

Coronavirus: economic impacts and policy responses

An overview of the impacts of COVID-19 on the economy and related policy responses

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Producer

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Roadmap

- Overview
- Federal actions
- State and local actions

A coronavirus-driven recession is a growing possibility



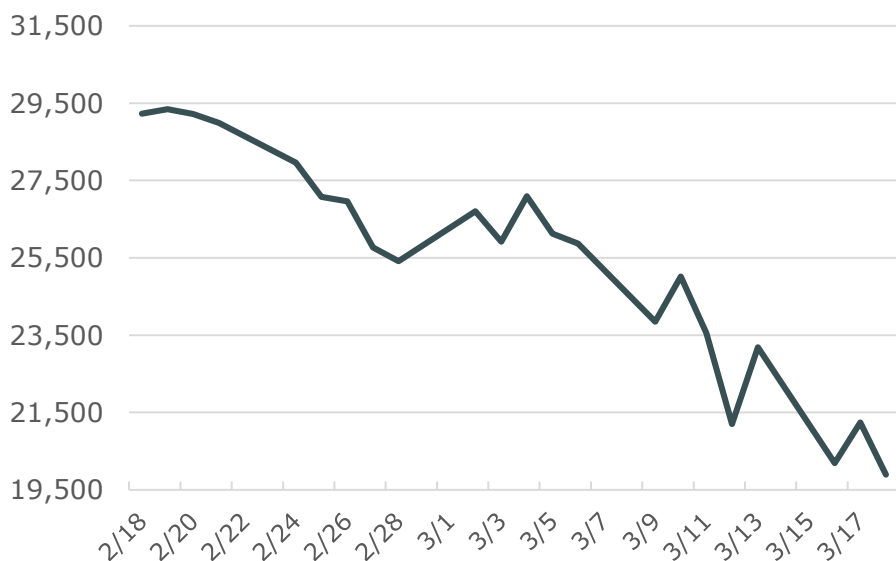
The longer the coronavirus outbreak lasts, the more of a threat it poses to the world economy

Economic consequences of coronavirus:

- Market disruption: supply chain slow-down, tourist and business travel delayed/canceled
- Heightened caution: spooked investors, heightened uncertainty, recession fears

Dow Jones Industrial Average

02/18/2020 TO 03/10/2020



Economic activity has experienced a “sudden stop” in the wake of quarantines, social distancing, and event cancellations



Plunging stock market indices signal fear among investors of decreased economic output for the year ahead



Some analysts worry of secondary economic impacts – a recent poll found that **18 percent Americans have been laid off or have had hours cut already**, which could have long-term effects on consumer spending

COVID-19 has spurred major oil-market disruptions



The outbreak of coronavirus in Asia has led to a collapse in oil demand there; differences in opinion over how to approach that situation has led to the disintegration of a long-standing production cooperation agreement between Russia and Saudi Arabia



Background information

- Russia is **not** a member of the Organization of Petroleum Exporting Countries (OPEC) **but had a deal to collaborate with OPEC**, known as OPEC plus
- The Russians and Saudis had up until recently been in an important alliance **meant to counter the impact of the US shale boom**
- However, the American oil industry has remained competitive, and **Russia and Saudi Arabia have become reliant on selling cheap oil to China**, which needed access to low-price crude oil during its 2015-2016 mini-recession



Cause of the oil war

- In an OPEC meeting a week prior to the open hostilities between the two nations, Saudi Arabia **proposed a cut in oil production of 1.5 million barrels day to offset falling demand due to coronavirus**; this would prevent the price of oil from falling further
- Russia refused, reportedly hoping to flood the market and drive prices down and damage US oil producers
- Saudi Arabia responded to Russia's refusal by going *further* than Russia and driving prices even lower than Russia was willing to go



Economic impact

- The stock market had its worst day since 2008; stock indexes plunged so rapidly that trading had to be temporarily halted
- Commodity prices are leading indicators of economic activity, so significant drops in prices spook investors because they tend to signal coming economic turmoil
- Consumers may see a silver lining in cheaper gas prices, and some industries may benefit slightly from discounted oil; however, most analysts agree that such silver linings do not offset long-term damage

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The Trump administration is proposing around \$1 trillion in stimulus spending



Trump administration proposal: Around **\$1 trillion** in stimulus spending



Two iterations of **\$250 billion in checks** (of varying amounts, depending on income and family size) sent directly to Americans



Around **\$50 billion** in airline industry aid



\$300 billion for assistance to small businesses



\$150 billion for assistance to other industries (potentially hotels)

Congress's multi-phase response to the COVID-19 outbreak

■ Became law ■ In progress

Phase 1: H.R. 6074 — Coronavirus Preparedness and Response Supplemental Appropriations Act

- \$8.3 billion in COVID-19 response funding for developing a vaccine and preventing further spread of the virus
- Became law on 3/6/20



