

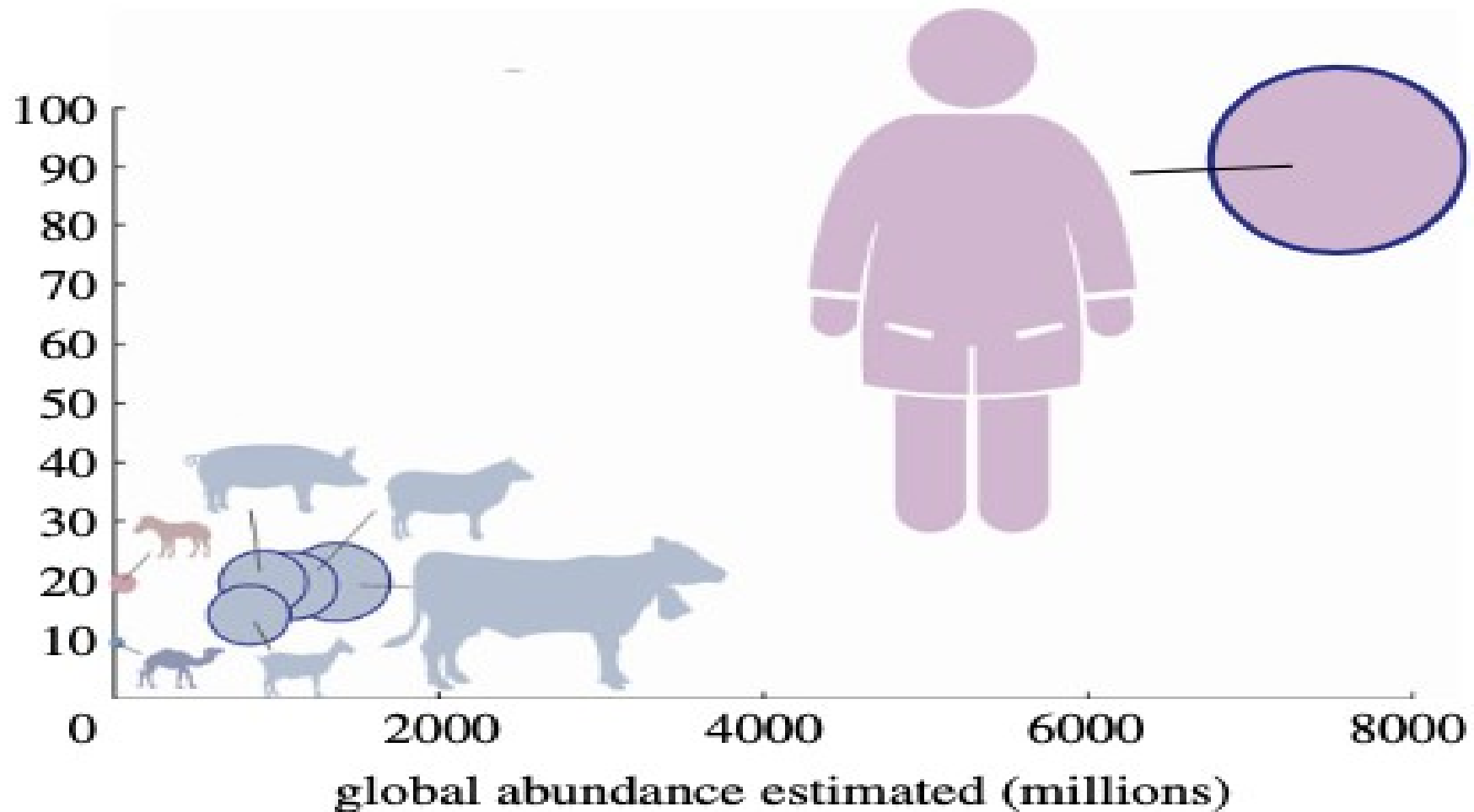
Lectures 25-26

The current state of the 2020 recession

**We don't know when the vaccine
may finish the pandemics, and we
ignore when another may emerge**

(next slide: the probability of
zoonose, the contamination of
different species by a new virus)

Zoonose: population by species and probability of infection



Let's look at the economic side. At the end of 2019, talk was about a deceleration in 2020

Evidence confirmed that.

