ECONOMIC AND FINANCIAL DEVELOPMENTS OF THE USA BEFORE AND AFTER THE PANDEMIC OF COVID-19

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Abstract: The global pandemic of Covid-19, being an unpredicted event, has caused a collapse in the entire world economy. Different countries have taken different approaches to deal with the economic problems derived from it. This paper aims to make an analysis of the economic and financial developments of the USA by figuring out the condition before and after the pandemic. An important stress will be put on the monetary policy followed by the government of the USA.

For a good analysis, a comparison between economic indicators and their behavior, before and after the pandemic, will be done. It will be discussed about the economic activity, the labor market, inflation and the economic and financial stability. These unusual conditions have their effect also in the financial market. The credit quality of firms as well as the performance of financial institutions is mostly affected. The yields on securities and the spread of yields of bonds in comparison with treasury bills is also an important indicator to be studied.

Given the problematic situation the government of the USA tried to influence through the monetary and the fiscal policy. The increase on the money supply by keeping the FED interest rates near to zero has been one of the measures for recovering the economy. Another important measure to address the problem has been the safeguarding of the market functioning. On the other hand, the help of the government by the fiscal policy has been immediate, even though it is expected to increase the government outlays.

The methodology used by this paper will be a theoretical comparison of economic development before and after the pandemic, based on row data generated by the reports of Federal Reserves. Statistical data will also be used in order to support the analysis.

It concludes that the pandemic has affected the entire world, not only from the health viewpoint bat economically as well. The USA, as the leading economy in the world faced the challenge of finding the most appropriate measures to recover from the downturn. The effects of its policies will continue in the long run and there is needed some time to overcome them.

Key words: Covid-19pandemic, economic and financial developments, monetary and fiscal policy, crisis, recovery

1. Introduction

The pandemic of Covid-19 has spread with a rapid velocity, bringing not only health problematic but economic downturn as well. Likewise in the financial crisis of 2008, the recession has pressured governments to take immediate actions to recover the economy of their countries. The USA, as the leading world economy, with a 23.6% share of the global economy, for sure has global impact driven by the measures that the government has taken. Thus, it is of real importance the study of the economic and financial developments of the USA before and after the pandemic. Their economic activity, and financial conditions have been mostly affected by the pandemic. The labor market is also a good indicator to tell about the effect of any type of crisis to the unemployment rate, job losses as well as the most and last developed sectors of employment. Inflation as well is one of the most important financial indicators which tells about the economic stability, or points out any situation of economic recession. These unusual conditions have their effect also in the financial market. The credit quality of firms as well as the performance of financial institutions is mostly affected. The yields on securities and the spread of yields of bonds in comparison with treasury bills is also an important indicator which reflects the crisis. All of these indicators, in times of economic stability, but especially in global crisis, show their effect on the general financial stability. Moreover, due to the globalization, these elements have a domino effect all over the world. Given that the pandemic was global, the effect is even stronger.

All of these developments were related and constrained the government to change the monetary and the fiscal policy

2. Methodology

This article is a literature research which compares the Economic and Financial developments of the USA, as well as the monetary and the fiscal policy, before and after the pandemics of Covid-19. It shows how these indicators changed due to the conditions, and whether any conclusions can be derived in order to be used as a guidance for future possible contingencies.

All the theoretical and statistical data were gathered on the Federal Reserve reports, delivered periodically by the government of the USA.

The secondary data was collected by many articles written on the light of the pandemic of Covid-19, in order to support the arguments.

3. Economic and Financial Developments

3.1. Economic activity

Refereeing to the report of 2019, accessible pointers propose that genuine total national output (Gross domestic product) expanded at a strong rate, on balance, in the second 50% of a year ago and rose a little under 3 percent for the year overall - an observable pickup from the movement as of late. Customer spending extended at a solid rate for the vast majority of the subsequent half, upheld by strong employment increase, however spending seems to have drained toward year-end. Business venture developed also, however development appears to have eased back fairly from a sizable increase in the main half. Nonetheless, the mortgage market movement declined that year in the midst of increasing home loan costs and higher material and work costs. Indicators of both purchaser and business opinion stay at good levels, however a few measures have mollified since the fall, likely an impression of money related market instability and expanded worries about the worldwide viewpoint.

