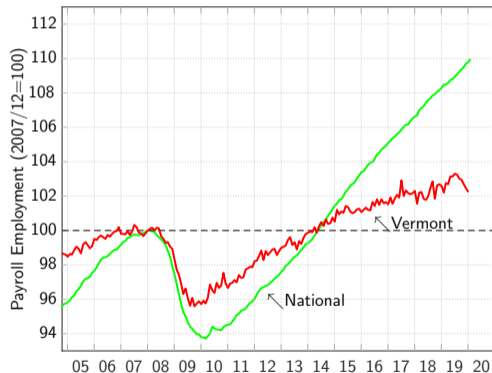
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- Employment continues to grow ($\sim 1.2\%$ per year)
 - Up 10% versus peak of previous cycle
 - Up $>15\%$ versus the trough



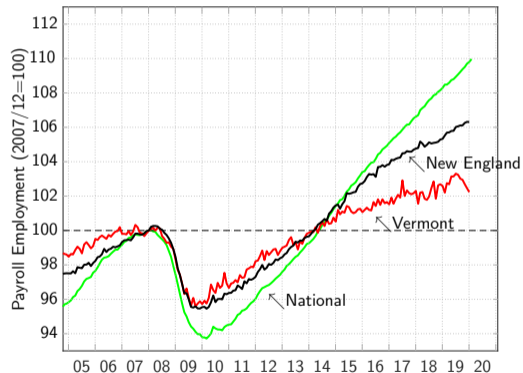
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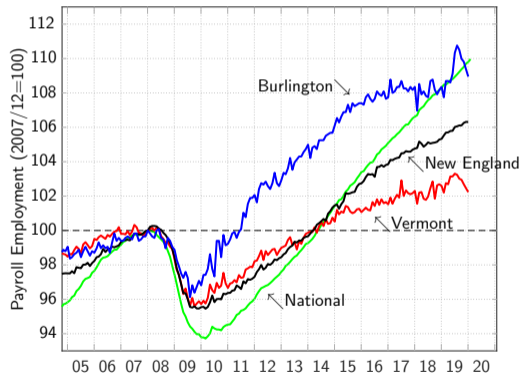
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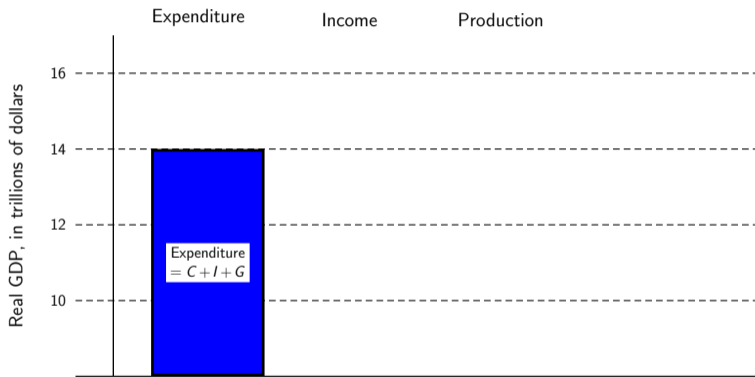
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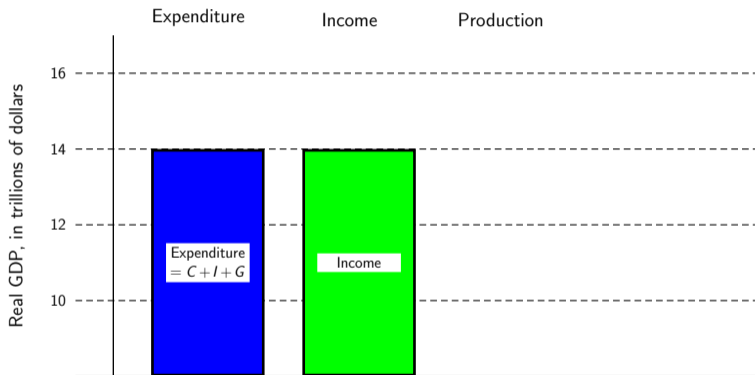
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- Expenditure = Income = Production



