

**Income, Liquidity, and the Consumption Response to the 2020
Economic Stimulus Payments and
How Does Household Spending Respond to an Epidemic?
Consumption During the 2020 COVID-19 Pandemic**

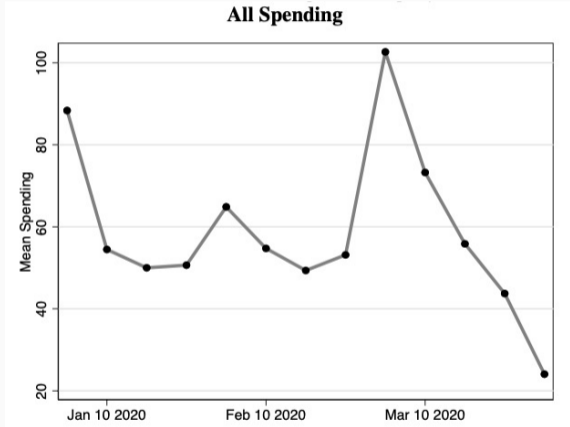
by Scott R. Baker, R.A. Farrokhnia, Steffen Meyer, Michaela Pagel, Constantine Yannelis

Arpit Gupta (NYU Stern)

April 28, 2020

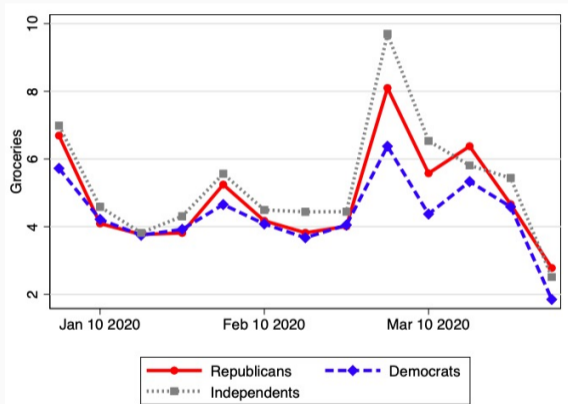
Two Papers Document Considerable Reduction and Sensitivity of Consumption After COVID-19

1. Retail Spend sees Precautionary Increase Followed by Fall
2. Little Evidence of Partisan Spending in Aggregate
3. Large Apparent Effect of Shelter-in-Place Orders
4. Large Consumption Responses to CARES Act Stimulus



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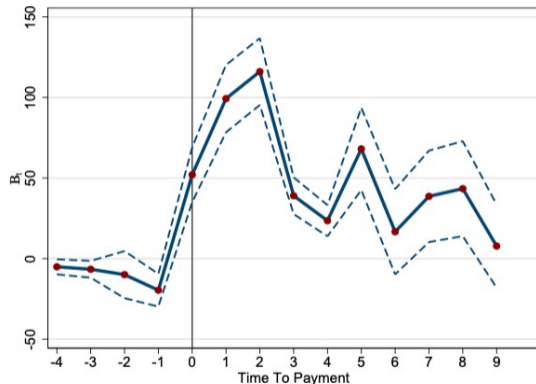
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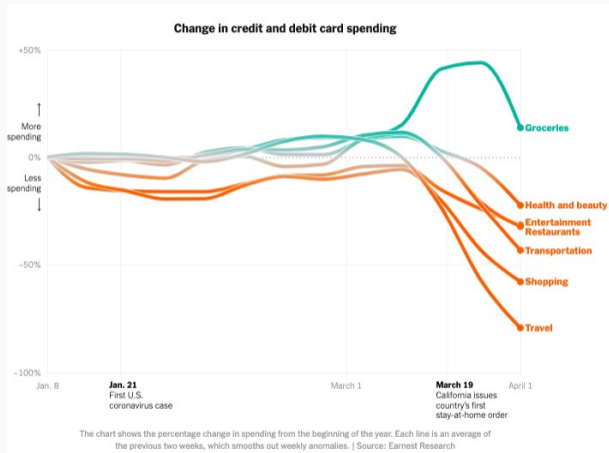
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My Discussion:

