

Response to the Covid-19 pandemic: UK and US experiences

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Federal Reserve Bank of San Francisco

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Monetary Policy Committee, Bank of England
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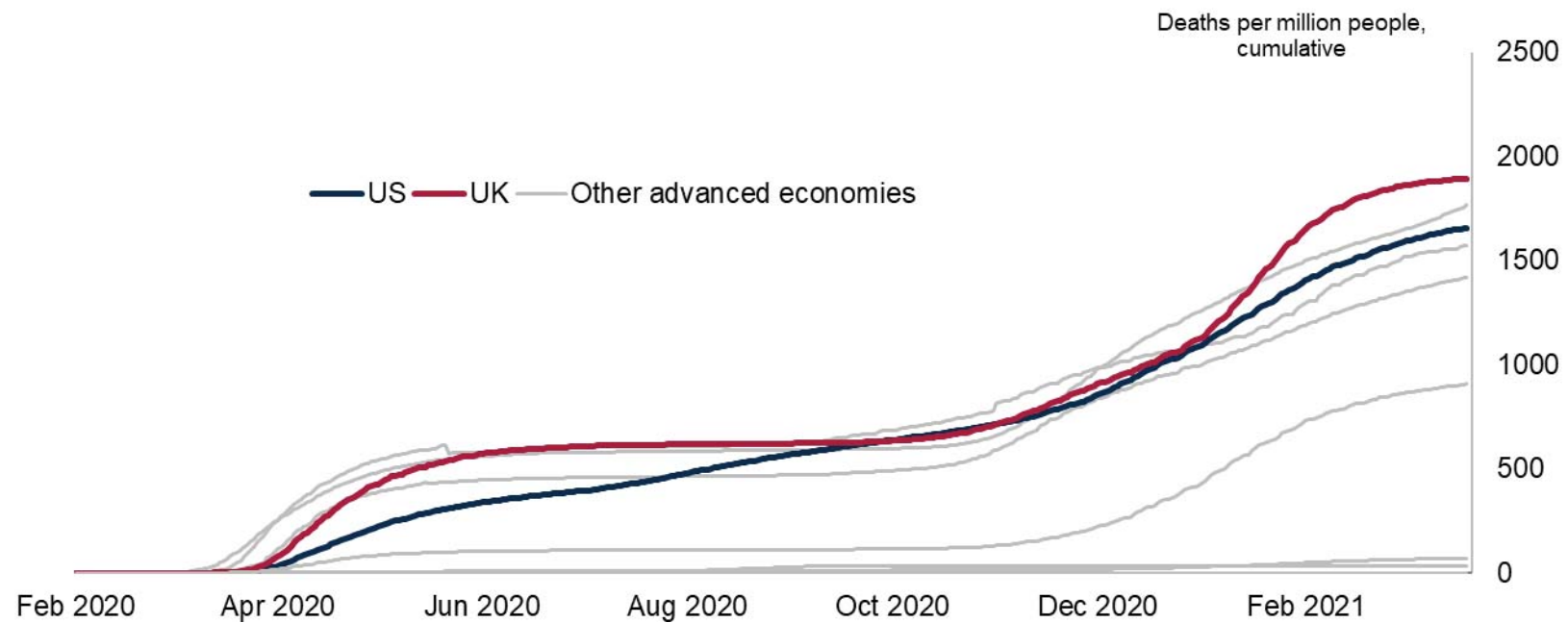
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FRBSF, March 2021

Pre pandemic: similar initial conditions

- Record low unemployment rates
 - Labour markets appeared tight by historical standards
- But price inflation pressures subdued
- Debates about:
 - the slope of the (price) Phillips curve;
 - size of the output gap;
 - level of full employment