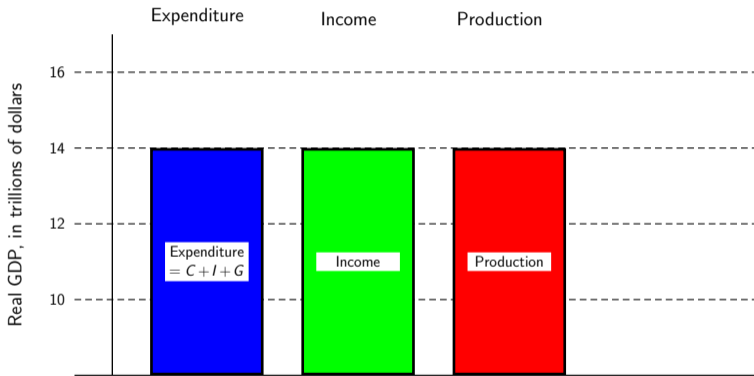
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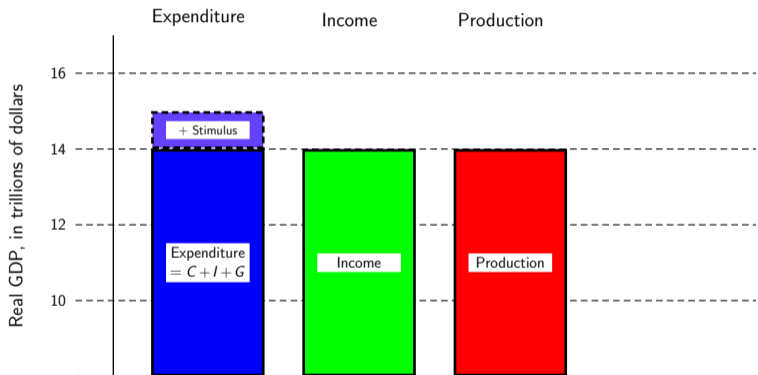
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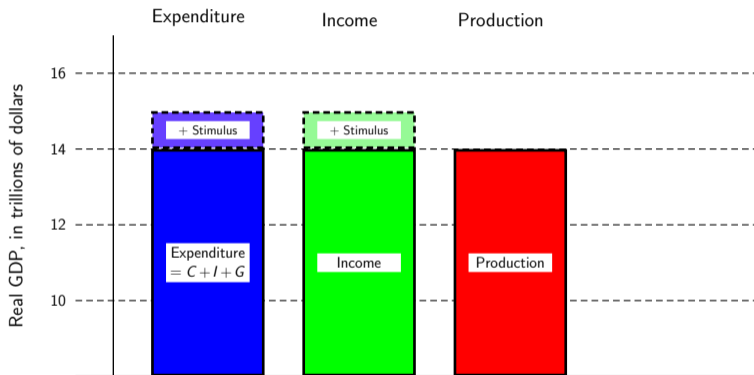
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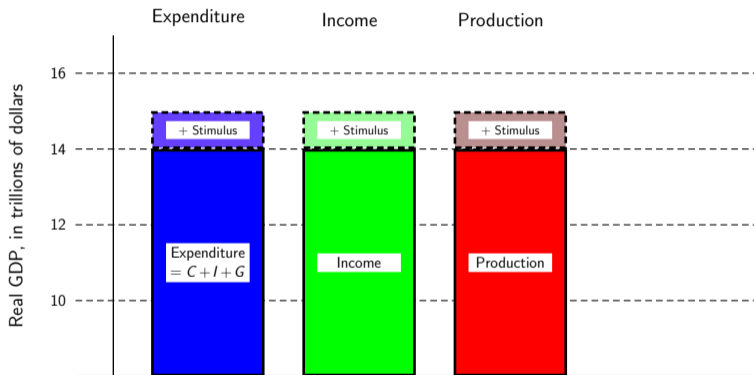
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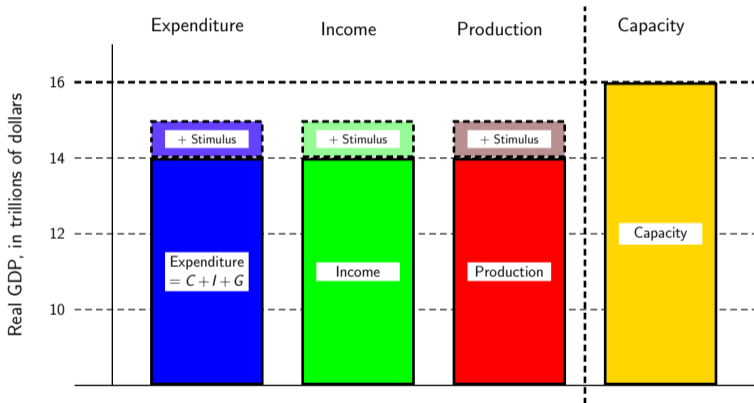
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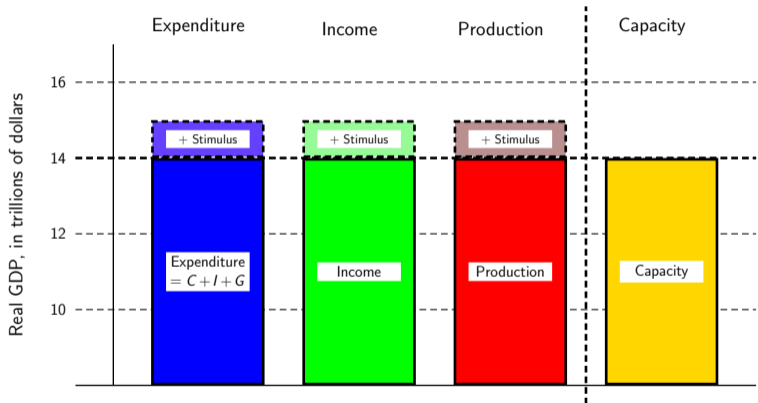
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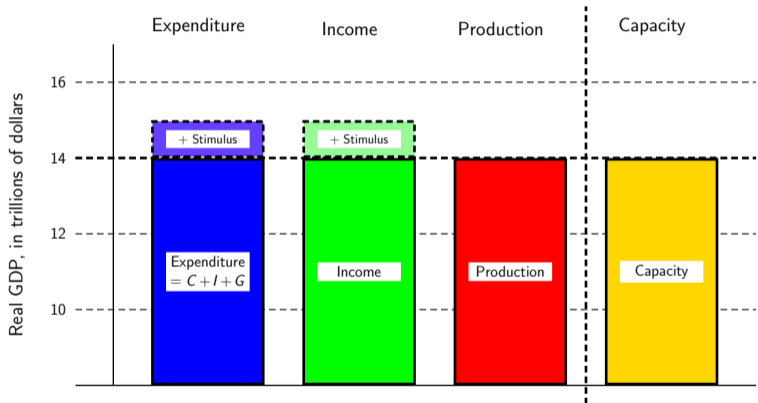
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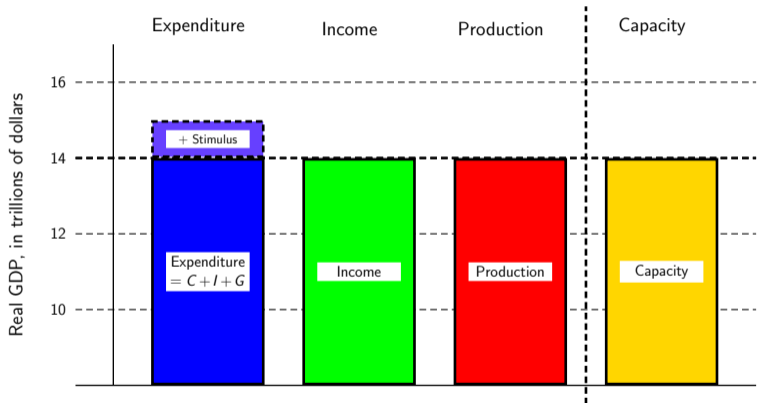
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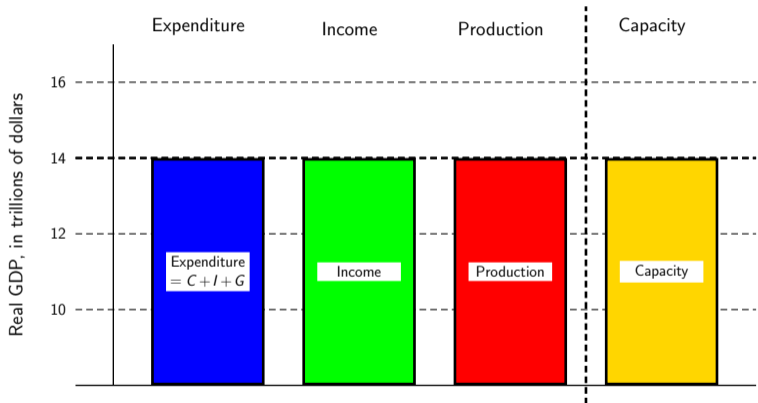
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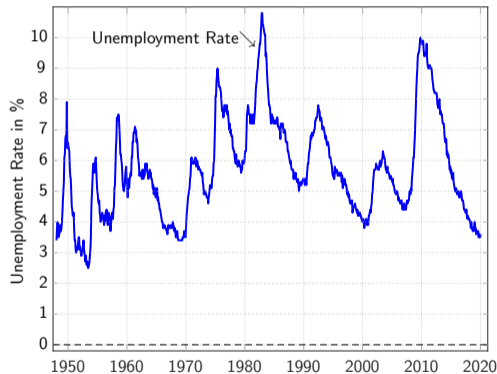