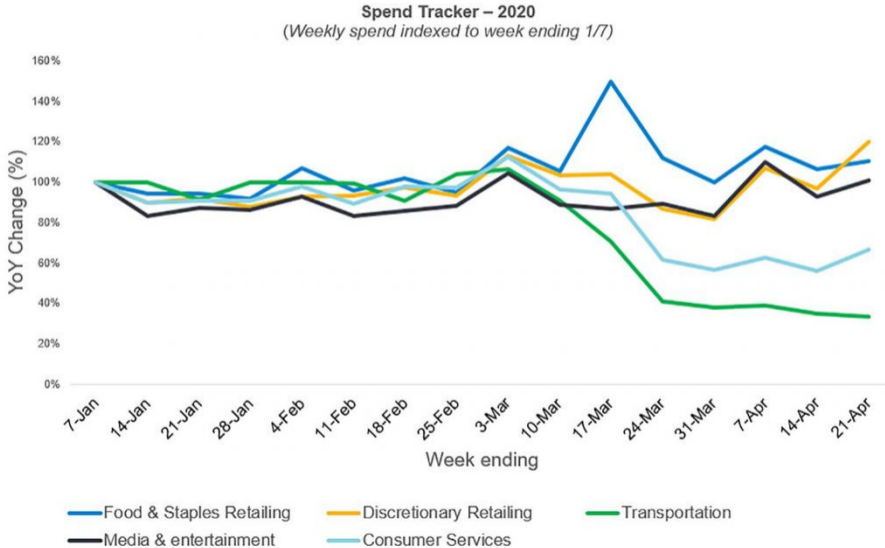
1. Discuss Related Evidence from Other Sources
2. Partisanship and Travel
3. How to Think about Stimulus in this Environment
4. Consumption Drops Driven by Lockdown or Individual Own Precautionary Measures?
5. Scarring Effects Long-Term?

1. Earnest Research



Based on 6m people (this paper: 45k users, 4,735 active. Selected in that they prefer an app which mandates savings through savings account)