Before the pandemics: a prediction of a somber 2020

Off the cliff

Composite purchasing managers' index*



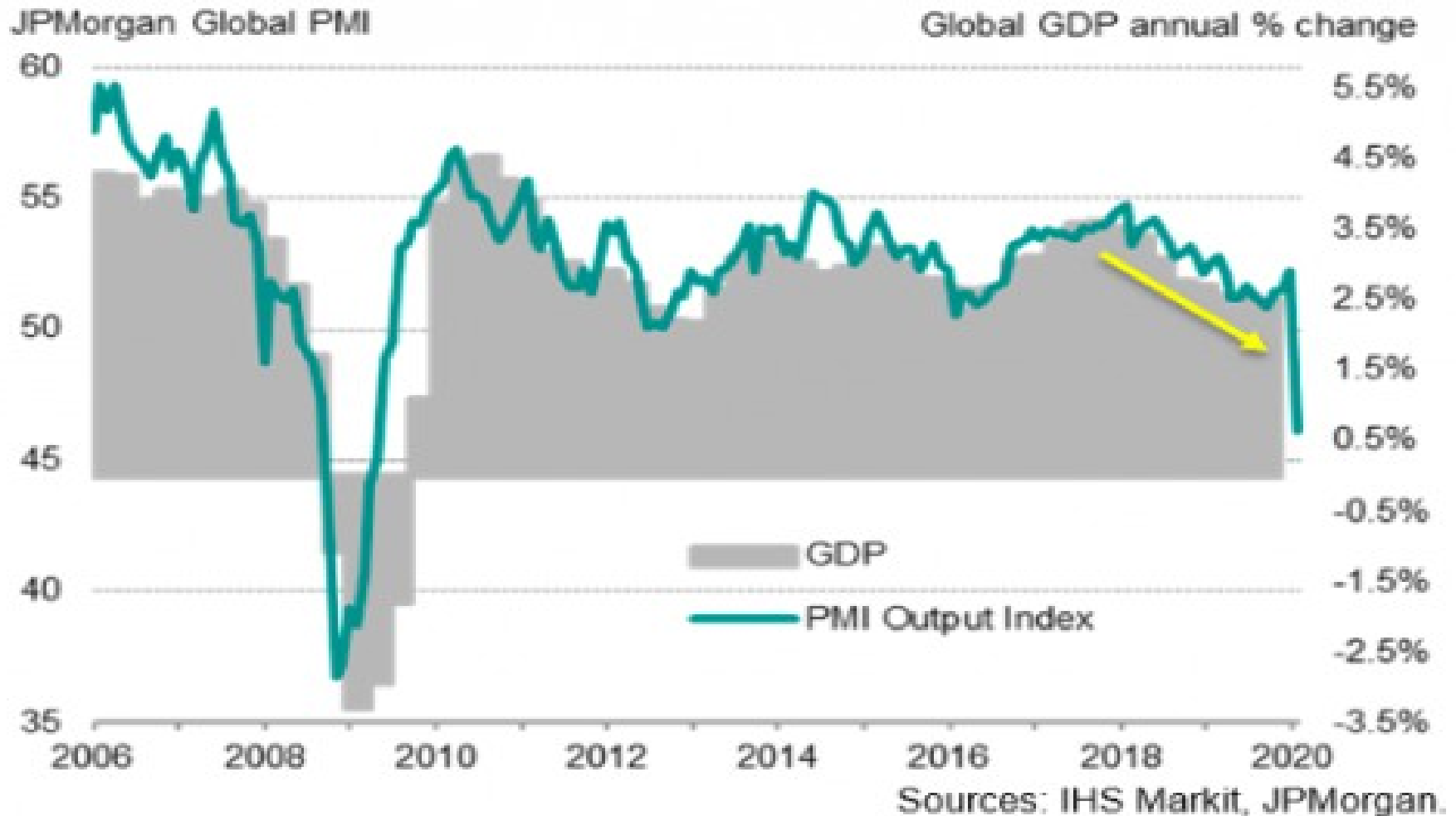
Source: IHS Markit

*Based on a survey of purchasing executives

The Economist

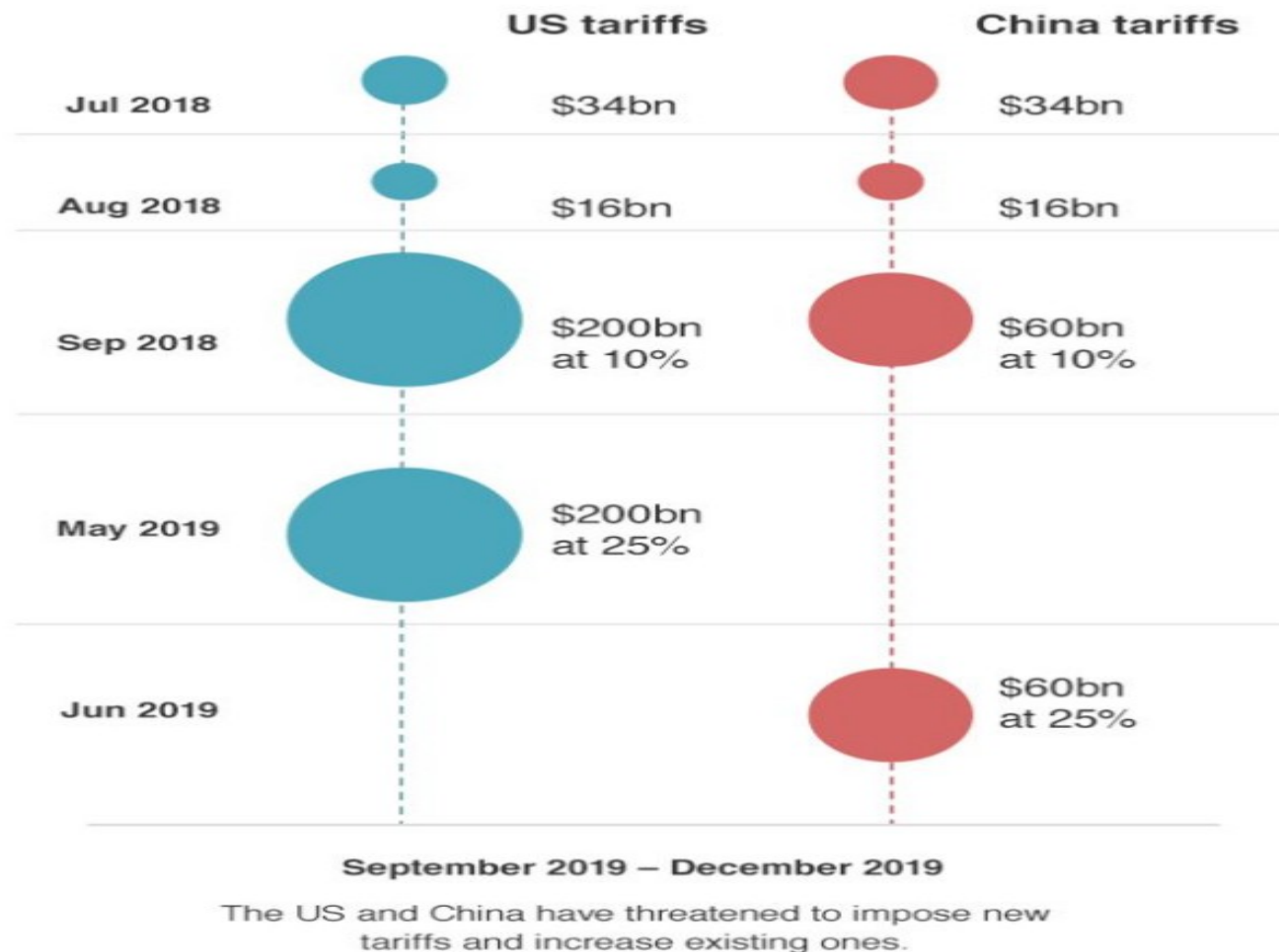
Industrial orders were going down

Global PMI and GDP



As guerras comerciais entre EUA e China (com trégua em março de 2020)

How the US-China trade war has escalated



In two previous crises

UNIT 17 | THE GREAT DEPRESSION, THE GOLDEN AGE OF CAPITALISM AND THE GLOBAL FINANCIAL CRISIS

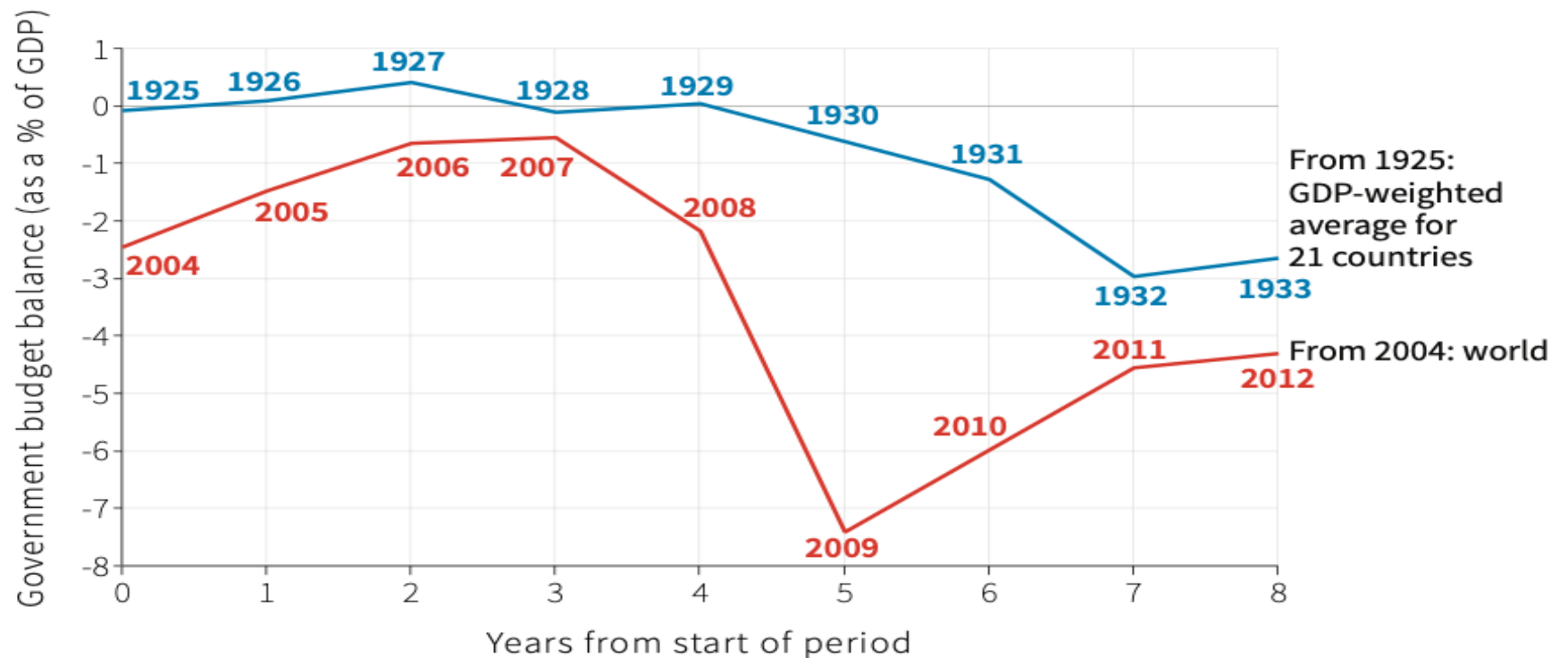


Figure 17.1c *The Great Depression and the global financial crisis: Fiscal policy.*