Capacity = Full Employment

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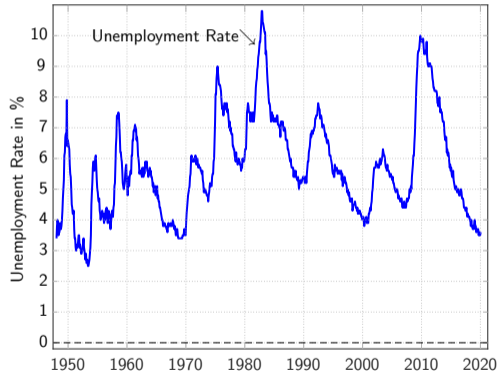
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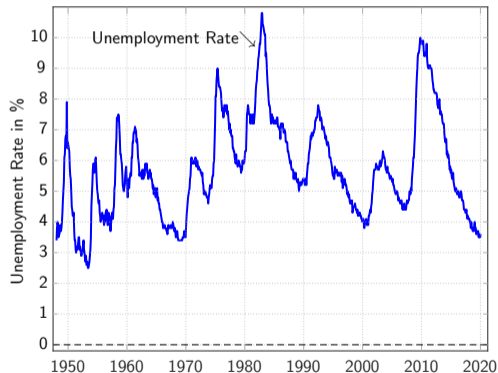
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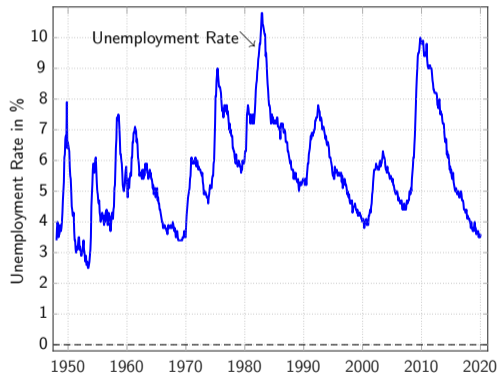
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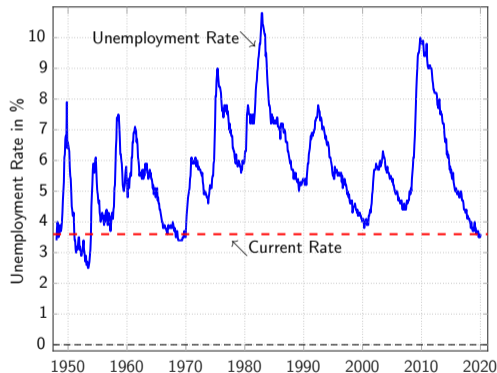
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- Full employment =?



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- At this stage, all but previous expansions in American history
 - were over.