1. Yodlee

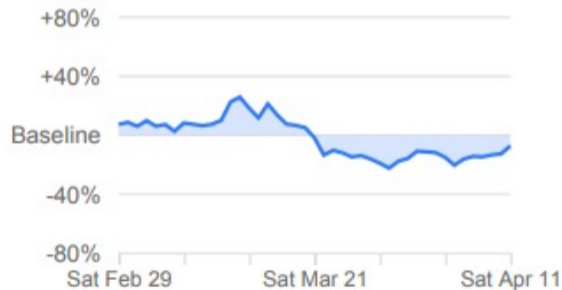


1. Google

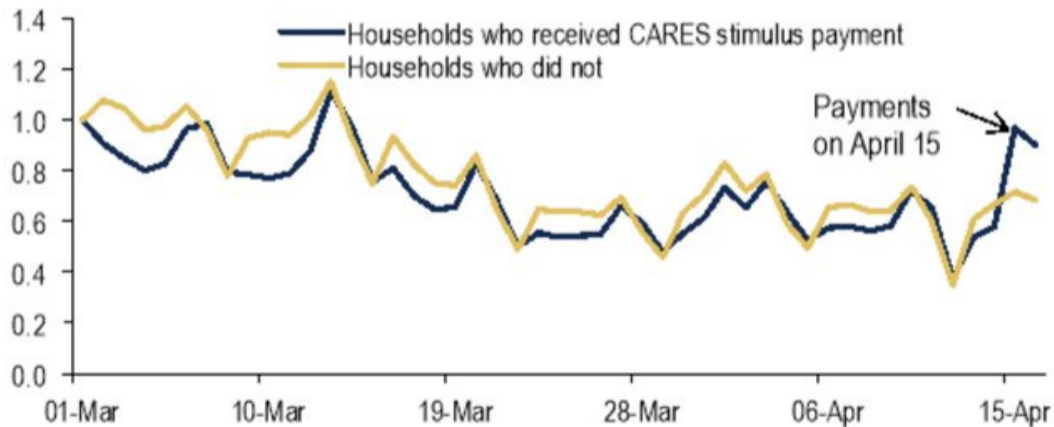
Grocery & pharmacy

-7%

compared to baseline

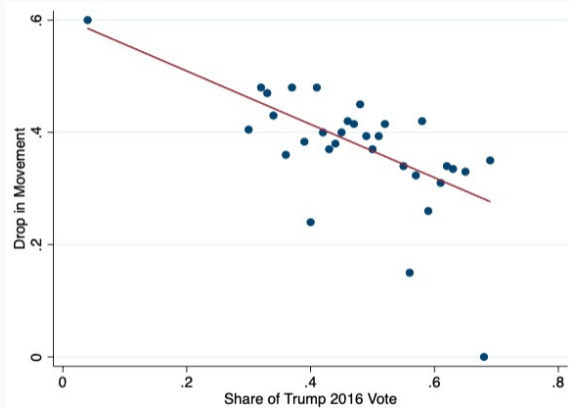


1. Bank of America: Stimulus



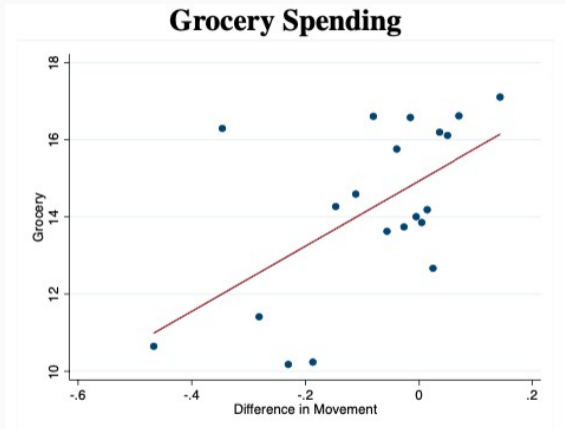
2. Partisanship and Consumption

1. Partisanship → Movement → Spending
2. Paper says: “despite lower levels of observed social distancing, Republicans actually spent more than Democrats in the early days of the epidemic.” Plausible that *because* lower social distancing, more spending.



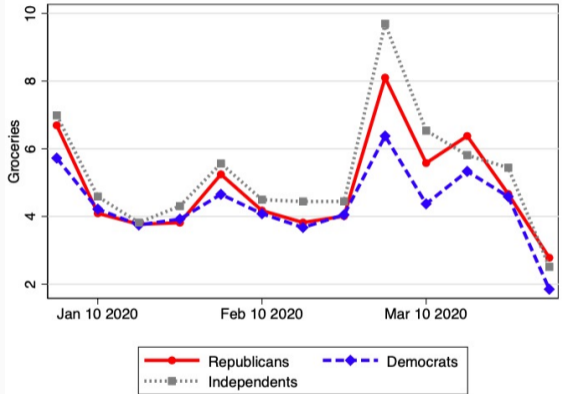
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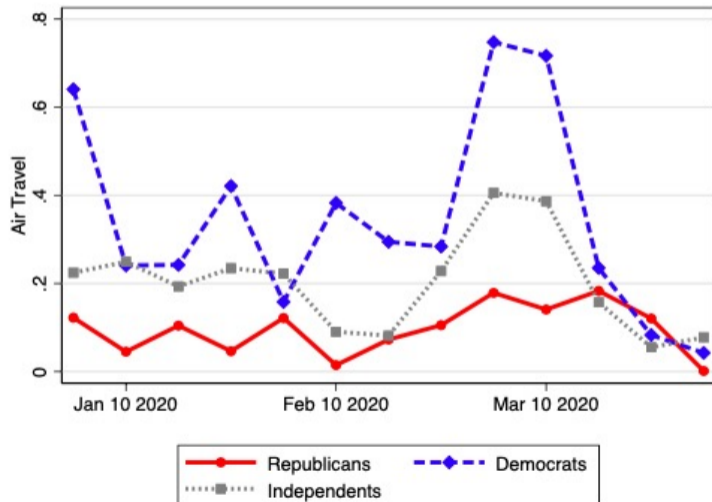
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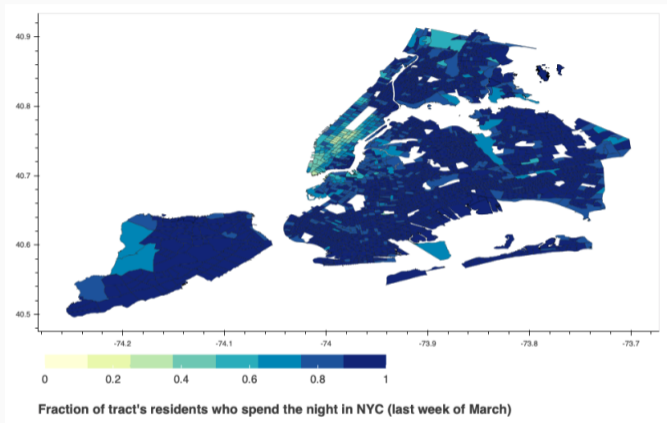