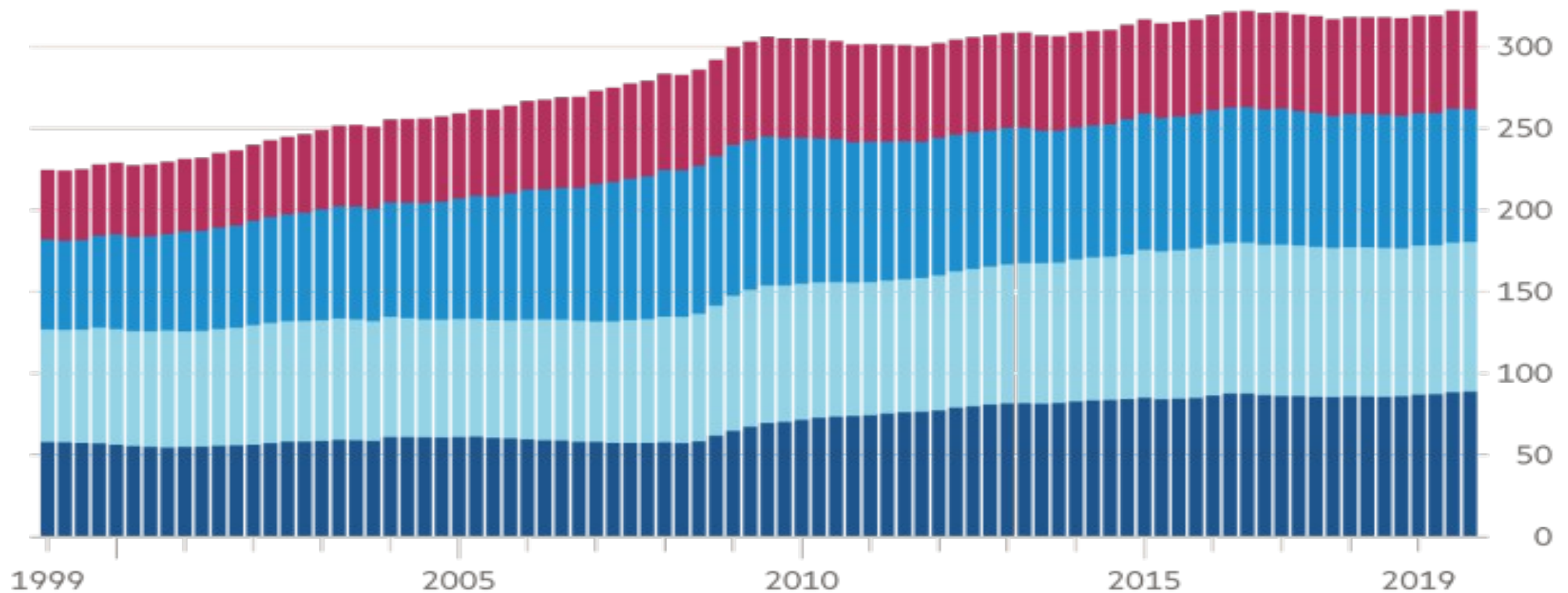
Source: As in Figure 17.1a updated using International Monetary Fund. 2009. *World Economic Outlook: January 2009*; International Monetary Fund. 2013. 'IMF Fiscal Monitor April 2013: Fiscal Adjustment in an Uncertain World, April 2013.' April 16.

Dívida crescia antes da crise

Government debt had already been rising before the crisis

Global debt as a % of global GDP, by sector

Households Non-financial companies
Financial companies Government



Source: Institute of International Finance
© FT

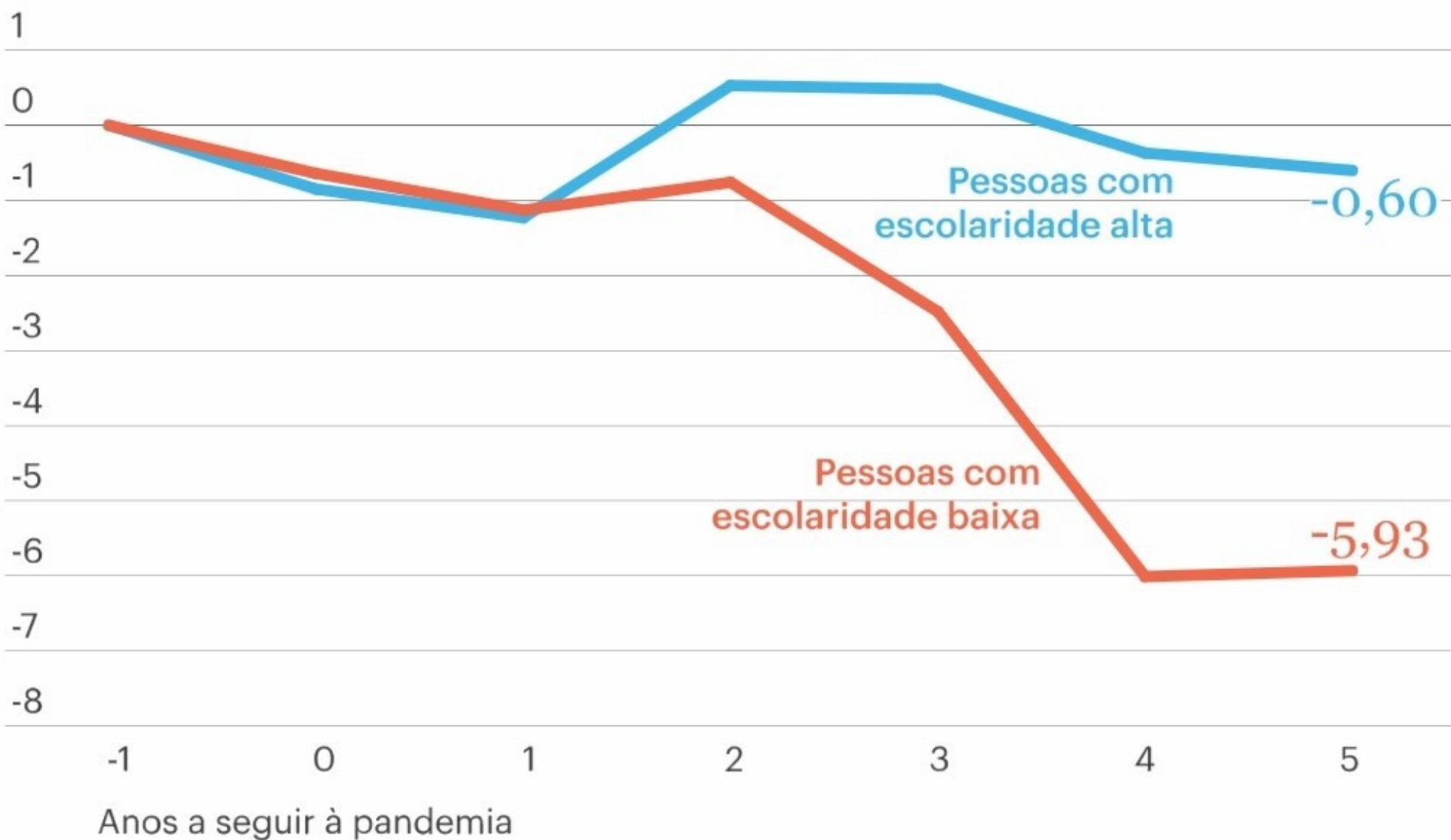
Every crisis generates
more inequality

Recessions, pandemics and GDP dynamics (US economy)