Rank	Start	Length
1	June 2009 (II)	≥43 quarters
2	March 1991(I)	40 quarters
3	February 1961 (I)	35 quarters
4	November 1982 (IV)	31 quarters
5	November 2001 (IV)	24 quarters
6	March 1975 (I)	20 quarters
7	October 1949 (IV)	14 quarters
8	May 1954 (II)	13 quarters
9	November 1970 (IV)	12 quarters
10	April 1958 (II)	8 quarters
11	July 1980 (III)	4 quarters

Global Slowdown

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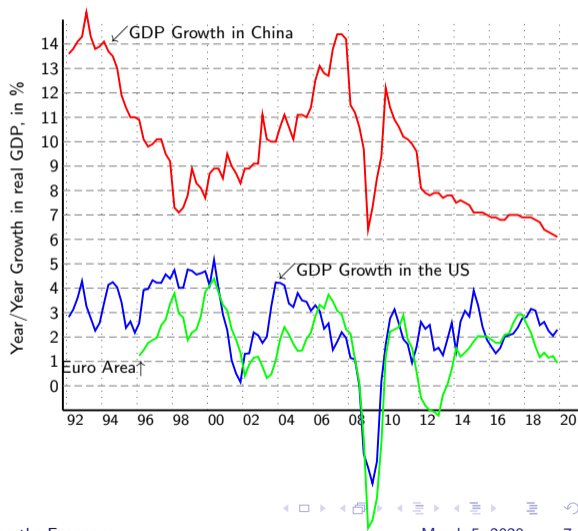
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- Lowest growth in China since 1992
- Slow growth in Euro area
 - Attributed to weakness in China?



Financial Markets

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Financial Markets

- Stock market has been
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 - Highly volatile
- What does stock market have to do with recessions?



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- “Predicted 9 of the last 5 recessions.”

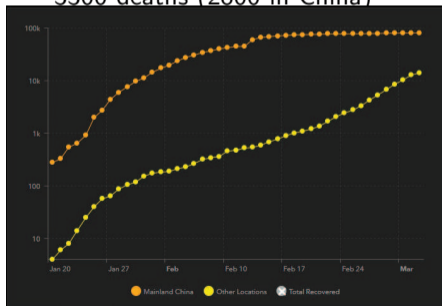


Coronavirus

- First emerged in China at the end of last year
 - as of this morning: 95,000 cases
 - 80,000 in China
 - 3300 deaths (2800 in China)

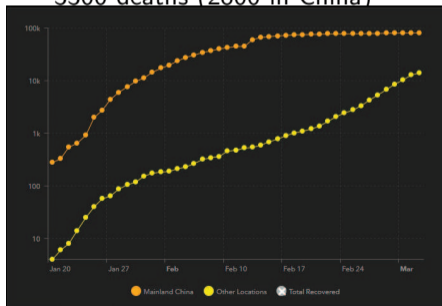
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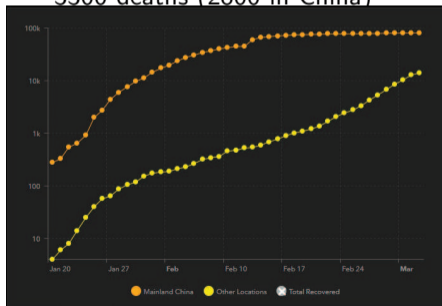
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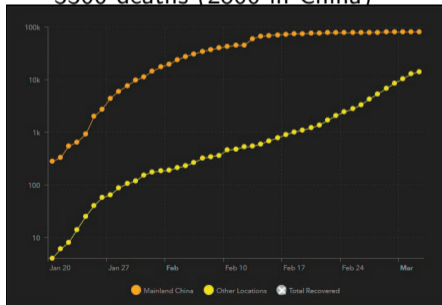
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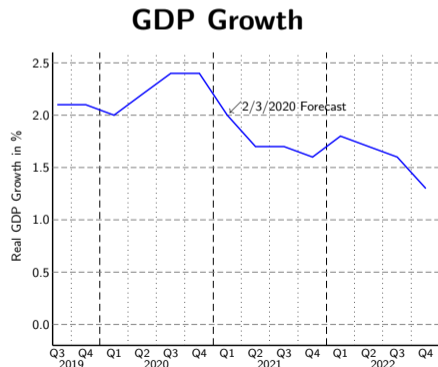


