THE FEDERAL RESERVE’S PANDEMIC RESPONSE

June 30, 2020

Joe Mahon
Regional Outreach Director
THE VIEWS EXPRESSED HERE THOSE OF THE PRESENTERS AND NOT NECESSARILY THOSE OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS OR THE FEDERAL RESERVE SYSTEM.
Pandemic response

- Federal Reserve’s emergency lending authority
- COVID-19 liquidity programs
- Monetary policy
FEDERAL RESERVE ACT, SECTION 13(3)

In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any participant in any program or facility with broad-based eligibility, notes, drafts, and bills of exchange when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal Reserve bank: Provided, That before discounting any such note, draft, or bill of exchange, the Federal reserve bank shall obtain evidence that such participant in any program or facility with broad-based eligibility is unable to secure adequate credit accommodations from other banking institutions. All such discounts for any participant in any program or facility with broad-based eligibility shall be subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.
NEW LIQUIDITY PROGRAMS

- Paycheck Protection Program Liquidity Facility
- Main Street Lending Program
- Municipal Liquidity Facility
- And the rest… (TALF, CPFF, MMLF, etc.)
PAYCHECK PROTECTION PROGRAM LIQUIDITY FACILITY

- PPP: Part of CARES Act, provides short-term (forgivable) loans to businesses to keep employees on payroll
  - Funded by Congress, administered through Small Business Administration
  - PPPLF intended to serve as a financial backstop for the program
- Fed won’t lend directly to businesses; extends credit to institutions that make PPP loans, taking the loans as collateral
MAIN STREET LENDING PROGRAM

• Partnership with the U.S. Treasury, making loans to businesses through eligible lenders
• Qualifications: Under 15,000 employees or $5 billion in revenues, didn’t get PPP loans or need additional credit, in good financial standing prior to pandemic
• Five-year loans, deferred principal for two years, deferred interest for one year
COVID-19 LIQUIDITY PROGRAMS

MUNICIPAL LIQUIDITY FACILITY

- Partnership with Treasury
- To support state and local government
- Up to $500 billion in lending to help manage cash flow stresses

Net liquidity facility lending

Source: Federal Reserve Board of Governors
LOWER MONETARY POLICY

LOWERING INTEREST RATES TO SUPPORT ECONOMY

- Decisive action to lower interest rates at outset of lockdown
- Additional asset purchases (Treasury, MBS) to put further pressure on rates
- Forward guidance: FOMC “expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.”
THE COVID ECONOMY IN THE NINTH DISTRICT

June 30, 2020

Ron Wirtz
Regional Outreach Director
TODAY’S TALK

- The data challenge
- Getting a pulse via surveys
  - Generally speaking: Very poor conditions
  - Less bad in some sectors/places
- Workforce effects not evenly distributed
- New measures for COVID economy
- Interactive survey (interspersed)
LOGIN FOR INTERACTIVE SURVEY

- **Step 1:** Get your phone
- **Step 2:** Send text to 22333
- **Step 3:** Text the word minneapolis
- **Step 4:** Hit ‘send’; watch for message
- **Step 5:** Stay in text mode for survey
Practice question: How would you categorize yourself?

- Private business owner
- Employed in private business
- Employed in government
- Employed in nonprofit
- Unemployed
- Student
- Retired; voluntarily not in labor force
THE DATA CHALLENGE OF A COVID ECONOMY
FIRST, A STEP BACK IN DATA TIME ...

The most meaningful measure we have for economic growth terribly outdated

The most recent GDP figures for states are SIX MONTHS OLD
In ONE MONTH, unemployment reached or exceeded Great Recession levels.

May mixed: Reduced unemployment in many places, but a rise in Minnesota.