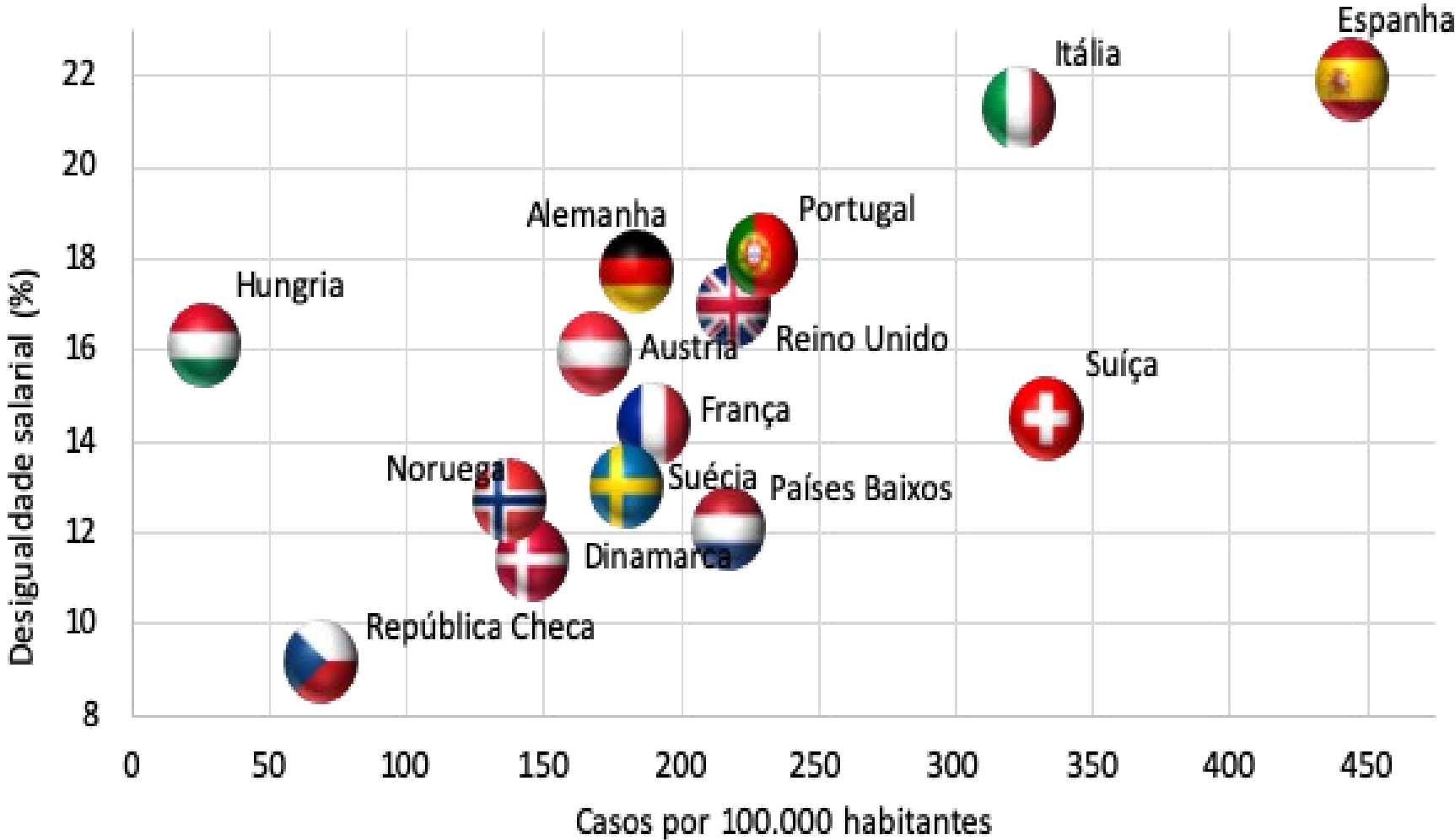


O impacto de pandemias passadas no emprego

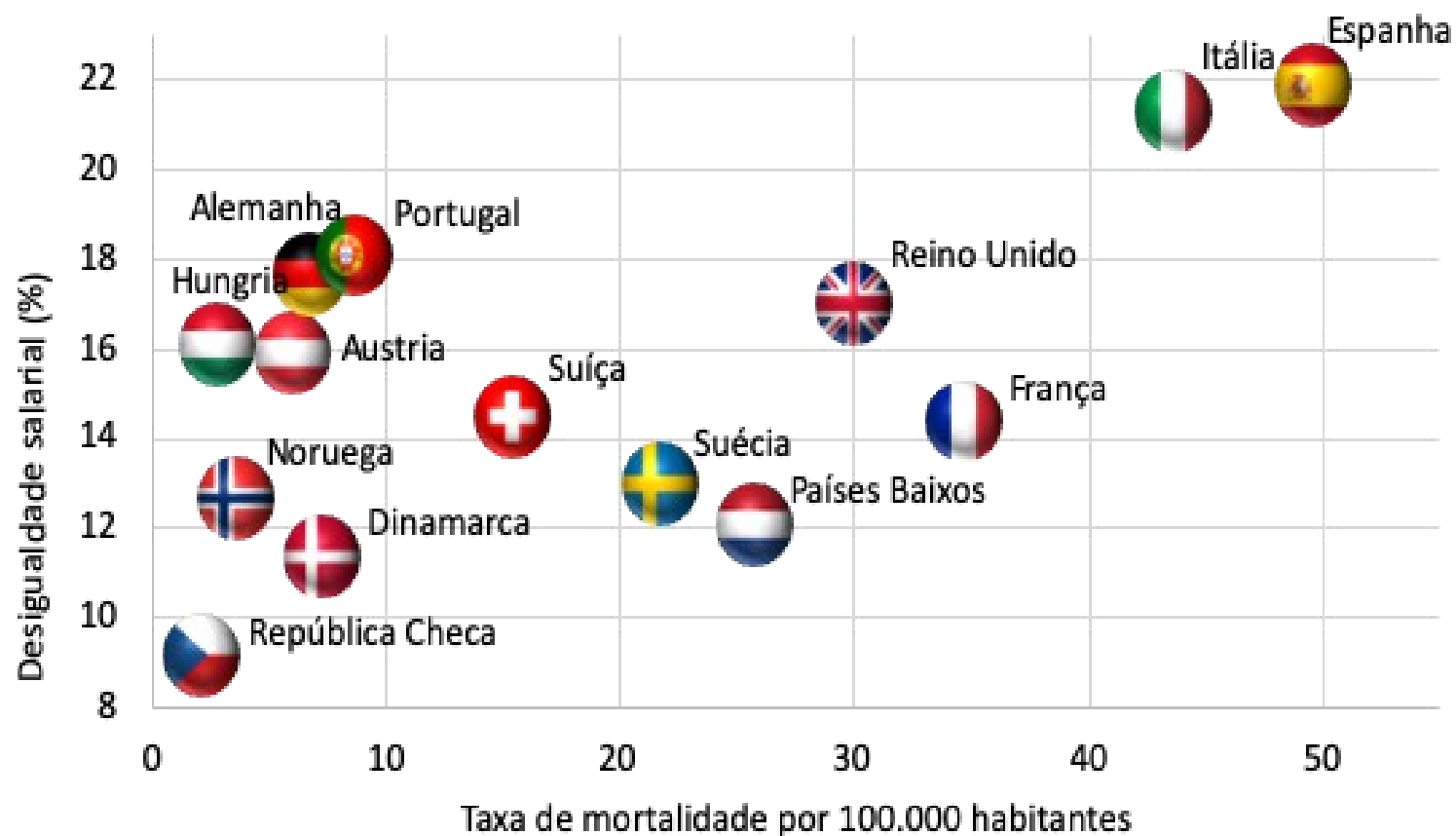
Variação da taxa de emprego, em %



Casos e desigualdades salariais, Europa: 26 de Abril



Taxa de mortalidade por Covid-19 e desigualdades salariais, Europa: 26 de Abril



Nota: Análise própria com dados do ECDC (taxa de mortalidade no dia 26 de Abril) e da UNDP (desigualdade salarial %)