Effect on Economic Activity

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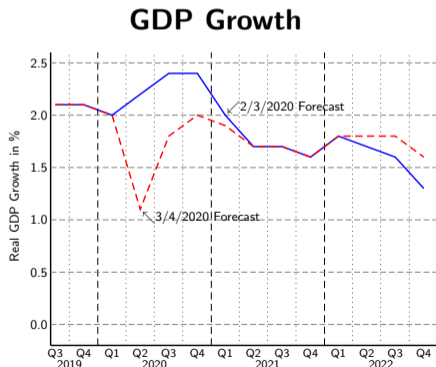
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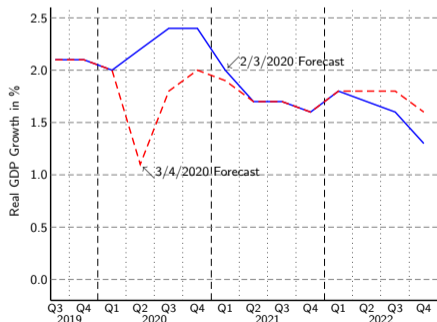
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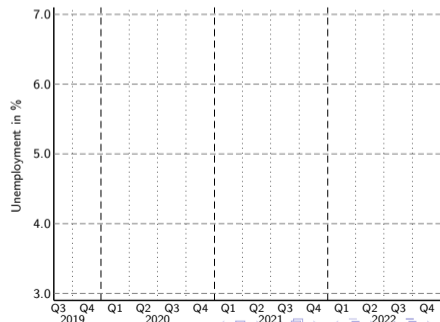
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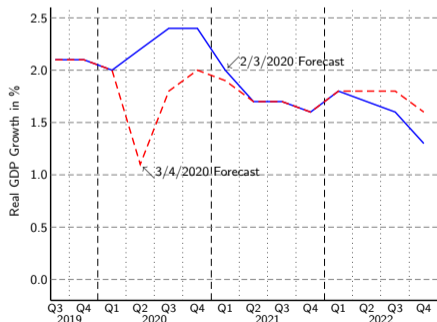
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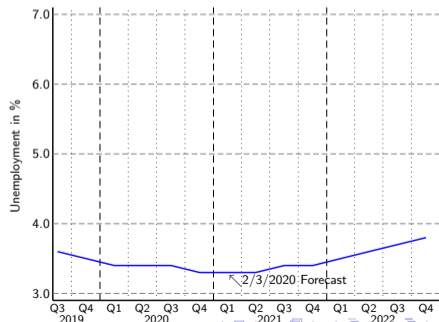
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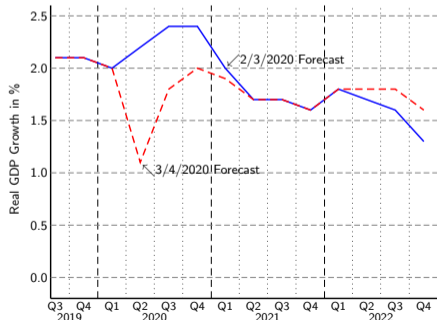
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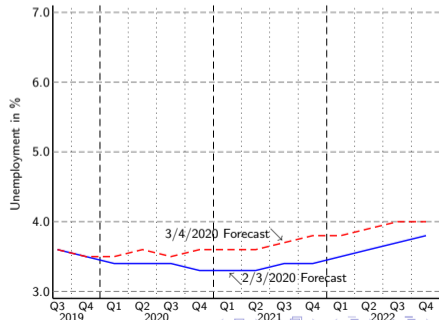
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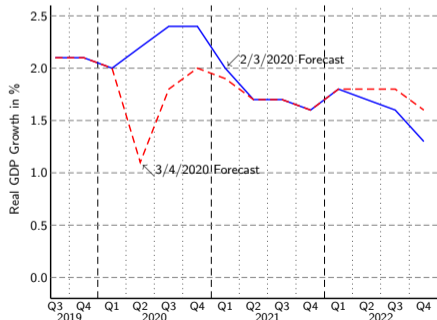
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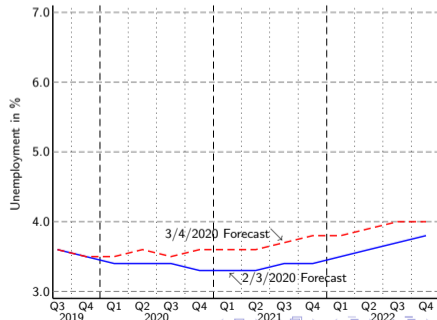
Effect on Economic Activity

- Generally expected to be small
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- Unemployment about 0.25 percent higher in 2022
- One quarter of slow growth
- No recession (or anything close)

GDP Growth



Unemployment

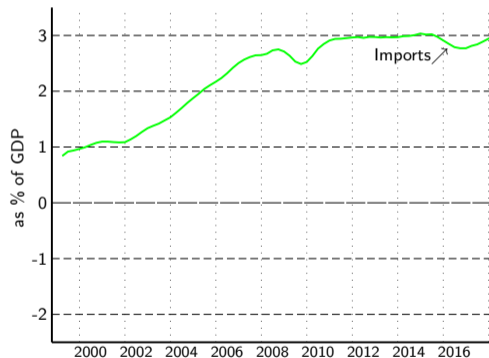


Why is effect so small?

- China is not all that important to US

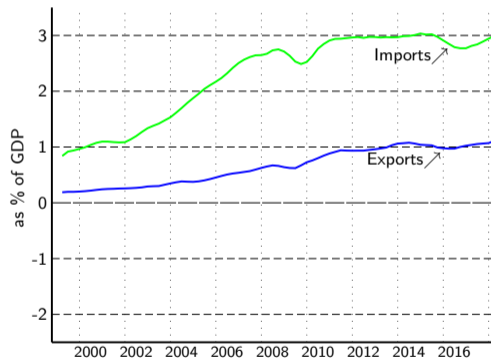
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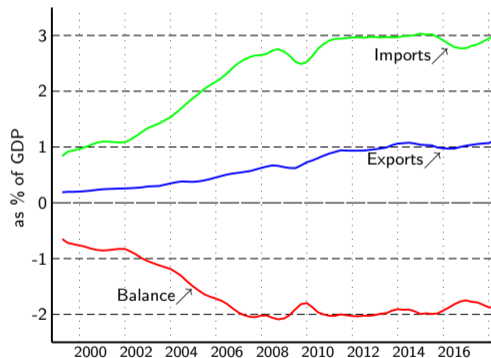
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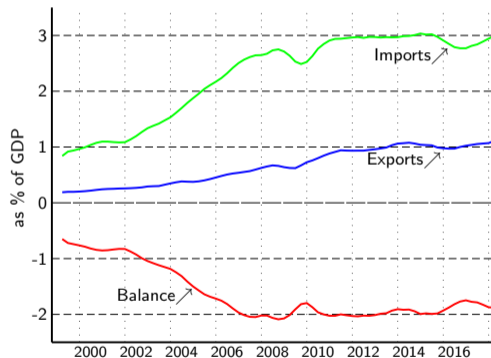
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- Hulten's Theorem:
 - Effect of a shock to a sector proportional to size of sector.