No new jobless data until mid-July.
THE COVID DATA CHALLENGE

- Speed of pandemic = need for real-time information
- Most macro data time-lagged; less COVID-relevant
- How to start filling the gap? Outreach + new data!
  - Regional Outreach: 9 surveys since mid-March; almost 7,000 business responses, 20,000 comments
  - Center for Indian Country Development: Surveys of tribal governments and tribal enterprises
  - Community Development & Engagement: CDFI outreach
  - Opportunity & Inclusive Growth Institute: Nationwide consumer survey
GENERAL BUSINESS SURVEY: MAY

- All Ninth District states; 1,100 responses
  - Snapshot (only) of general conditions
- Many ways to splice data on who’s impacted, and to what degree
- Firm traits:
  - State
  - Sector
  - Size
  - Ownership

Wide and deeply negative impact, but also variation across these groups
Businesses have been devastated everywhere, but to differing degrees

- Geography matters due to state-level business restrictions
- BUT it matters less than this chart suggests
Sector matters: All sectors hurt, but consumer businesses (crowds, face-to-face interaction) have been hit the hardest.

South Dakota’s lower impact comes (in part) on having higher % of respondents from manufacturing and banking.
COVID IMPACT: BY FIRM SIZE

Size matters

Sole proprietors:
70% have seen revenues cut in half, or worse.

For largest firms,
25% have seen revenues cut in half

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<table>
<thead>
<tr>
<th># of FTE employees</th>
<th>April 2020 revenues compared with April 2019</th>
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<tbody>
<tr>
<td>1 to 10</td>
<td>Lower by &gt; 75% Lower by 50-75% Lower by 25-50% Lower by 5-25%</td>
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<tr>
<td>11 to 50</td>
<td>Lower by &gt; 75% Lower by 50-75% Lower by 25-50% Lower by 5-25%</td>
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<tr>
<td>51 to 250</td>
<td>Lower by &gt; 75% Lower by 50-75% Lower by 25-50% Lower by 5-25%</td>
</tr>
<tr>
<td>More than 250</td>
<td>Lower by &gt; 75% Lower by 50-75% Lower by 25-50% Lower by 5-25%</td>
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May survey:

- ‘Disadvantaged’ firms saw greater negative impacts on revenue.
- However, these firms also: 1) tend to be smaller; and 2) tend to be in harder-hit sectors (food/lodging, entertain., & retail).

Sales/revenue in April 2020 compared with April 2019 levels:

- Woman owned
- Race/ethnic minority owned
- Veteran owned
- None of the above

<table>
<thead>
<tr>
<th>Category</th>
<th>Lower &gt; 75%</th>
<th>Lower by 50 to 75%</th>
<th>Lower by 25 to 50%</th>
<th>Lower by 5 to 25%</th>
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<tbody>
<tr>
<td>Woman owned</td>
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<tr>
<td>Race/ethnic minority owned</td>
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<tr>
<td>Veteran owned</td>
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CICD surveys have found large, negative impacts on revenue and workforce among both tribal governments and tribal enterprises.

Minneapolis Fed also gauging impacts among local governments and K-12 school districts in July.
MINNESOTA’S WORKFORCE
UNEMPLOYMENT INSURANCE CLAIMS

- Initial claims not a great measure of unemployment
- Continuing claims have skyrocketed also, but not at the same rate
- Suggests that many who file are not receiving benefits for variety of reasons
Lots of layoffs, but workers in some sectors bearing a much bigger burden.
GRAB YOUR PHONE!
WHAT’S HAPPENED RECENTLY WITH STAFFING AND WAGES AT YOUR COMPANY?
How would you describe staffing activity at your workplace overall during the pandemic to date?

- Trying to hire/add to staff (net) headcount
- No changes; stable staffing levels
- Net loss of workers
- Don't know/not applicable
<table>
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<tr>
<th>WAGES: What's happened to average wages at your place of employment since the onset of COVID-19?</th>
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<tbody>
<tr>
<td>Significant wage cuts (including furloughs)</td>
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<tr>
<td>Modest wages cuts (including furloughs)</td>
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<tr>
<td>Wage freeze/no change</td>
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<tr>
<td>Wage increase (any amount)</td>
</tr>
<tr>
<td>Don’t know/not applicable/not working</td>
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</tbody>
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MINNESOTA’S WORKFORCE: WHO’S BEEN AFFECTED
Those affected by layoffs are disproportionately less educated

Initial unemployment claims, by education

- High school Diploma or less
- Some college or 2-year degree
- 4-year degree or more

UI initial claims as a share of total labor force for that group

- High school Diploma or less
- Some college or 2-year degree
- 4-year degree or more

Source: MN Dept. of Employment and Economic Development
Those affected by layoffs are disproportionately female and minority workers.