Covid inequality in Portugal:

the Gini index by regions

Casos de Covid-19 confirmados e prevalência por município, Portugal

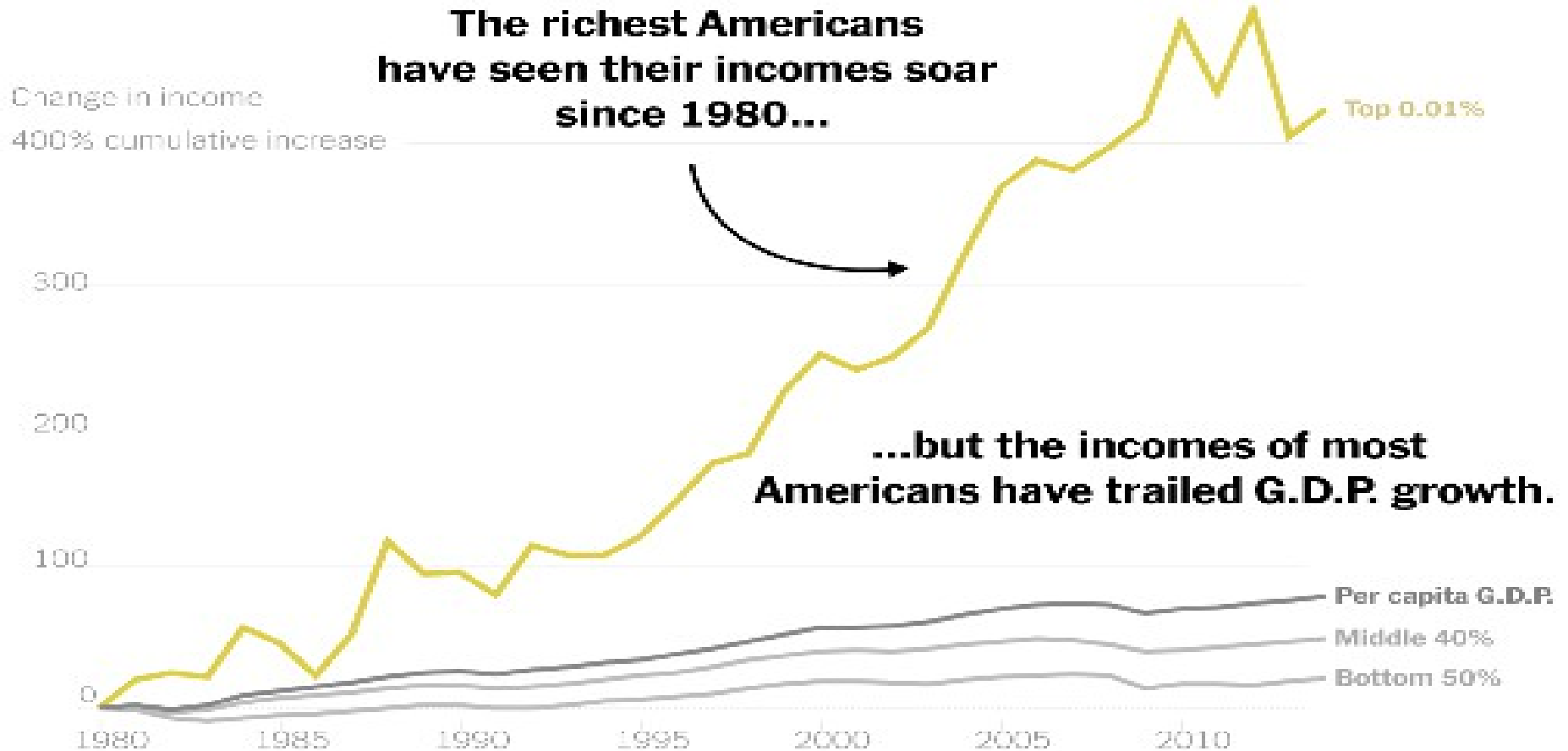
- GLM regression (family: Poisson) for the number of cases (offset: log inhabitants)
 - Note: exponentiated coefficients represent incidence rate ratios.

	Model 1			Model 2			Model 3			Model 4		
	Coef.	IC 95%	Exp.	Coef.	IC 95%	Exp.	Coef.	IC 95%	Exp.	Coef.	IC 95%	Exp.
Demographics												
More than 65 yo (%)	-0.08	[-0.09; -0.07]	0.92	-0.04	[-0.05; -0.03]	0.96	-0.04	[-0.04; -0.03]	0.96	-0.04	[-0.04; -0.03]	0.96
Male (%)	-0.31	[-0.34; -0.27]	0.74	-0.13	[-0.16; -0.10]	0.88	-0.17	[-0.20; -0.14]	0.84	-0.16	[-0.19; -0.13]	0.85
Population density (log)	0.11	[0.09; 0.12]	1.11	0.21	[0.20; 0.23]	1.24	0.25	[0.23; 0.27]	1.28	0.23	[0.22; 0.25]	1.26
SES variables												
Unemployment												
1 st tercile (lowest)	-0.93	[-0.97; -0.88]	0.40	-	-	-	-	-	-	-	-	-
2 nd tercile	-0.49	[-0.52; -0.45]	0.62	-	-	-	-	-	-	-	-	-
3 rd tercile (highest)	-	-	-	-	-	-	-	-	-	-	-	-
Gini coefficient												
1 st tercile (lowest)	-	-	-	-0.14	[-0.19; -0.09]	0.87	-	-	-	-	-	-
2 nd tercile	-	-	-	-0.22	[-0.26; -0.18]	0.80	-	-	-	-	-	-
3 rd tercile (highest)	-	-	-	-	-	-	-	-	-	-	-	-
Purchasing power												
1 st tercile (lowest)	-	-	-	-	-	-	0.31	[0.23; 0.39]	1.36	-	-	-
2 nd tercile	-	-	-	-	-	-	0.20	[0.16; 0.24]	1.22	-	-	-
3 rd tercile (highest)	-	-	-	-	-	-	-	-	-	-	-	-
Earnings												
1 st tercile (lowest)	-	-	-	-	-	-	-	-	-	0.26	[0.21; 0.32]	1.30
2 nd tercile	-	-	-	-	-	-	-	-	-	-0.06	[-0.10; -0.01]	0.95
3 rd tercile (highest)	-	-	-	-	-	-	-	-	-	-	-	-
N		278			298			308			308	
AIC		29.80			38.75			37.67			37.70	
BIC		5,757.30			8,844.30			8,834.58			8,843.17	
Log Likelihood		-4,135.64			-5,767.34			-5,795.94			-5,800.24	

How inequality acts on life expectation

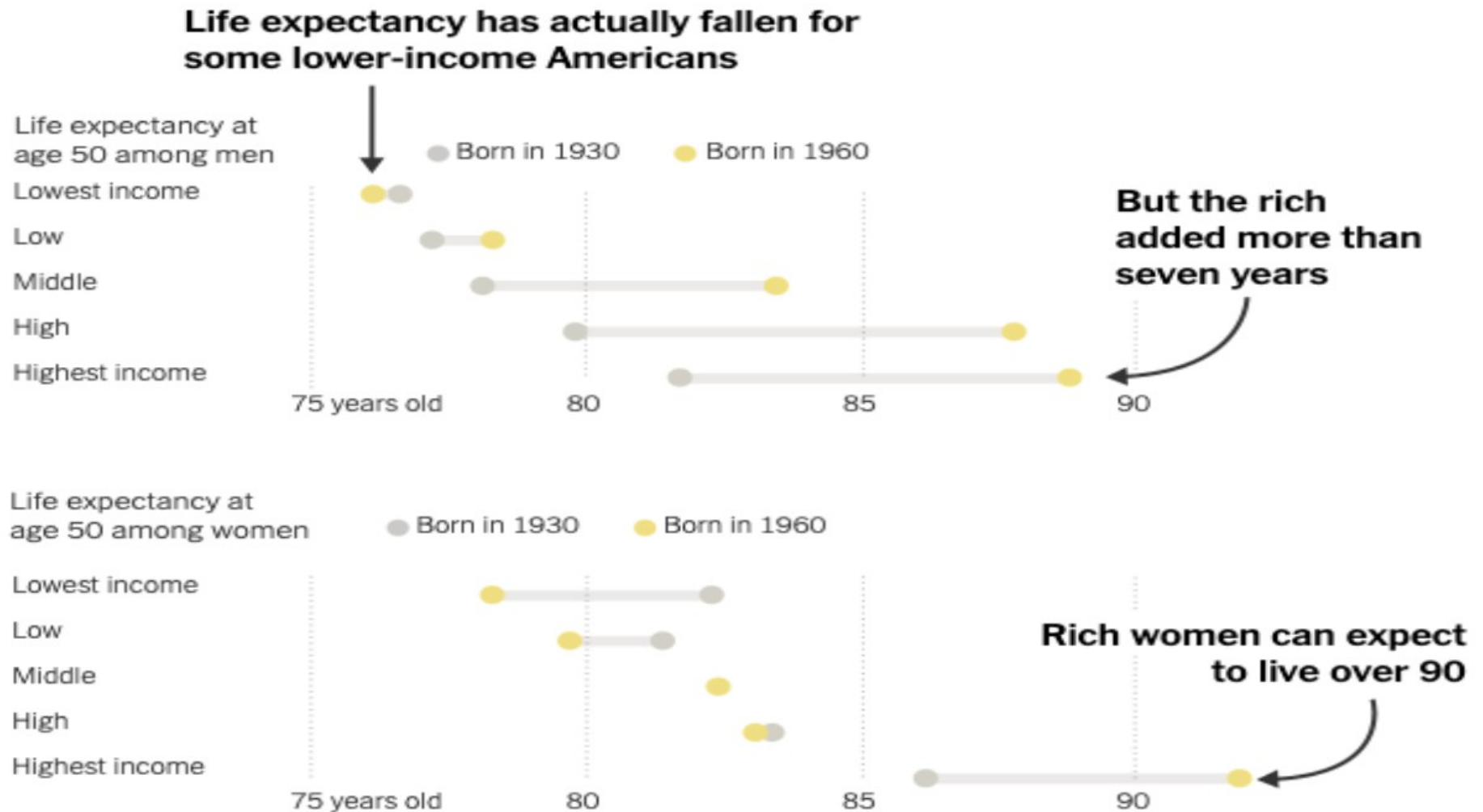
the US case

Inequality in the US (1)