2. Partisanship and Air Travel

Air Travel Spending



2. Flight from NYC



Consistent with evidence from Coven Gupta (2020): Large flight! Will be helpful to tease out whether purely an urban effect, or also a function of partisanship within city.⁹

3. One View on Stimulus: Lots of Demand Left



Matthew Yglesias ✓

@mattyglesias

I know congress and the Fed both feel like they've pulled out all the stops — and they really have done a lot.

But look around ... nothing looks like an economy with adequate demand and none of the indicators are consistent with it; they haven't done enough.

9:57 PM · Apr 14, 2020 · [Twitter Web App](#)

30 Retweets **197** Likes

3. Another View: Not much Room for Demand, Mainly Maintaining Payments



Josh Barro  @jbarro · Apr 14

Replying to [@mattyglesias](#)

This doesn't make any sense. How many groceries do you want people to buy? They have had a logical preference shift from consumption now to consumption later, if you send people checks that exceed their basic expenses they will just save.

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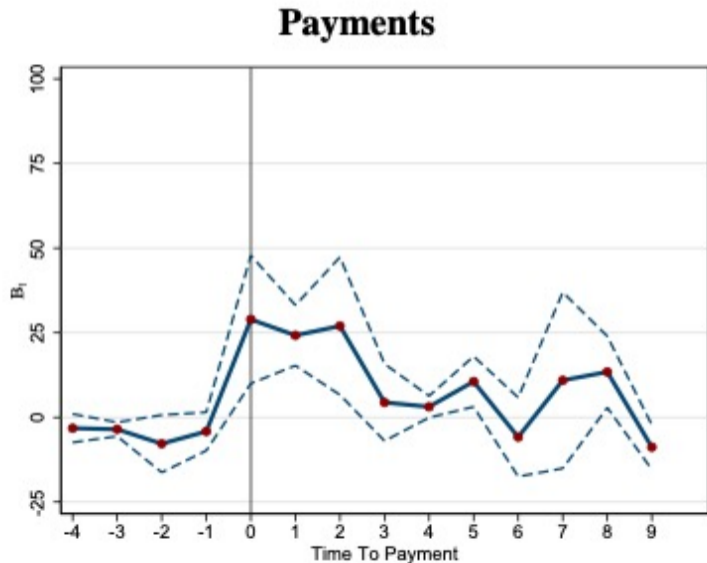
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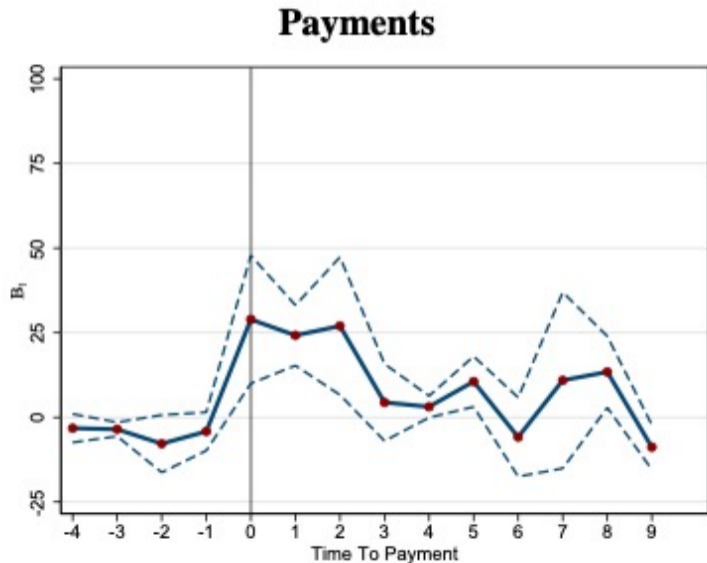
3. Another View: Not much Room for Demand, Mainly Maintaining Payments