Covid-19: similar economic shocks

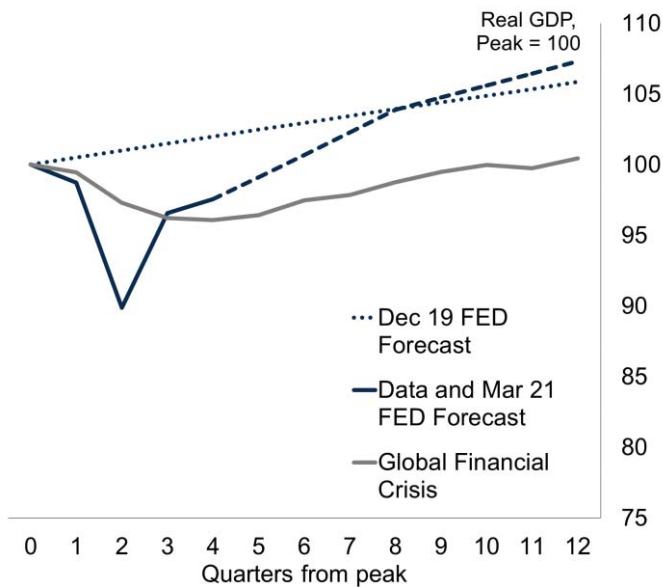


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Sources: John Hopkins University CSSE Covid-19 Data, Bank calculations.

Different outcomes: larger GDP fall in the UK

United States

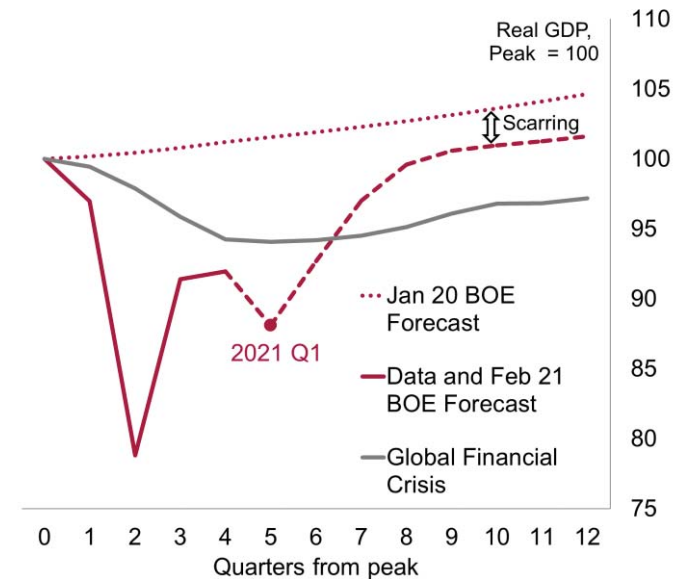


Sources: BEA, Federal Reserve and Bank calculations.



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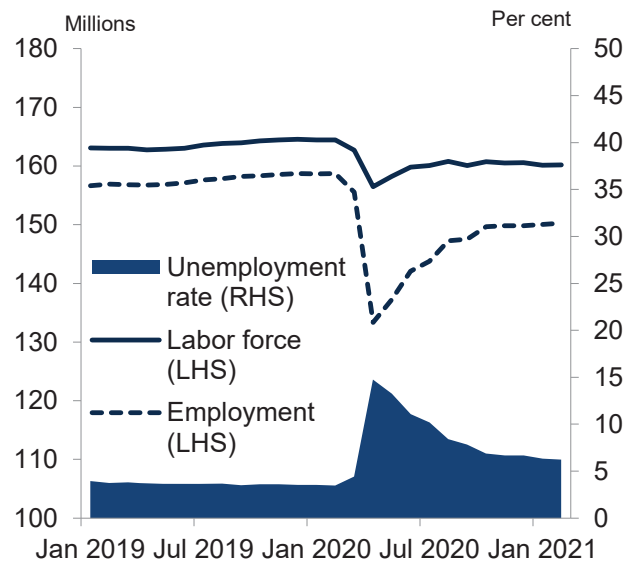
United Kingdom



Sources: ONS, Bank of England and Bank calculations.

Different outcomes: much larger fall in US employment

United States

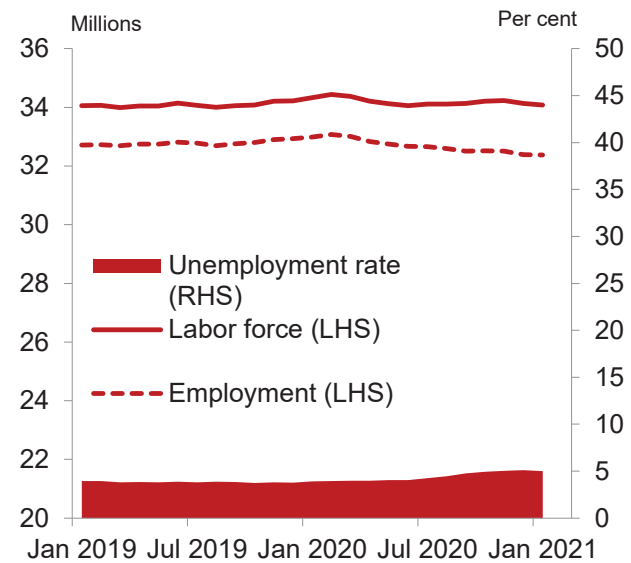


Sources: BLS. Latest observation: Feb 2021.