Phase 2: H.R. 6201 — Families First Coronavirus Response Act

- \$100 billion in worker assistance, including emergency paid sick leave, food assistance, and unemployment payments
- Working its way through Congress and could pass the Senate soon



Phase 3: Stimulus package

- Trump administration is proposing a stimulus of approximately \$1 trillion that includes direct payments to Americans
- Senate Democrats are proposing their own \$750 billion stimulus package



H.R. 6074: Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020

Bill at a glance



Rep. Nita Lowey
(D-NY-17)
Bill sponsor

Bill overview

- Provides \$8.3 billion in emergency funding in response to the coronavirus outbreak for:
 - The development and manufacturing of vaccines and other supplies
 - State, local and tribal public health agencies
 - Loans for affected small businesses
 - Evacuations and emergency preparedness activities
 - Humanitarian assistance for affected countries
- The supplemental appropriations will be provided to the FDA, CDC, NIH, Public Health and Social Services Emergency Fund, Small Business Administration, Department of State, and USAID
- Designates the supplemental appropriations as emergency spending, which is exempt from discretionary spending limits

Status in Congress

- **House:** Passed with a vote of 415-2
- **Senate:** Passed with a vote of 96-1



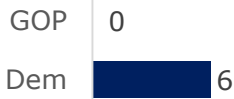
H.R. 6201 – Families First Coronavirus Response Act

Bill at a glance



Rep. Nita Lowey
(D-NY-17)
Bill sponsor

Co-sponsors: 6



Bill overview

- Creates a federal emergency paid leave program administered by SSA
 - The paid sick leave program initially only covered 20% of workers, and now covers even less after being scaled back to exempt small businesses
 - The paid family leave program included now only covers parents whose childrens’ schools have closed, notably leaving out those who must stay home to take care of ill family members
- Provides funds for nutrition assistance, including \$500 million for WIC and \$400 million for TEFAP
- Includes \$5 million for the Department of Labor to administer an emergency paid sick days program and \$250 for the Senior Nutrition program in the Administration for Community Living
- Offers provisions to ensure children’s access to school lunches
- Suspends SNAP work requirements
- Requires OSHA to issue an ETS requiring employers in the health care sector to develop a comprehensive exposure control plan to protect workers from COVID-19
- Offers states \$1 billion for emergency grants and interest-free loans to support processing and paying unemployment insurance
- Requires private insurers to expand coverage of certain COVID-19 related expenses

Status in Congress

- **House:** Passed the House with a 363-40 vote
- **Senate:** Received on March 17, 2020

The federal government is trying to stabilize the economy

Key agencies and their responses



Department of the Treasury

- Working on an economic stimulus package that would include sending American workers checks within a period of 14 days
- Will advance funds to businesses so they can cover the costs of the paid sick leave requirements
- Parent agency of the IRS



Internal Revenue Service (IRS)

- Delaying the April 15th tax filing deadline by three months; individuals delay as much as \$1 million in income taxes owed, while corporations can delay up \$10 million in taxes



Federal Reserve System

- Has made two emergency rate cuts, leaving interest rates near-zero
- Launched a new round of quantitative easing, pledging to purchase at least \$700 billion in assets
- Offering \$1.5 trillion in short-term collateralized loans with interest to banks
- Conducting a \$500 billion repo operation
- Launching a short-term lending facility to make it easier for banks and companies to raise cash



Small Business Administration (SBA)

- Released guidance for small businesses and is making available low-interest Economic Injury Disaster Loans (EIDLs) of up to \$2 million to affected business and non-profits
- The \$8.3 billion supplemental appropriations bill signed by President Trump on March 6 allows for \$1 billion in subsidized "Small Business Disaster Loans" and includes \$20 million for the SBA to administer them



Consumer Financial Protection Bureau (CFPB)

- Has released guidance advising consumers on how to best protect themselves financially in the midst of coronavirus

The US has taken various internationally-focused actions

Key foreign policy actions

Travel



- The US has enacted travel bans from 28 European nations in the Schengen Area, as well as the UK and Ireland; there are exemptions for Americans and family members of Americans
- Travel into the US is also suspended for passengers who have been in China or Iran in the last 14 days; there are exemptions for Americans, but with certain restrictions in place
- The US has closed its northern border with Canada, exempting only essential traffic

Trade



- President Trump initially said that restrictions on European travel also applied to cargo, but the White House later clarified that this was not the case
- Still, passenger planes carry a lot of cargo, and the ban will likely lead to a decrease in flights/capacity, disrupting trade and supply chains
- US trade officials granted tariff exemptions for dozens of Chinese medical exports, like exam gloves and surgical drapes; US officials are reportedly weighing further tariff relief for China and other nations