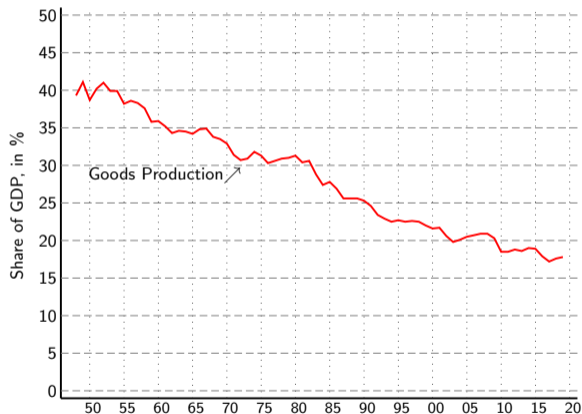


Manufacturing is small

- “Narratives” about the effect of the virus
 - Workers don't show up
 - Factories close
 - Missing components...

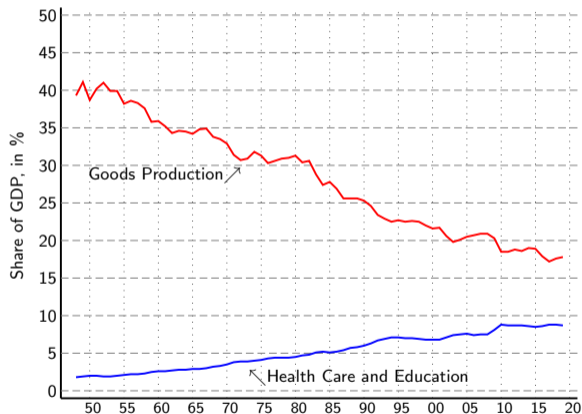
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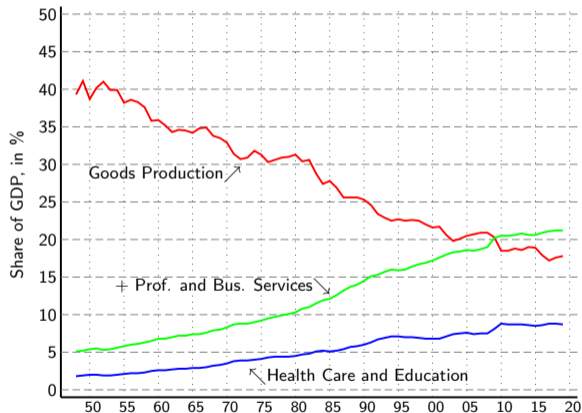
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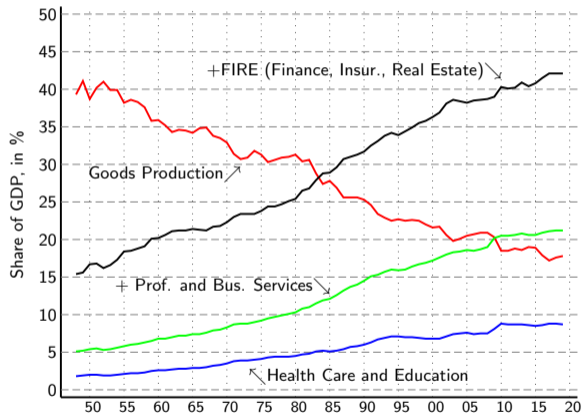
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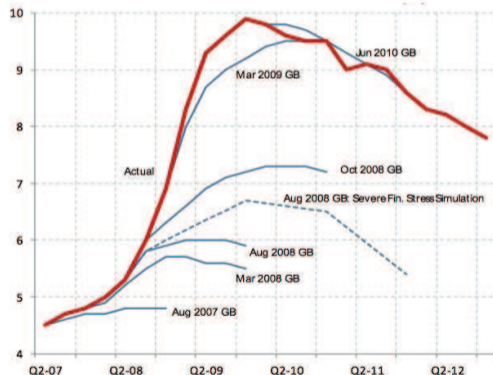
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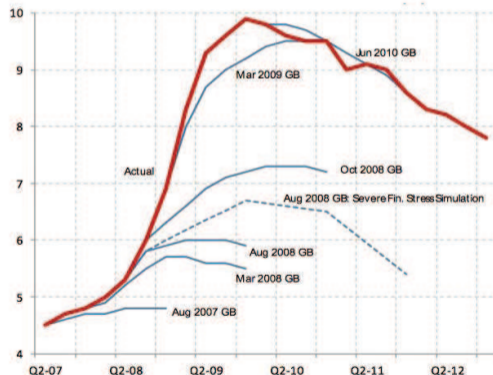


Source: Kohn and Sack (2018)

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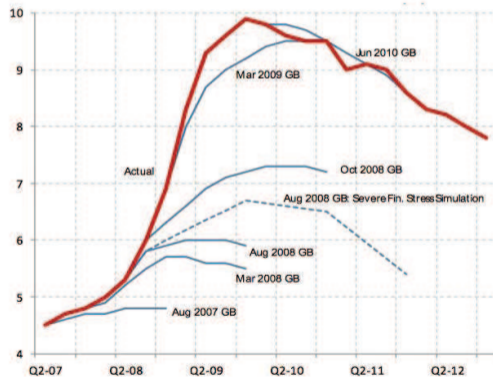