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United Kingdom



Sources: ONS LFS. Latest observation: Jan 2021.

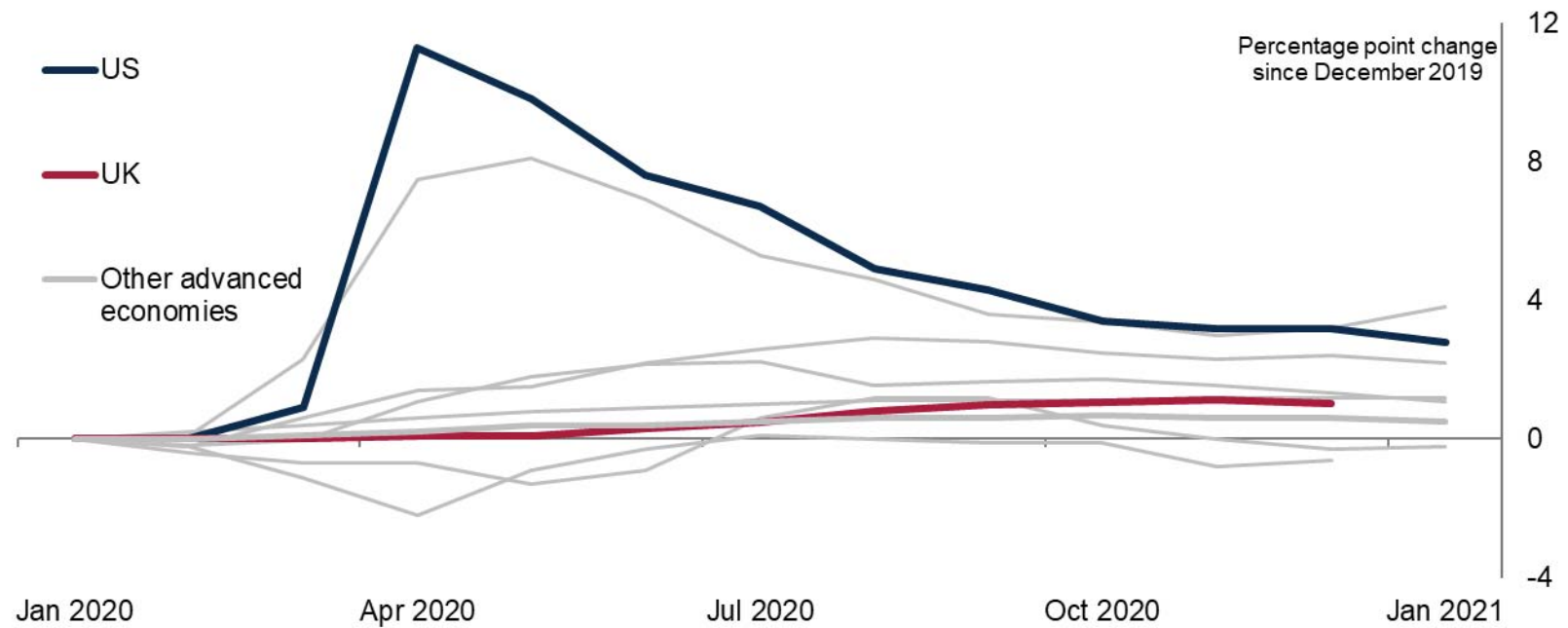
Outcomes related to differences in policy approach

- A sports analogy...
- UK/Europe: **individual defence**
 - Short-term work schemes, government pays wage bills
 - Protects existing job matches of individual workers
- US: **zone defence**
 - Shock propagated more completely to the labour market
 - Enhanced unemployment benefits & stimulus cheques boost aggregate household income (and spending)



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Labour market: US unemployment an outlier



Sources: OECD and Bank calculations. Notes: Harmonised unemployment rate.