In contrast to the forerunning year, and in response to the pandemic, the general economic activity declined. Because of the general crisis triggered by the spread of COVID-19, numerous defensive measures were embraced to restrict the spread of the infection. These social-removing measures viably shut pieces of the economy, bringing about an abrupt and exceptional fall in financial action and notable expansion of unemployment. In spite of the fact that infection moderation endeavors in numerous spots didn't start until the last fourteen days of March, genuine individual utilization consumptions increased 6.7 percent in March and an uncommon 13.2 percent in April. Markers recommend spending rose in May, yet the April information and May markers taken together highlight a breakdown in second-quarter genuine PCE.

3.2. The labor market

The labor market before the pandemic has kept on boosting since the previous year. The unemployment rate has been decreased from 3.9 to 3.5 while the participation in the labor force showed a small increase.

The extreme monetary actions, due to the pandemic, have shown the effect particularly in the work market. Since February, employers cut off almost 20 million positions from payrolls. The unemployment rate decreased from 14.7 percent in April to13.3 percent in May. The most serious work losses have been present for the socioeconomic groups with low income and low wage range.

3.3. Inflation

In 2019, the inflation in consumer prices, descended a little from the FOMC's target of 2 percent in a year ago to an expected 1.7 percent in December. The year proportion of inflation, excluding food and energy, which generally has been a superior index of the prices movement, was assessed to have been 1.9 percent in December- - up 1/4 rate point from a year before.

Although expected to increase due to the pandemic, inflation has eased back suddenly. The year change in the value of PCE was simply 0.5 percent in April. The year proportion of PCE expansion excluding food and energy, decreased from 1.8 percent in February to 1.0 percent in April. This decrease of inflation on March and April, came particularly as a result of enormous price decreases in certain product classes influenced by social separating. Even though the consumption prices for daily foods increased too much, this increase was offset by the huge decrease in the energy and the fuel prices. Nonetheless, market-based proportions of inflation have descended to probably the least readings ever observed.

3.4. Financial conditions

Due to the accommodative monetary policy, which consists on an increase of the money supply, backed with a low interest rate, the amount and the value of investments has shown a profitable financial condition for big companies. The spread between the corporate bonds and treasury bonds yields was decreased. So, did the rates of mortgages as well. These were favorable conditions for the business and households to invest in commodities, while keeping the returns at a moderate pace. Credit to enormous nonfinancial firms stayed strong in the second 50% of 2018; corporate security issuance eased back extensively close to the furthest limit of the year.

In late February and over quite a bit of March of 2020 as COVID-19 spread, value costs plunged and Treasury yields dropped generously, with yields on longer-term protections arriving at record-breaking record lows. Spreads of yields on corporate securities over those on equivalent development Treasury securities broadened fundamentally as the credit nature of firms declined and market working crumbled; what's more, advances were inaccessible for most firms, especially firms underneath speculation level. At the most intense time of this period, exchanging conditions turned out to be very illiquid and some basic business sectors quit working appropriately. Customer acquiring likewise fell as spending drooped. A few business sectors supporting purchaser loaning experienced serious strains around this period, including the office private home loan sponsored protections market just as the auto, MasterCard, and understudy loan securitization markets. Accordingly, the Federal Reserve took remarkable measures to reestablish smooth market working and to help the progression of credit in the economy, including the production of various crisis credit and liquidity facilities.1 These activities, alongside the forceful reaction of monetary approach, balanced out money related business sectors and prompted a prominent improvement in budgetary conditions for the two firms and families just as state and nearby governments. All things considered, loaning guidelines for the two family units and organizations have gotten less accommodative, and acquiring conditions are tight for low-appraised families and organizations.

3.5. Financial stability

Before the pandemic, the U.S. money related framework remains significantly stronger than in the decade going before the budgetary emergency. Weights related with resource valuations facilitated contrasted and July 2018, especially in the value, corporate security, and utilized advance business sectors. Administrative capital and liquidity proportions of key money related foundations, including huge banks, are at generally significant levels. Subsidizing hazards in the budgetary framework are low comparative with the period paving the way to the emergency. Acquiring by family units has risen generally in accordance with family salaries and is concentrated among prime borrowers. While obligation owed by organizations is high and credit norms - particularly inside fragments of the advance market zeroed in on lower-appraised or unrated firms- - crumbled in the second 50% of 2018, issuance of these advances has eased back more as of late.