The direct individual payments in the federal response to the coronavirus crisis are the latest example of Congress voting to deliver money directly to U.S. households. But these \$1,200 checks are poorly targeted to the task at hand: not so much to stimulate the economy in general, which is impossible when businesses are shuttered by government order, but to provide households in need with the resources to pay bills and meet essential needs until the crisis passes. Like the rest of the Cares Act package, what appears to be a freebie is fully deficit financed. Dollars spent by the public sector must at some point be paid back by the private sector.

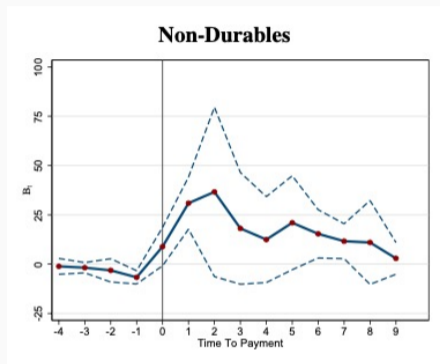
3. Paper: People are Maintaining Payments



3. Paper: People are Maintaining Payments



3. Paper: But Also Seems like Room for Spending!



Suggests *even in* current environment, stimulus checks result in sizable MPCs and stimulus benefit. Contrary to common view that we should only be trying to “freeze” economy—room for substantial traditional stimulus.

4. Shelter-in-Place or Disease?

Shelter-in-place states see more precautionary run-up followed by drawdown. Possible that:

1. Sheltering itself is lowering consumption through denial of access
2. Disease itself lowers consumption through individual precautionary efforts; and sheltering correlated with greater underlying disease
3. Income shock is also higher (either due to sheltering actions themselves, or underlying disease)

VARIABLES	(1) All	(2) Shelter	(3) No Shelter
February 26 - March 10	0.516*** (0.0273)	0.584*** (0.0452)	0.491*** (0.0765)
March 11 - March 17	-0.0437 (0.0318)	0.134** (0.0561)	0.0701 (0.0957)
March 18 - March 27	-0.477*** (0.0322)	-0.245*** (0.0558)	-0.159 (0.0973)
Observations	61,555	15,886	6,383
R^2	0.397	0.431	0.443
User FE	YES	YES	YES

4. Scandinavia One Place to Disentangle: Sweden took Few Additional Measures

Sweden April 17, 2020

Mobility changes

Google prepared this report to help you and public health officials understand responses to social distancing guidance related to COVID-19. This report shouldn't be used for medical diagnostic, prognostic, or treatment purposes. It also isn't intended to be used for guidance on personal travel plans.

Location accuracy and the understanding of categorized places varies from region to region, so we don't recommend using this data to compare changes between countries, or between regions with different characteristics (e.g. rural versus urban areas).

We'll leave a region out of the report if we don't have statistically significant levels of data. To learn how we calculate these trends and preserve privacy, read [About this data](#).