Notes: Incomes are after tax and include government transfers. Sources: Thomas Piketty, Emmanuel Saez and Gabriel Zucman (incomes); Bureau of Economic Analysis (G.D.P.)

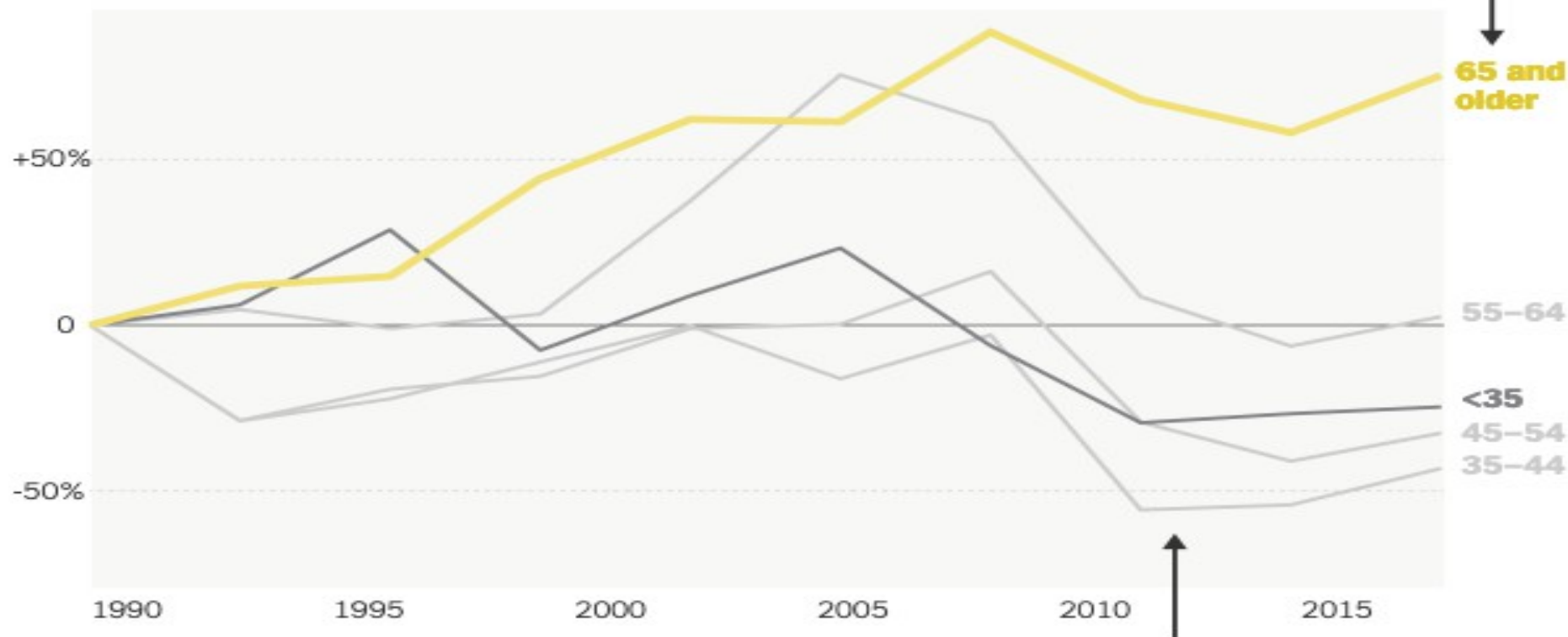
Inequality in the US (2): life expectation



