Alumni Exchange
Explaining the Unprecedented: Lunch With An Economist
Ground Rules

1. This is all about economics
2. No politics, no virology
3. Looking forward, not rehashing how we got here
How I got here

• James Pressler, B.S. 1994
• Northern Trust - 1993
  Economist for 20 years
• Consultant, BTD Economics, since 2015

Worked through US market bubbles, Great Recession, international coups, regional panics, crises, devaluations and defaults

“This one’s new to me”
History offers us a few notes – GDP growth now versus then
Where are we now? – poll

- Early stages of a depression
- First part of a recession
- Worst (low point) of a recession
- Beginning of a recovery
Here be monsters
(or dragons)
Typical recession traits

- Negative economic growth
- Rising unemployment/job destruction
- Economic slack
Recessions are parts of the economic cycle, but...

- Current situation – abrupt, against the cycle
- Producers, consumers unprepared
- Cyclical disruption takes away guidance

(economists hate this)
Other things economists hate:
• Events without precedent
• Crises without guidance
• Uncertainty
Does the trouble vanish with COVID-19?

• Some damage will be permanent
  • Jobs will not return
  • Supply chains left in disarray
  • Debts will weigh on future growth
Recession curves – V, U, and L

• V, U – let’s look at 1919, 1946 again
• L-curve – not a curve
  • L shows effects of permanent damage
  • Economic “New Normal”
Fun thing about the Great Depression...

- The middle of the Depression exhibited growth
- Growing economy still exhibited susceptibility to shock; got shocked by policy mistakes
- Could things be that bad today?
When will growth return? – poll

- Second half of 2020
- First half of 2021
- By the end of 2021
- No recovery in sight
Traditional response to a recession

- Lower interest rates
- Increase government spending
- Cut taxes
Good news!

• Any return to “normal” pushes the economy back to a more predictable cycle
• After severe economic weakness, even slight growth is still reassuring
• Some growth likely in Q3 (report on October 29)
• Chance of a V- or U-curve?
Looks like an L-curve

• At least it’s a recovery

• Good policies can ease the pain
Here be monsters... again

• Even with growth, the economy will be susceptible to shocks – external and internal

• Most vulnerabilities are known, though not all
Real GDP – Possible scenarios

- **GDP**
- **Good Policies**
- **Policy Shock**
Weaknesses

• High national debt rose by $3 trillion in past four months
  • Political sensitivity makes further spending difficult
• “Failure to pay” debts still exist at unprecedented levels
  • Repossessions
  • Foreclosures
  • Evictions
• Personal savings rate dangerously low
Secrets to Economic Recovery

• Policy measures are needed to stabilize social safety net

• Consumer debt must be addressed to maintain stability

• Unemployment will have long-term impact on the economy