Retail & recreation

-18%

compared to baseline



Mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters.

Grocery & pharmacy

-3%



Mobility trends for places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies.

4. Norway Sheltered Much More, saw Great Drop Initially

Norway April 17, 2020

Mobility changes

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Retail & recreation

-24%

compared to baseline



Mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters.

Grocery & pharmacy

+3%

compared to baseline



Mobility trends for places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies.

5. Denmark Also Greater Drop Initially

Denmark April 17, 2020

Mobility changes

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Retail & recreation

-26%

compared to baseline



Mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters.

Grocery & pharmacy

-6%

compared to baseline



Mobility trends for places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies.

Suggests that sheltering has some additional effect on consumption

5. Long-Term Scarring Effect?



Jason Furman  @jasonfurman · Apr 13

Everything who thinks the pandemic will change everything forever should contemplate this.



Cruise ship bookings for 2021 are already on the rise despite multiple...

Cruise lines have taken a serious financial hit over the crisis, but the loyalty of their customer base is an encouraging sign for the industry.

[businessinsider.com](https://www.businessinsider.com)

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 2K

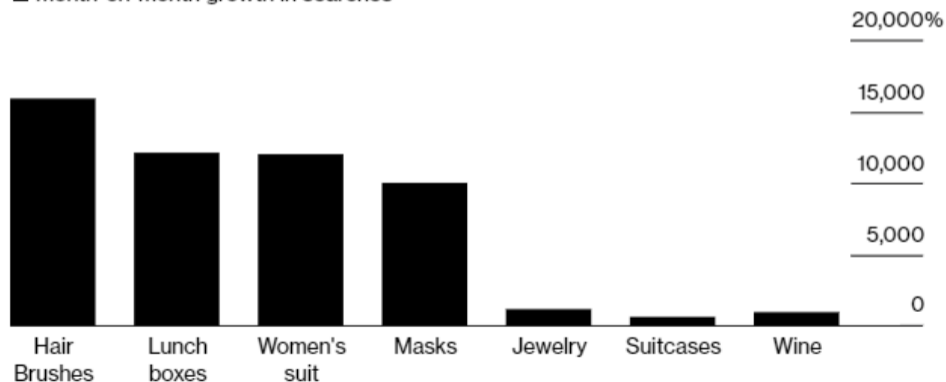


5. China Consumption

Shopping Cart

Chinese consumers are shopping online for work and not for fun

■ month-on-month growth in searches



Source: index.1688.com

Note: data shows the increase in searches on Alibaba's wholesale website for the 30 days as of late March compared with February

5. China Consumption

Enough Bling, for Now

Of around 2,000 Chinese consumers surveyed, 29% said they expect to spend less on luxuries over the next month

■ Net Increase-Decrease ■ No Change



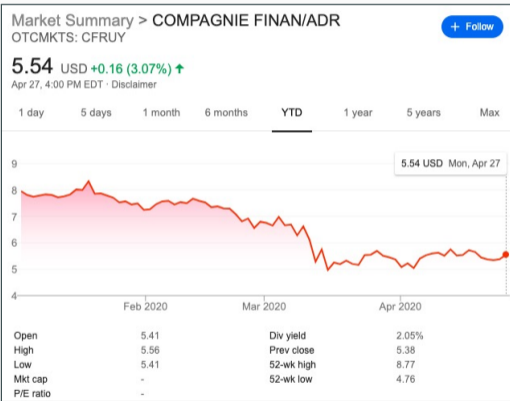
Source: Morgan Stanley Research, Alphawise

5. US Stocks



PEJ: leisure/entertainment, GIGI: Gig economy, KRE/XHB regional banks/homebuilders²³

5. US Stocks



- Fascinating early look at consumption responses to COVID-19
- Overall, seems like consumption is very responsive to (perceptions of) conditions, as well as liquidity → scope for demand-side and other interventions
- Will be interesting to see how persistent is this shock

Thanks!