The COVID-19 pandemic has unexpectedly ended huge areas of monetary movement and prompted quick money related repercussions. In spite of expanded flexibility from the money related and administrative changes embraced since 2008, budgetary framework weaknesses—most remarkably those related with liquidity and development change in the nonbank monetary area—have intensified a portion of the financial impacts of the pandemic. As needs be, monetary area weaknesses are required to be huge in the close to term. The strains on family and business monetary records from the monetary and budgetary stuns since March will probably make tireless fragilities. Money related foundations may encounter strains therefore. The Federal Reserve, with endorsement of the Secretary of the Treasury, set up new credit and liquidity offices under segment 13(3) of the Federal Reserve Act to reduce extreme disengagements that emerged in various monetary business sectors and to help the progression of credit to family units, organizations, and state and nearby governments. Moreover, as money related burdens abroad gambled pouring out over into U.S. credit advertises, the Federal Reserve and a few other national banks reported the extension and upgrade of dollar liquidity trade lines. Moreover, the Federal Reserve presented another brief repurchase arrangement office for unfamiliar financial specialists. The Federal Reserve has likewise made various acclimations to its administrative and administrative system to encourage market working and decrease administrative hindrances to banks supporting families, organizations, and city clients influenced by COVID-19. (See the case "Improvements Related to Financial Stability" in Part 1.)The COVID-19 pandemic has unexpectedly ended enormous areas of monetary movement and prompted quick budgetary repercussions. Regardless of expanded versatility from the budgetary and administrative changes received since 2008, monetary framework weaknesses—most prominently those related with liquidity and development change in the nonbank money related area—have intensified a portion of the financial impacts of the pandemic. As needs be, monetary area weaknesses are required to be critical in the close to term. The strains on family unit and business asset reports from the monetary and budgetary stuns since March will probably make tenacious fragilities.

Money related foundations may encounter strains thus. The Federal Reserve, with endorsement of the Secretary of the Treasury, set up new credit and liquidity offices under segment 13(3) of the Federal Reserve Act to lighten serious separations that emerged in various money related business sectors and to help the progression of credit to family units, organizations, and state and neighborhood governments. Besides, as budgetary anxieties abroad gambled pouring out over into U.S. credit advertises, the Federal Reserve and a few other national banks declared the development and improvement of dollar liquidity trade lines. Also, the Federal Reserve presented another brief repurchase arrangement office for unfamiliar money related specialists. The Federal Reserve has additionally made various acclimations to its administrative and administrative system to encourage market working and lessen administrative obstructions to banks supporting family units, organizations, and metropolitan clients influenced by COVID-19.

4. Monetary and fiscal policy

4.1. Interest rate policy

Before the pandemic, the interest rates of the FED were stable, neither too high nor too low. As the work market kept on reinforcing, and monetary movement extended at a solid rate, the FOMC decreased the federal funds rates bringing the to 1.75 %.

This monetary policy was founded as the most appropriate to promote a sustainable economic development, to strengthen the conditions of the labor market and to keep the rate of inflation within the objectives of the board, of 2 %.

Considering the impacts of COVID-19 on financial conditions, the FOMC quickly brought down the objective for the government supports rate. In their meetings in March 2020, they decided to decrease the federal reserve fund with 1.5 % achieving the lowest value of 0.25 %, approaching near to zero. This rate is thought to be kept until the government in confidential that the economy starts the recovery and they fulfill their objectives of financial sustainability. This implicates the decrease in the unemployment rate as well as the stability in the consumer prices.

4.2. Balance sheet policy

The FOMC kept on executing the monetary record standardization program that has been in progress since October 2017. In particular, the FOMC decreased its possessions of Treasury and office protections in a steady and unsurprising way by reinvesting just head installments it got from these protections that surpassed steadily rising covers. Thus, the Federal Reserve's all out resources declined by about $260 billion since the center of a year ago, finishing the period near $4 trillion.

Along with the January post meeting articulation, the Committee delivered a refreshed Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization to give extra data about its arrangements to execute financial approach over the more extended run. Specifically, the FOMC expressed that it means to keep on executing financial strategy in a system with a plentiful gracefully of stores so dynamic administration of stores isn't needed. What's more, the Committee noticed that it is set up to change any of the subtleties for finishing monetary record standardization considering financial and budgetary turns of events.

Market working crumbled in numerous business sectors in late February and a lot of March, including the basic Treasury and organization MBS markets. The Federal Reserve quickly made a progression of strategy moves to address these turns of events. The FOMC reported it would buy Treasury protections and organization MBS in the sums expected to guarantee smooth market working and the powerful transmission of money related arrangement to more extensive monetary conditions. The Open Market Desk started offering enormous scope short-term constantly repurchases understanding activities. The Federal Reserve facilitated with other national banks to upgrade the arrangement of liquidity through the standing U.S. dollar liquidity trade line game plans and reported the foundation of impermanent U.S. dollar liquidity plans (trade lines) with extra national banks. The Federal Reserve additionally settled a transitory repurchase arrangement office for unfamiliar and global money related specialists. (Independently, the Board presented a few offices with the support of the U.S. Depository to all the more straightforwardly uphold the progression of credit to the economy.) Since these arrangement activities were reported, the working of Treasury and MBS markets has step by step improved.