Inequality in the US (3): wealth and generation

No generation has seen their net worth grow quite like older Americans

Change in median net worth since 1989



65 and older

55-64

<35

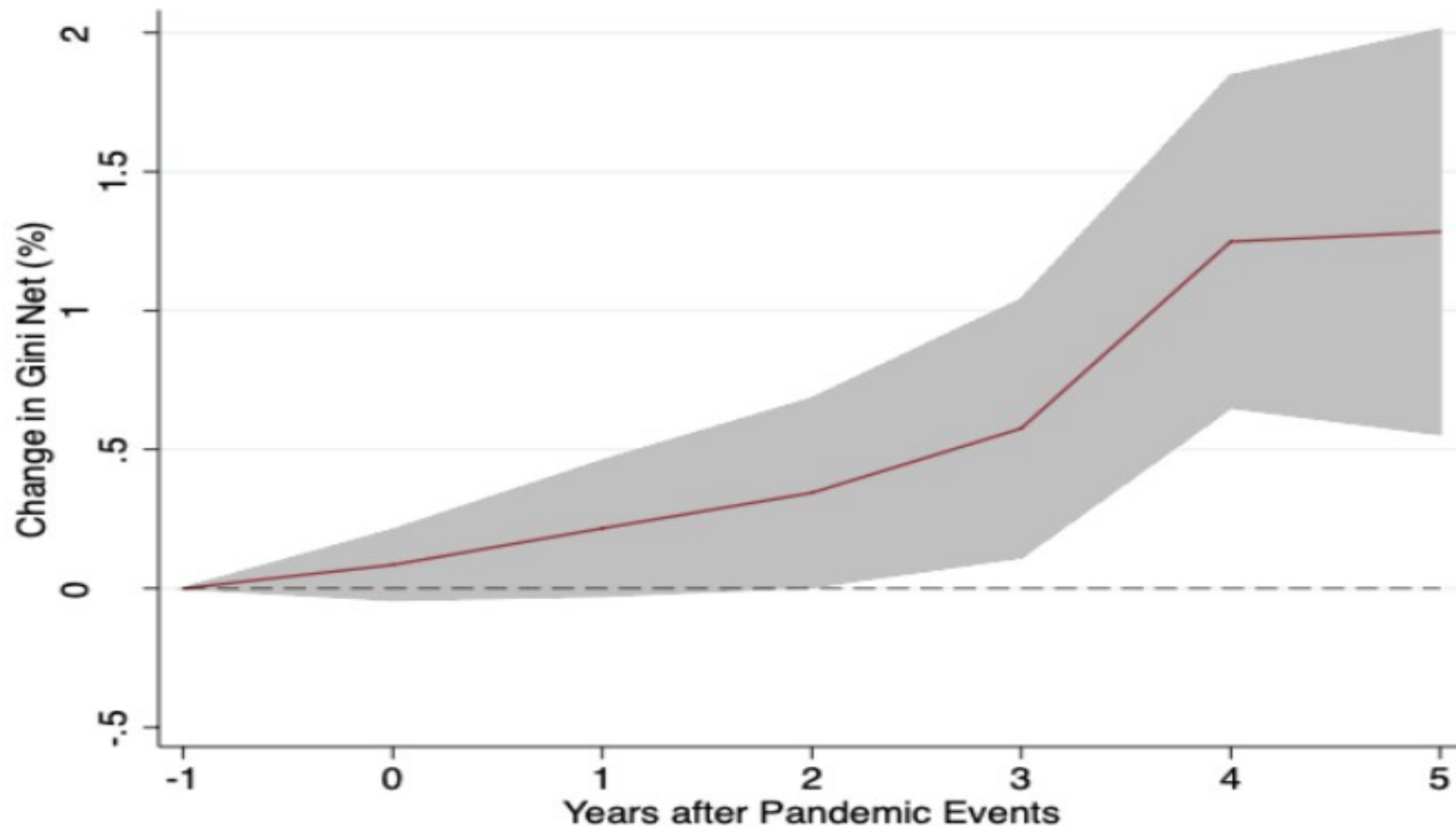
45-54

35-44

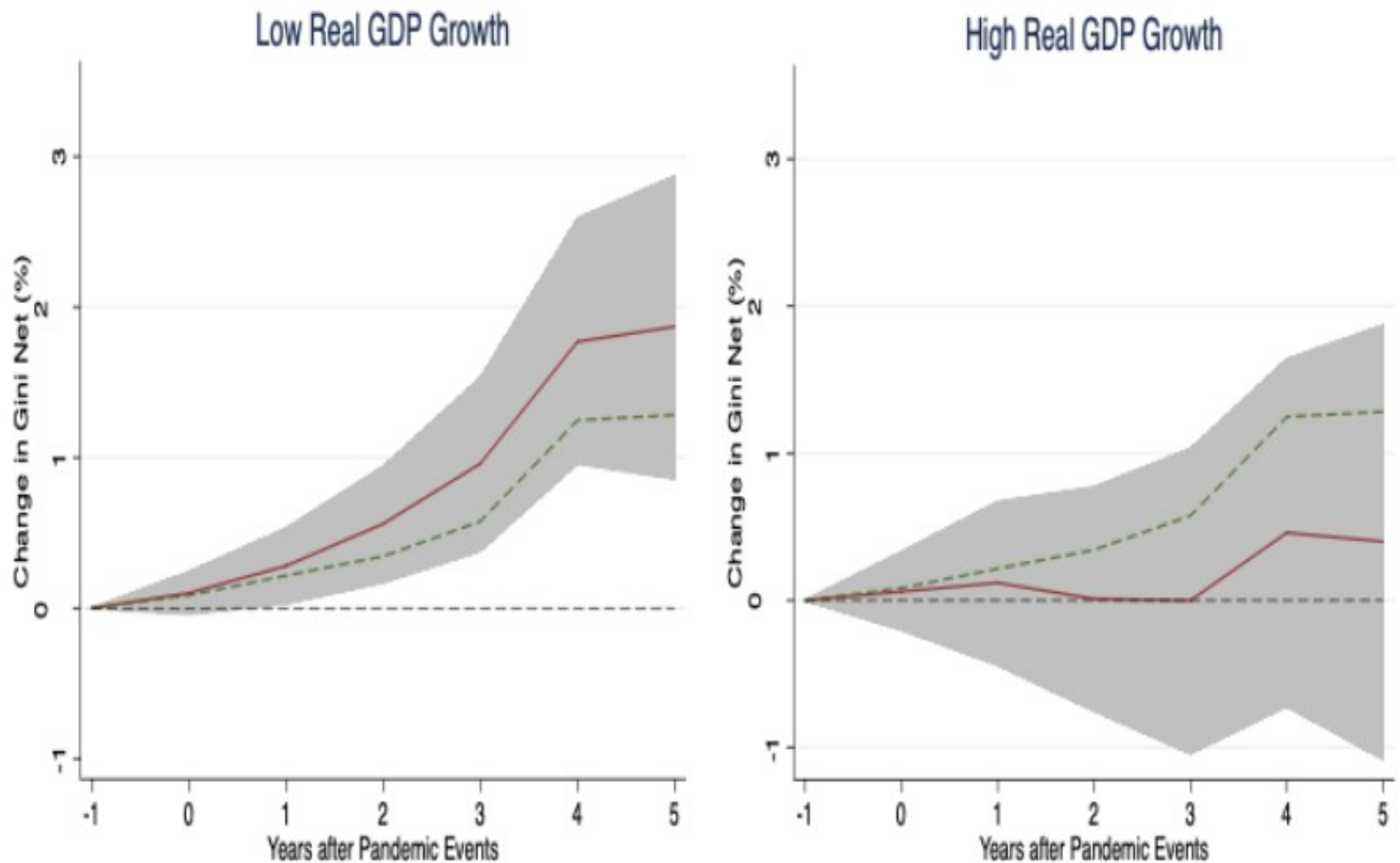
Younger Americans have less wealth than in the past

An IMF research on Covid19 and inequality

FMI (CEPR maio 2020)



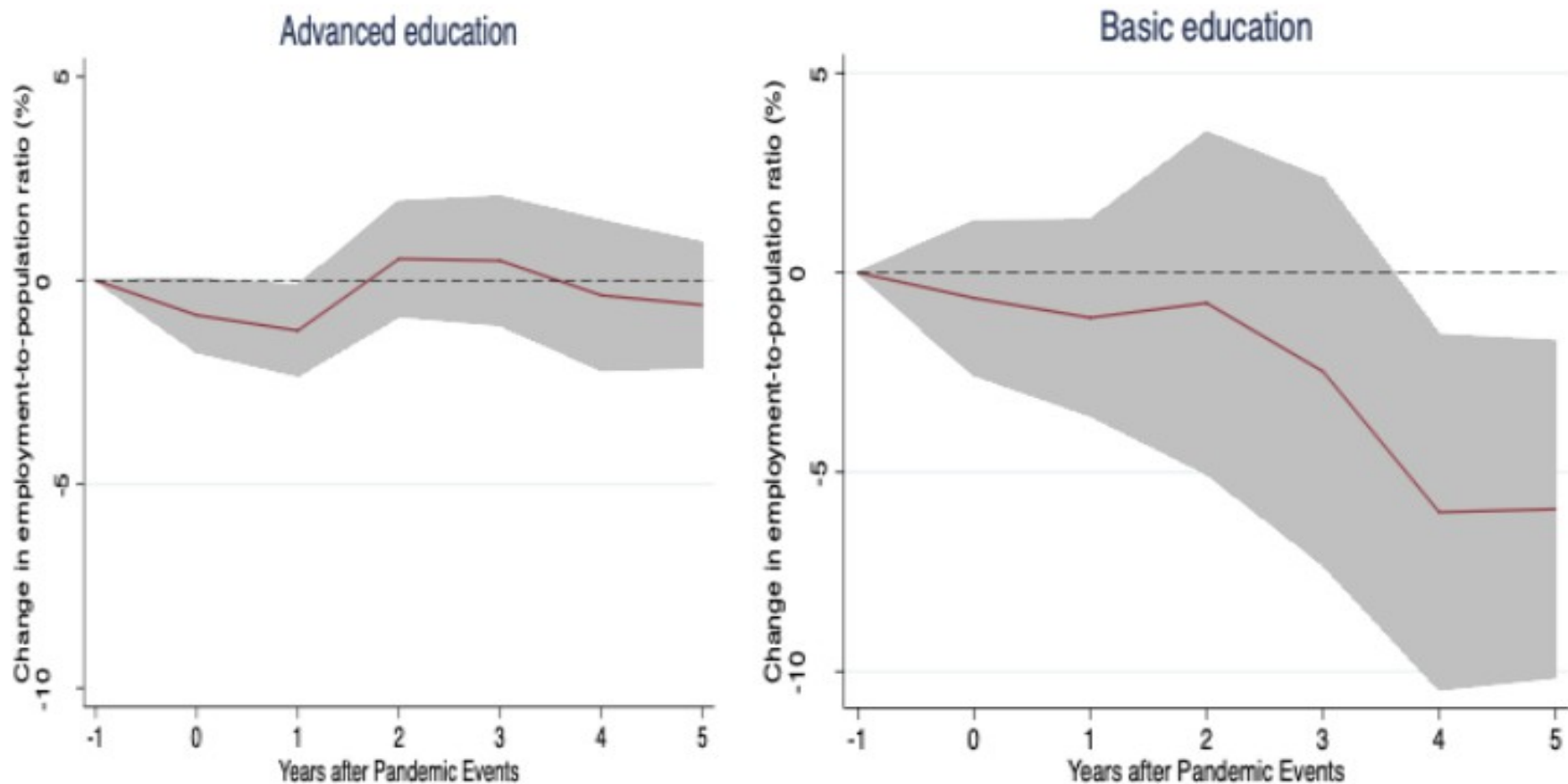
Notes: The figure shows the impulse response (and 90% confidence bands) of the net Gini to a pandemic for five years after the event for 175 countries over the period 1961-2017. The baseline specification includes two lags of the dependent variable and current and two lags of the pandemic dummy variable. Gini coefficients are from the Standardized World Income Inequality Database. See Furceri et al. (2020) for details.