Oil



- President Trump stated that he instructed the Department of Energy to buy “large quantities” of crude oil for the Strategic Petroleum Reserve
- The Strategic Petroleum Reserve stores petroleum for emergency situations and is meant to protect against disruptions in the international petroleum supply
- President Trump said the move would aid the US oil industry in the wake of falling oil prices, in addition to helping the country achieve energy independence

Roadmap

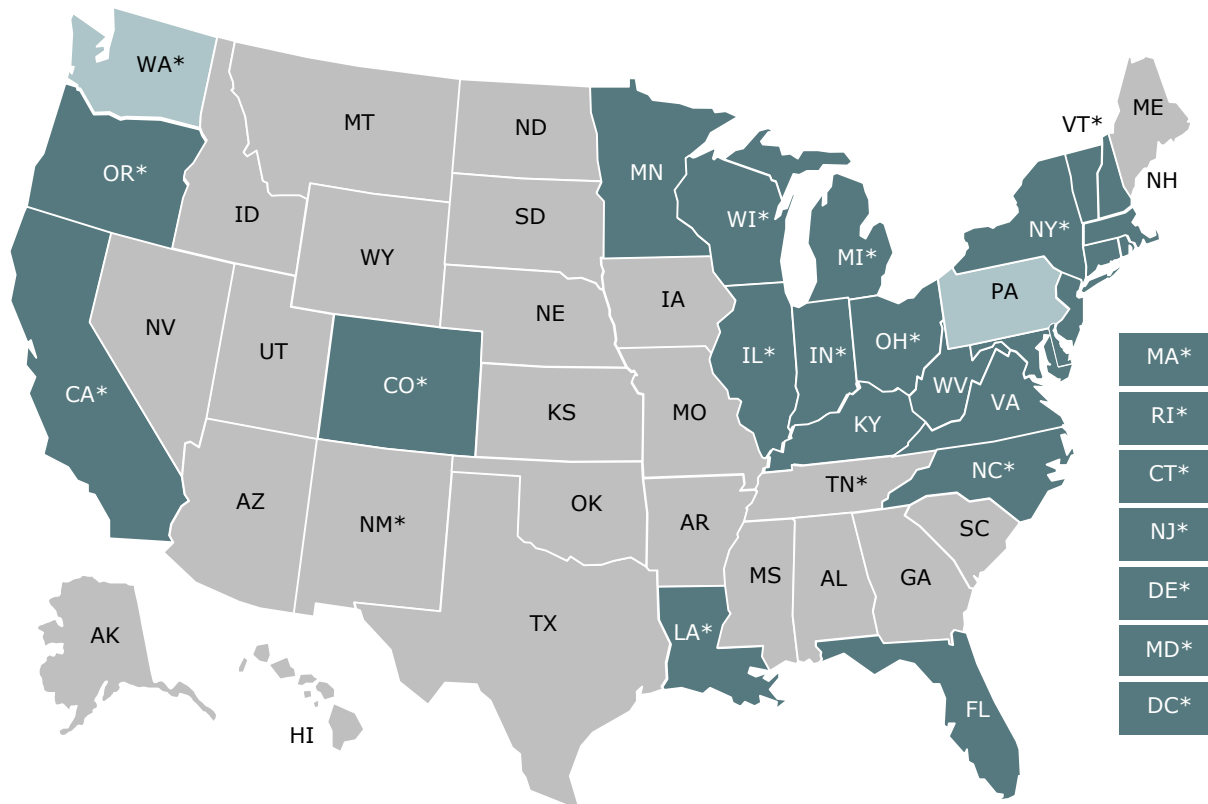
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Many states have implemented initiatives that halt various economic activities

Business-related state mitigation strategies

AMERICAN ENTERPRISE INSTITUTE, AS OF 6:00PM, MARCH 17

■ Closed bars and/or restaurants ■ Closed non-essential businesses * Prohibited gatherings



- All states have declared States of Emergencies
- Three states (CT, NJ, NY) have recommended 8am-5pm curfews
- Only four states (ID, MO, NE, TX) have “no public state-wide action” or “little public guidance”
- 21 states have implemented restrictions on out-of-state travel for state employees

Sources: American Enterprise Institute.

Some major cities have also taken aggressive measures



Localities across the country have announced new restrictions aimed at spreading the slow of the coronavirus, including scaling back non-essential city services, closing public buildings, and prohibiting certain activities

Business-impacting locality mitigation strategies



San Francisco legally directed inhabitants to shelter in place for three weeks, only allowing them to leave their homes to meet basic needs



LA County, Dallas, San Diego, Anchorage, and Indianapolis have closed bars, restaurants, theaters, and gyms



Nashville, Miami, Houston, and Salt Lake City have closed bars and/or restaurants



Hoboken, Portland (ME), and Little Rock have instituted mandatory curfews; Indianapolis, Houston, Dallas, Omaha, and San Antonio have banned gatherings



Outlook: In the absence of national standards, states and localities will likely continue to adopt measures – some drastic – targeting the virus.