Initial unemployment claims, by gender and race:

- Female: 500,000
- Male: 400,000
- Minority: 300,000
- White: 600,000

UI initial claims as a share of total labor force for that group:

- Female: 30%
- Male: 25%
- Minority: 35%
- White: 20%

Source: MN Dept. of Employment and Economic Development
Layoffs are disproportionate among ALL minority groups, but especially among Black and Native American workers.

Initial unemployment claims, by race:
- Non-Hispanic White: 600,000
- Black: 200,000
- Asian: 100,000
- Hispanic: 100,000
- More than one race: 100,000
- American Indian Alaska Native: 50,000

UI claims, by race, as a share of total labor force for that race:
- Black: 30
- American Indian Alaska Native: 40
- More than one race: 20
- Asian: 20
- Hispanic: 30
- Non-Hispanic White: 20

Source: MN Dept. of Employment and Economic Development
“Decision-makers need clear information about the prevalence of coronavirus as well as its impacts on the American people and our society.”
Black and other, non-Latino minority respondents:

- Pre-COVID: reported higher levels of employment than white respondents
- During COVID: notably lower employment rate
MOVING FORWARD FOR THE MINNEAPOLIS FED:
FILLING THE COVID DATA GAP
• MORE SURVEY WORK
• FIND BETTER REAL-TIME MEASURES OF ECONOMIC ACTIVITY
LOOKING AHEAD: REAL-TIME DATA

How do we track what went on last week, or even yesterday?

Minneapolis Fed COVID-19 Dashboard

minneapolisfed.org
REAL-TIME DATA

Minnesota auto traffic volume compared with 2016-2019

3-4 day lag

Source: MnDOT

TSA checkpoint travel numbers (U.S.)

Total traveler throughput

3-4 day lag

Source: TSA

FEDERAL RESERVE BANK of MINNEAPOLIS
REAL TIME DATA

CHANGE IN UNIQUE JOB POSTINGS
PERCENT, SEVEN-DAY ROLLING AVERAGE YOY

< 1 week lag
REAL-TIME DATA

GOOGLE MOBILITY: RETAIL AND RECREATION
PERCENT, SEVEN-DAY ROLLING AVERAGE

< 1 week lag

Note: Compared to median day-value from the 5-week period in January 3rd - February 6th, 2020
Source: Google Community Reports
WHAT IS YOUR CURRENT AND FUTURE SENTIMENT AS A CONSUMER?
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<tbody>
<tr>
<td>Above pre-pandemic levels</td>
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<tr>
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<tr>
<td>Moderately below pre-pandemic levels</td>
</tr>
<tr>
<td>Well below pre-pandemic levels</td>
</tr>
<tr>
<td>Don't know</td>
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**CONSUMER ACTIVITY/MOBILITY:** How would you describe your current public activity/mobility levels as a consumer? (How "out and about" are you?)

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OUTLOOK: What is your personal outlook on the economy through the end of 2020?

- Very pessimistic
- Somewhat pessimistic
- Flat/neutral
- Somewhat optimistic
- Very optimistic
- Don't know
LOOKING AHEAD

- COVID-19 has had a huge impact everywhere
- Quick recovery appears unlikely, short of a vaccine breakthrough and ramp-up
- Gradual recovery more likely, driven by consumer confidence, which will be driven (+/-) by health and economic trends being closely watched by the Minneapolis Fed
THANK YOU!

SPEECH/WEBINAR REFERRALS WELCOME!

MINNEAPOLIS FED SPEAKERS BUREAU

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