Notes: The figure shows the impulse response (and 90% confidence bands) of the net Gini coefficient to pandemic events for a sample 175 countries over the period 1961-2017. The red line shows the response associated with very low growth (left panel) and very high growth (right panel). The dotted green line denotes the baseline average (unconditional) effect reported in Figure 1.

Differential impacts on unemployment according to level of education

Figure 3 Impact of pandemics on employment outcomes



Notes: The figure shows the impulse response (and 90% confidence bands) of the employment-to-population ratio to pandemic events for a sample of 76 countries over the period 1990-2017.

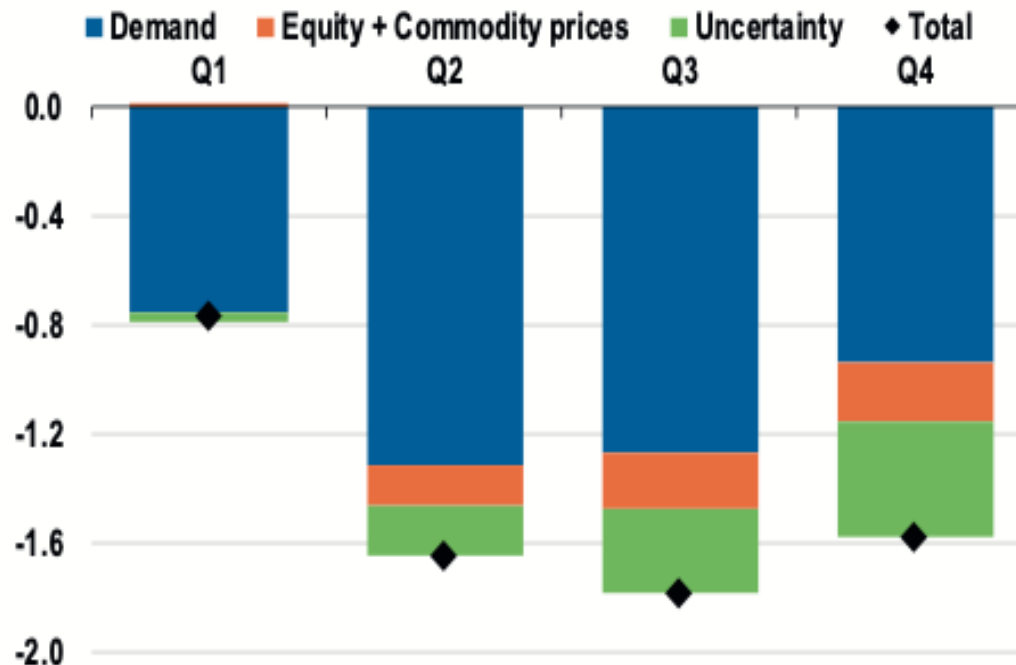
IMF predictions:

**a deep crisis, a quick
recovery**

Downside scenario

World GDP in 2020

% difference from baseline and contributions in % pts



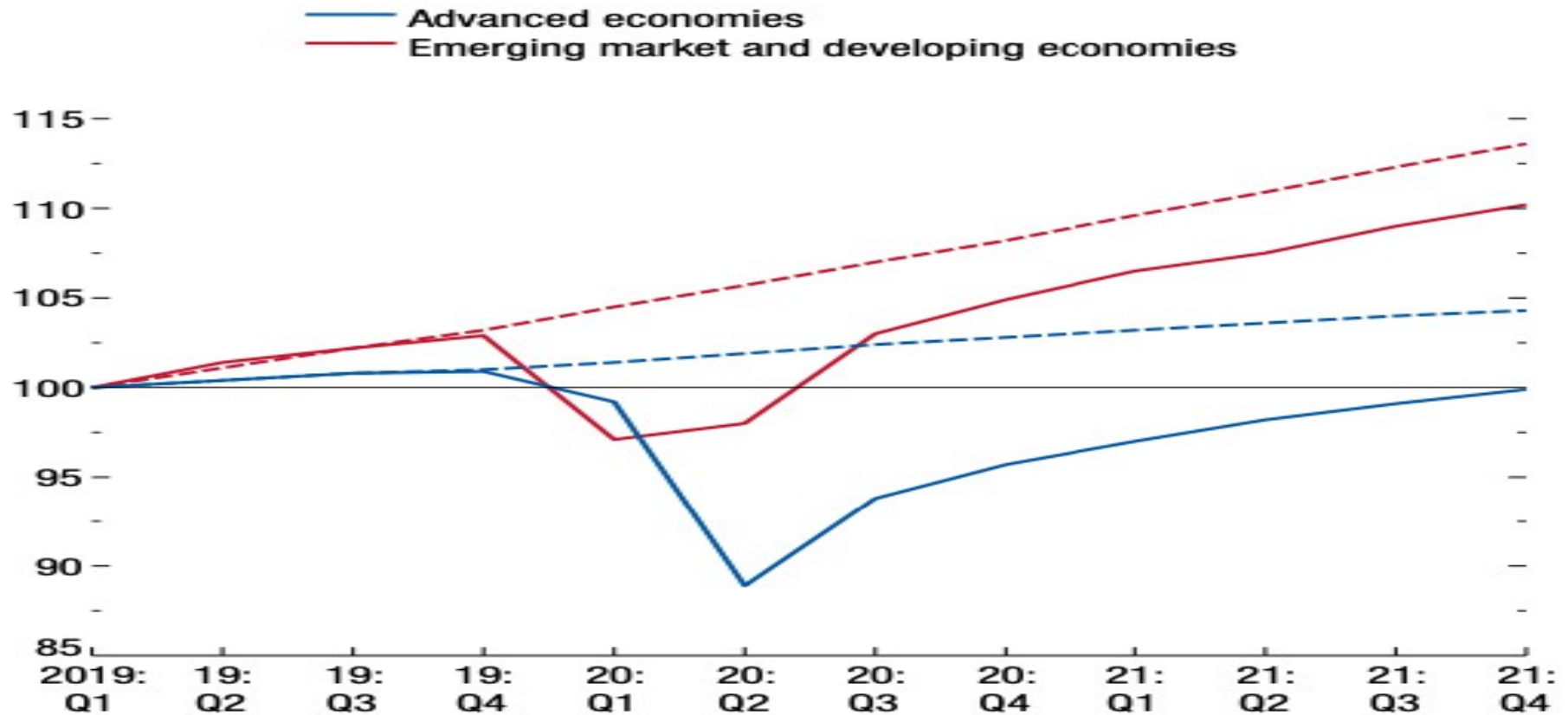
Note: This simulation shows the impact of a 4% fall in domestic demand in China and Hong Kong-China in 2020Q1 and a 2% decline in 2020Q2, plus a 2% domestic demand fall in most other Asia-Pacific countries and advanced Northern hemisphere countries in 2020Q2 and 2020Q3, plus declines of 20% in global equity and non-food commodity prices in 2020, and a 50 bps rise in investment risk premia in all countries in 2020. These shocks are assumed to decline gradually through 2021.

Source: OECD calculations using the NiGEM global macroeconomic model.

IMF predictions for 2020-2021

Figure 1.6. Quarterly World GDP

(2019:Q1 = 100; dashed lines indicate estimates from January 2020 World Economic Outlook Update)



Source: IMF staff estimates.

But, for economies such as the Portuguese one, this depends on how the debt and deficit are financed, and on the impact of the recession in world flows (tourism, finance, exports)

Increase of the interest rate on Portuguese debt

Dívida portuguesa penalizada nos mercados

Taxa de juro da dívida a 10 anos, em %

