JOINT ECONOMIC COMMITTEE
CONGRESSMAN DON BEYER, VICE CHAIR

ECONOMIC UPDATE

March 13, 2020

Quote of the week

"Bottom line: It's going to get worse."

—Dr. Anthony S. Fauci, director of the National Institute of Allergy and Infectious Diseases

What you need to know

- The stock market fell into a bear market—a more than 20 percent drop from its recent high—on Thursday, as the Dow plunged 10% and S&P 500 9.5% all in one day. This was the Dow's worst day since the 1987 "Black Monday" crash, and worse than the 2008 financial crisis. In early trading Friday, equities had recovered about half of Thursday's losses, but by noon most of these gains had disappeared. The VIX, the market's 'fear index,' hit its highest level since 2008 on Thursday.
- We may already be in a recession. The coronavirus outbreak has disrupted supply chains for 75% of U.S. companies, shut down professional sports and many other large public events. Many universities and schools are shifting to remote learning. A significant hit to consumer spending is anticipated as people curtail their daily activities. JP Morgan is now forecasting negative GDP growth for the first and second quarters of this year, indicating a recession. Economists like Alan Blinder and Claudia Sahm also say it's likely we are in a recession.
- The Fed promised to provide $1.5 trillion in liquidity to stabilize markets on Thursday, and to start including longer-term Treasuries in its purchases, effectively marking a return to 2008-era quantitative easing measures. This large and dramatic intervention was not sufficient to generate a sustained rally in the stock market indices on Thursday.

Happening the week of March 16, 2020

- *Tuesday:* Census releases its Advance Monthly Retail Report for February and January Business Inventories. The Federal Reserve releases Industrial Production and Capacity Utilization numbers for February, and the BLS releases January job openings.
- *Tuesday-Wednesday:* The Federal Open Market Committee meets at its scheduled March meeting to discuss the state of the economy and decide on the federal funds rate.
- *Wednesday:* At the close of the FOMC meeting, the Federal Reserve will announce its target federal funds rates and Fed Chair Powell will hold a press conference. Census releases New Residential Construction data for February.
- *Thursday:* The Department of Labor releases weekly jobless claims—one of the quickly-updating indicators that will start to give us a better picture of the COVID-19 economy. The Conference Board releases its Leading Economic Index for February.

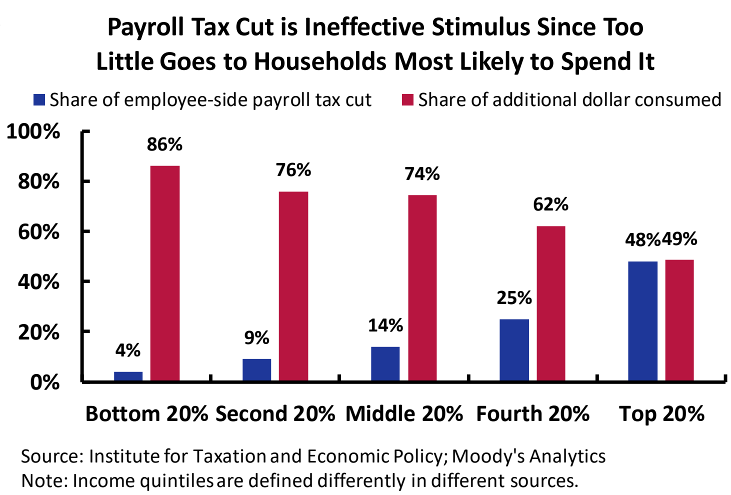
Good reads

- "[This Feels Much Worse than 2008": Obama's Chief Economist on Coronavirus's Economic Threat]," *Vox*, 3/13/2020
- "[In America, Even Pandemics are Political]," *The Economist*, 3/11/2020
- "[The World's Airlines Have a Serious Credit Card Problem]," *Bloomberg Opinion*, 3/12/2020

Chart of the week

The White House has proposed a temporary cut in the payroll taxes that fund Social Security and Medicare to stimulate spending and the economy. However, a payroll tax cut is poorly designed to boost demand since it provides relatively few benefits to low-income households who are most likely to spend any tax savings.

Estimates show that low-income households will spend most of an additional dollar of income, boosting consumption and keeping the economy afloat, while high-income households will only spend about half of it. Prioritizing payments to low-income households would more effectively stimulate the economy.



New research and reports

- A new JEC issue brief, "[Cutting Payroll Taxes is an Ineffective Way to Counter the Economic Damage of the Coronavirus]," highlights how a payroll tax is generally regressive and would be a less-than-optimal tool to stimulate the economy.
- Research on state-level paid sick leave policies finds that [sick leave mandates do not reduce the provision of non-mandated benefits], like paid vacation or of health, disability or dental insurance. In fact, the researchers claim, "Mandating sick pay likely increases welfare."

Selected JEC resources

- *[March Macroeconomic Dashboard]*
- *[Key Points About the Economy]*
- *[Did Trump Create or Inherit the Strong Economy?]*

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