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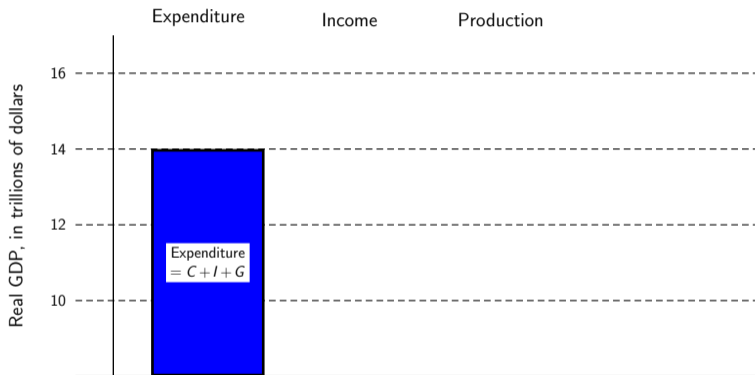
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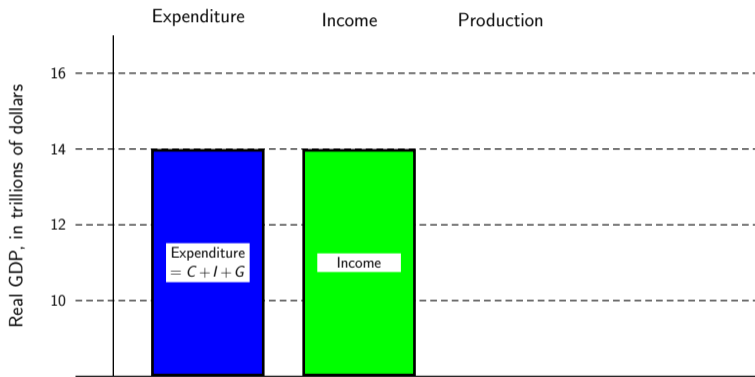
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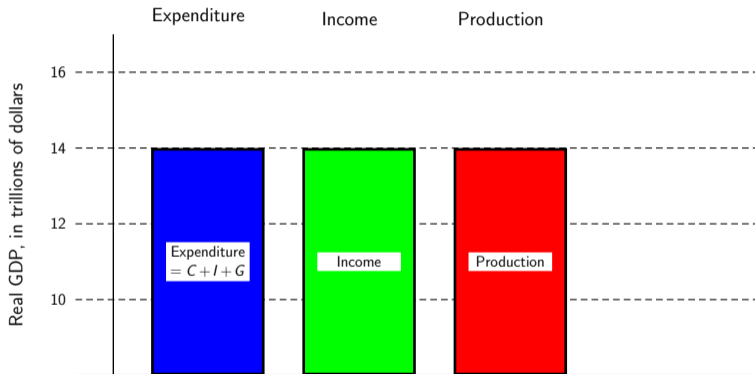
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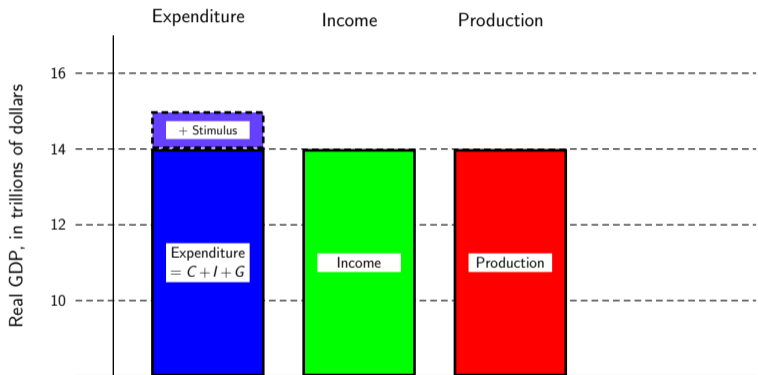
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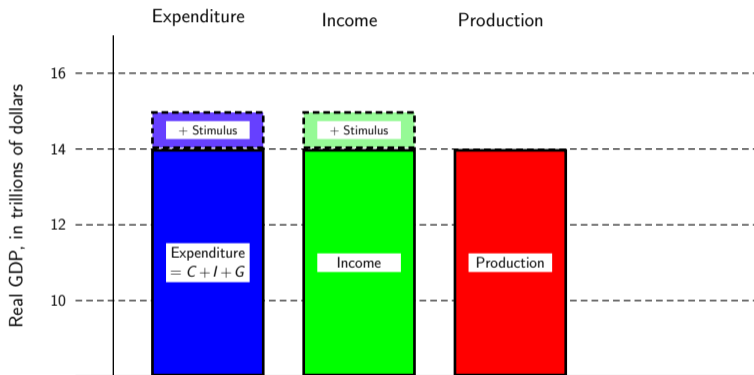
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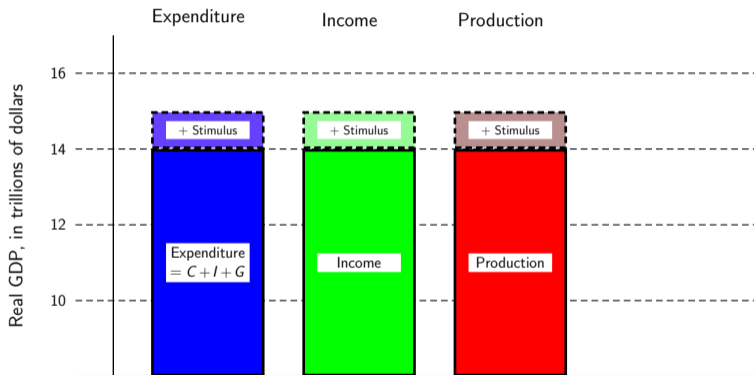
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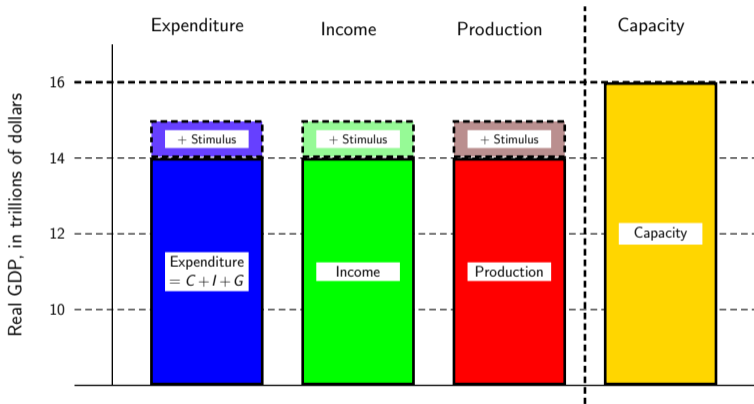