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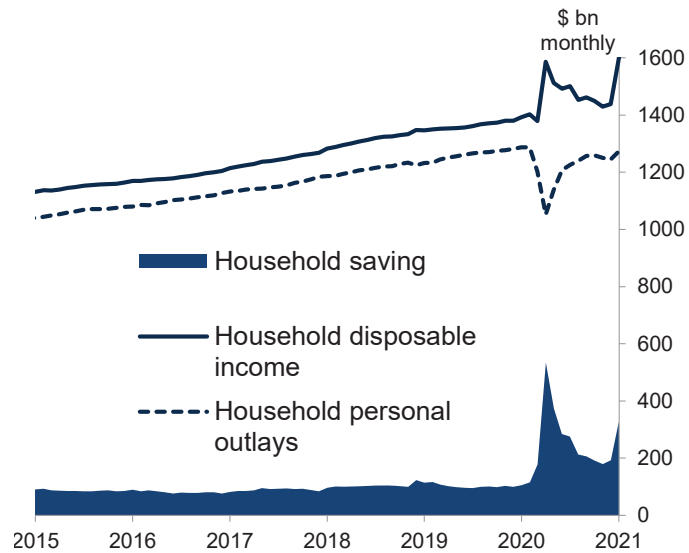
Labour market: UK job retention scheme

- March 2020: temporary UK govt. job retention (furlough) scheme
 - Government pays 80% of wages (up to certain limits)
 - Intended to protect labour-market matches
- Scheme extensions as pandemic persisted
 - Most recently to end Q3 2021
- Similar schemes in many other European countries



Savings: different reasons for increase

United States

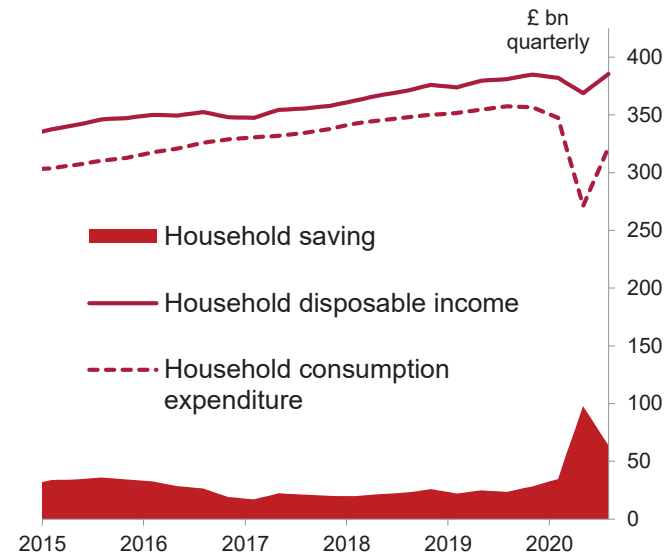


Sources: BEA. Latest observation: Jan 2021.



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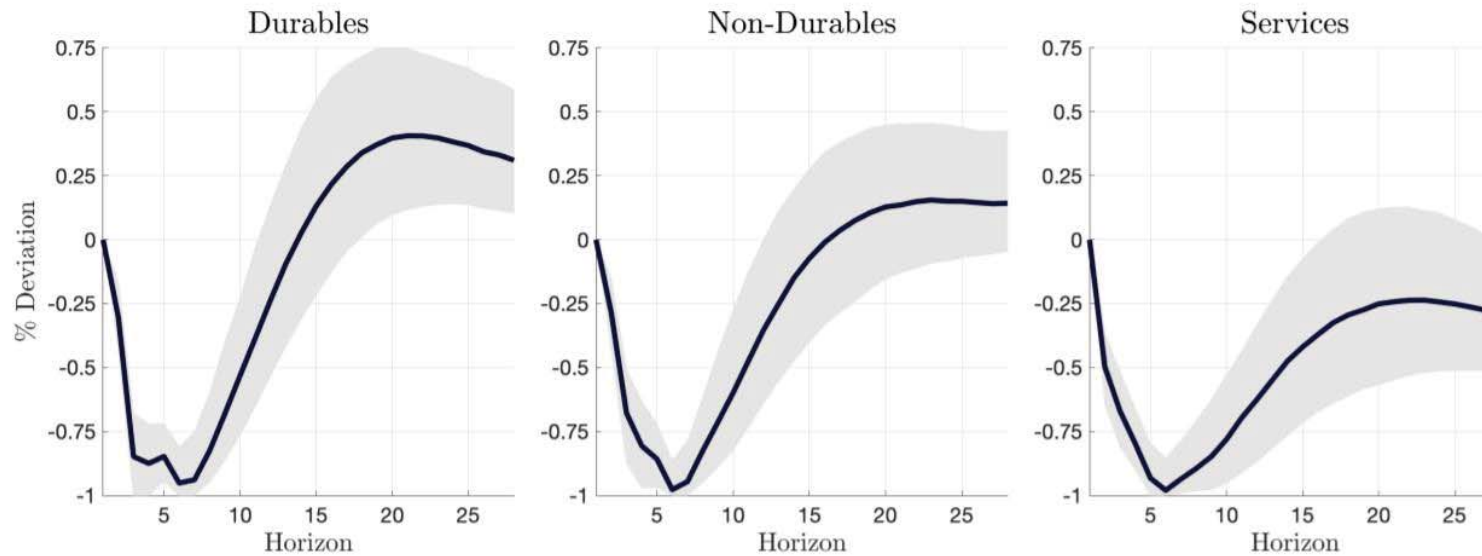
United Kingdom



