Impact of Covid-19 on BEA’s Economic Accounts

Erich H. Strassner, Benjamin A. Mandel and Mark S. Ludwick
Advisory Committee Meeting
May 15, 2020
Snapshot: What We’ll Cover

• Overview of first quarter GDP
  o A look at the data
  o Measurement challenges and solutions

• Pandemic response: new recovery laws
  o Classification of new programs
  o Brief overview of NIPA Impacts

• Communications strategy
Gross Domestic Product

Real (inflation-adjusted) estimates seasonally adjusted at annual rates
Contributions to Percent Change in Real GDP

<table>
<thead>
<tr>
<th>Category</th>
<th>2008Q4</th>
<th>2020Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-8.4</td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td>-2.68</td>
<td>-1.27</td>
</tr>
<tr>
<td>Services</td>
<td>0.30</td>
<td></td>
</tr>
<tr>
<td>Nonres. Inv.</td>
<td>-3.10</td>
<td>-1.17</td>
</tr>
<tr>
<td>Res. Inv.</td>
<td>-1.30</td>
<td>-1.30</td>
</tr>
<tr>
<td>CIPI</td>
<td>-1.98</td>
<td>-0.53</td>
</tr>
<tr>
<td>Exports</td>
<td>-2.72</td>
<td>-1.02</td>
</tr>
<tr>
<td>Imports</td>
<td>2.55</td>
<td>2.32</td>
</tr>
<tr>
<td>Gov</td>
<td>0.13</td>
<td>0.55</td>
</tr>
</tbody>
</table>

Percent change from preceding period

GDP: Goods, Services, Nonres. Inv., Res. Inv., CIPI, Exports, Imports, Gov
Current Dollar DPI, Personal Outlays, and Saving

Estimates are seasonally adjusted at monthly rates
Real Consumer Spending on Goods and Services

Real (inflation-adjusted) estimates seasonally adjusted at monthly rates

Percent change from preceding period

Recession  Goods  Services

Jan-00  Jul-00  Jan-01  Jul-01  Jan-02  Jul-02  Jan-03  Jul-03  Jan-04  Jul-04  Jan-05  Jul-05  Jan-06  Jul-06  Jan-07  Jul-07  Jan-08  Jul-08  Jan-09  Jul-09  Jan-10  Jul-10  Jan-11  Jul-11  Jan-12  Jul-12  Jan-13  Jul-13  Jan-14  Jul-14  Jan-15  Jul-15  Jan-16  Jul-16  Jan-17  Jul-17  Jan-18  Jul-18  Jan-19  Jul-19  Jan-20

-12 -10 -8 -6 -4 -2 0 2 4 6 8

Jan-00  Jul-00  Jan-01  Jul-01  Jan-02  Jul-02  Jan-03  Jul-03  Jan-04  Jul-04  Jan-05  Jul-05  Jan-06  Jul-06  Jan-07  Jul-07  Jan-08  Jul-08  Jan-09  Jul-09  Jan-10  Jul-10  Jan-11  Jul-11  Jan-12  Jul-12  Jan-13  Jul-13  Jan-14  Jul-14  Jan-15  Jul-15  Jan-16  Jul-16  Jan-17  Jul-17  Jan-18  Jul-18  Jan-19  Jul-19  Jan-20
• Partnered with Census and BLS to understand quality and coverage of routine source data

• Identified and vetted alternative data sources and methods, and assessed closures to account for rapid shift in activity in March

• Monitored and evaluated government responses to ensure accurate and reliable treatment in the accounts
Pandemic Response: New Recovery Laws

March 6
$8.3 Billion: Coronavirus Preparedness and Response Supplemental Appropriations Act (CPRSA)

March 18
$192 Billion: The Families First Coronavirus Response Act (FFRCA)

March 27
$1.8 Trillion: The Coronavirus Aid, Relief and Economic Security Act (CARES)

April 24
$484 Billion: Paycheck Protection Program and Health Care Enhancement Act
• Legislation Assessment
  o CBO and Congress’ Joint Committee on Taxation (JCT) analysis
  o News reports

• Classification Assessment
  o Based on BEA NIPA methodologies and international guidelines (SNA) (see ISWGNA’s COVID-19: How to Record Government Support to Employers, Self-employed and Households)
  o BEA published COVID-19 Pandemic: Federal Recovery Legislation and the NIPAs to communicate the likely classification of the major provisions

• Measurement Assessment
  o Source Data
    ▪ Monthly Treasury Statement provides outlays and receipts by program
    ▪ Agency reports or other sources as available
    ▪ If no direct data are available, develop estimation assumptions and methods
  o Timing (accrual vs cash/disbursement)
    ▪ Determine if adjustments are needed to record transactions in the correct time period
Example: Paycheck Protection Program (PPP)

Classification of PPP

• Loan or transfer payment?
  o While structured as a loan, the intent of the program is to provide grants to businesses that use the funds for payroll and other specified expenses.
  o A portion of loans that are not forgiven should be treated as regular loans.

• Subsidy or Social Benefit?
  o BEA classifies the forgivable portion of these loan disbursements as subsidies.
  o Recognizes employers benefit by retaining the employer-employee relationship and by being positioned to re-open faster.

• Measurement
  o Subsidy amount should include only the portion of loans that will not be repaid, but this won’t be known in the short-term.
  o The subsidy payments are intended to pay payroll for eight weeks after the loan is disbursed, so timing adjustments may need to be made to align operating surplus, subsidies, and compensation.
  o These subsidies need to be allocated to proprietors, corporations, and non-profits as well as by industry.
Recovery Laws’ Impacts on Federal NIPA Transactions

Federal Government Purchases: Consumption & Investment

• Increased spending to replenish the Strategic National Stockpile
• Increased VA Hospital funding
• Increased R&D funding

Transfers to People & Non-Profits: Social Benefits

• Economic impact payments
• Increased and expanded unemployment benefits
• Expanded SNAP benefits
• Non-profit support: community health centers, etc.

Transfers to Businesses: Subsidies

• Paycheck Protection Program
• Tax credits to fund emergency sick and family leave
• Employee retention tax credit
• Support for hospitals

Transfers to State and Local Governments: Grants to S&L

• Increased Federal Matching Assistance Percentage (FMAP)
• Support for hospitals and community health centers
• Several other grants programs
Outreach & Communication: bea.gov/recovery

Federal Recovery Programs and BEA Statistics

COVID-19 and Recovery

This Bureau of Economic Analysis webpage will consolidate information about the COVID-19 virus and federal stimulus programs as they relate to BEA’s economic data. Any technical information important to a particular news release will also be published with the news release.

Notes & Technical Information

Technical Note

Gross Domestic Product
First Quarter of 2020 (Advance Estimate)
April 23, 2020

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release. The complete set of estimates for the first quarter is available on BEA’s Web site at www.bea.gov. A brief summary of “highlights” is also posted on the Web site. In a few weeks, the Survey of Current Business, BEA’s online monthly journal, will publish a more detailed analysis of the estimates (Economist Edition of the Survey of Current Business).

FAQs

In both examples, one can see the decline in GDI between these two periods. However, the impact on GDI is the same in Period 2 — regardless of whether there is a subsidy. In effect, the subsidy in Period 2 transfers the cost of employment to the government and offsets the decline in net operating surplus. There is no change in compensation because only the source of funding has changed.

Example 1: No Subsidy

<table>
<thead>
<tr>
<th>Period 1</th>
<th>Period 2</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDI</td>
<td>101</td>
<td>0</td>
</tr>
</tbody>
</table>