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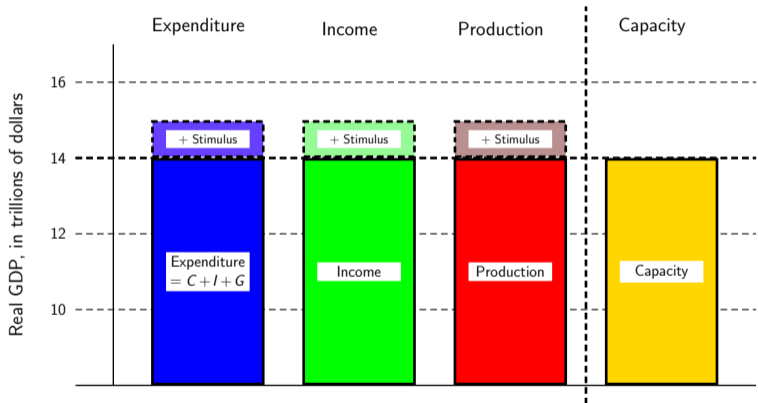
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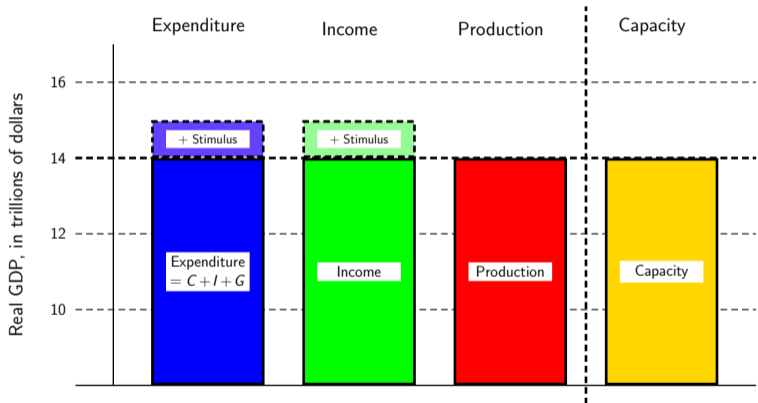
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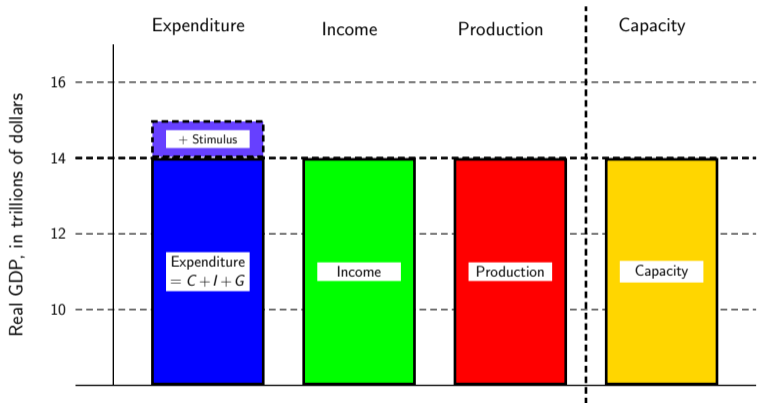
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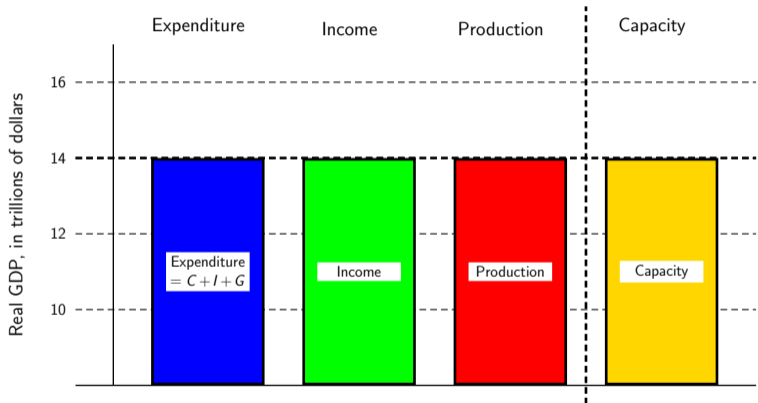
Policy respons

- Productive capacity of the economy!
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- Most economists think we are near or at capacity



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The slide you've all been waiting for...

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- The end.