Sources: ONS and Bank calculations. Latest observation: 2020 Q3.

Savings: less pent-up demand in services recession

Normalised IRF to US monetary policy shock (Beraja & Wolf, 2021)



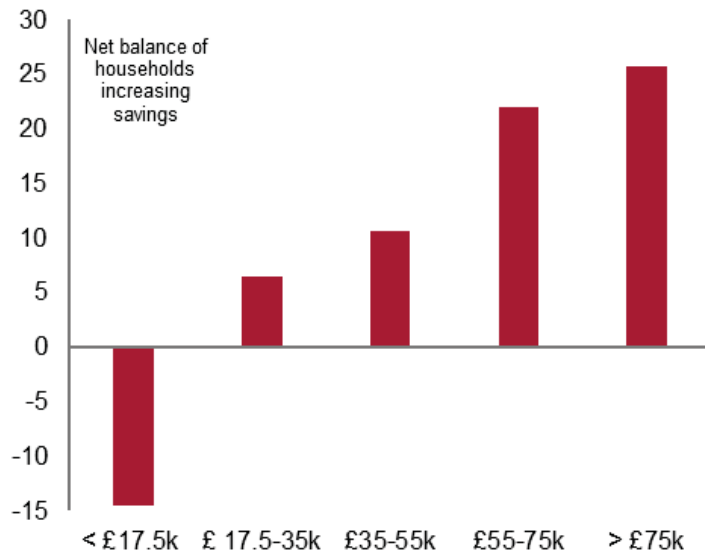
Source: Beraja and Wolf (2021)



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Savings: skewed distribution in the UK

Savings by household income

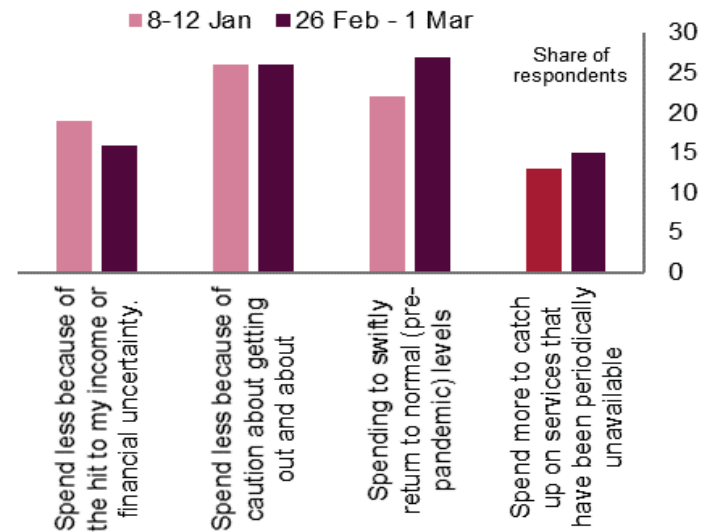


Sources: BoE/NMG household survey and Bank calculations.



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Spending intentions



Sources: BoE/Ipsos Mori household survey and Bank calculations.

Open questions for researchers

- Extreme shock highlights the major role of counter-cyclical policy influencing business cycles.
 - How can we better account for this in our models?
 - And in analyzing past cycles' data?
- What have we learned about counter-cyclical policy design? How do the effects depend on:
 - Time horizon of the shock?
 - Structure of the economy?