4.3. The fiscal policy

Even though the pandemic has caused, a huge problematic situation, not only on the health viewpoints, but economically as well, it is to be applauded the rapid response that the government of the USA gave to such a condition. The fiscal actions, alongside the monetary policy, were appropriate and in time to support the recovery.

Experts of foreign economies have executed financial, money related, and administrative measures to moderate disturbances brought about by the COVID-19 pandemic. The sudden los of income by families as well as businesses, was covered by fiscal packages in the form of subsidies. The deferral of tax payments of the business has also been an effective measure to help the business recover from the crisis.

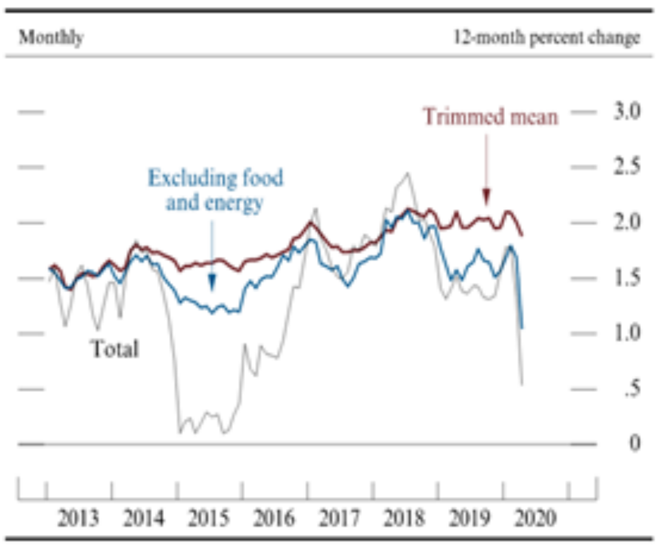
This might have brought an increase of the budgetary expenses and a decrease of charge incomes by almost $2 trillion in the current monetary year. The effects of such measures will continue in the forthcoming year, resulting in taxation increase, anyway they were sufficiently used to keep the economic downturn as smooth as possible.

5. Results and Discussion

Labor force participation rates and employment to population ratio[1]

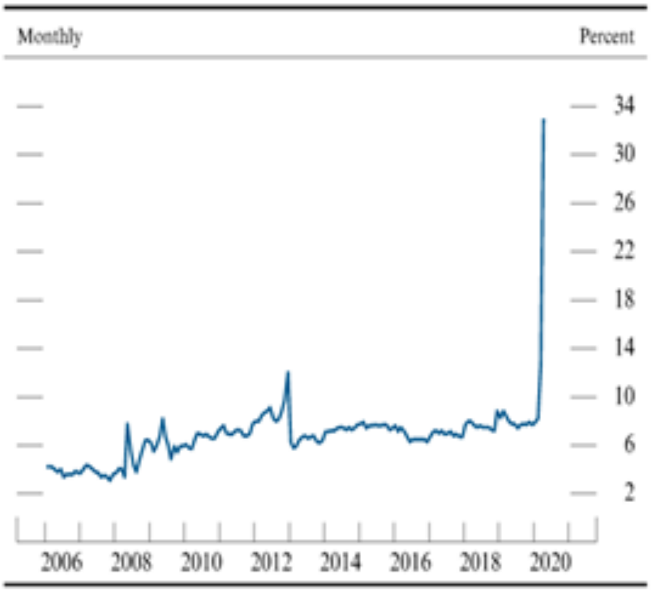
Due to the pandemic, the unemployment rate has been increased dramatically, expressed mostly with the job losses as well as a decrease in the annual salaries of the employees. This decline in the employment is mostly obvious in the low-wage workers. The unemployment rate expressed as a ratio of the number of unemployed people over the total number of labor force, suffered a decline from 3.5% in the beginning of the year to 13.3% in May.

Change in the price index for personal consumption expenditures[2]



The job losses as well as the decrease in the wages were the couse which brought a cut of the expenditures for the whole population. Not only massive consumption expenditures have declined, but those for food and energy did so too. This is a strong indicator telling the enormous effect of the pandemic over the entire lives of the people. This indicator, as reported in the federal report of June 2020, declined by 0.2 percent, going from 2.1 to 1.9.

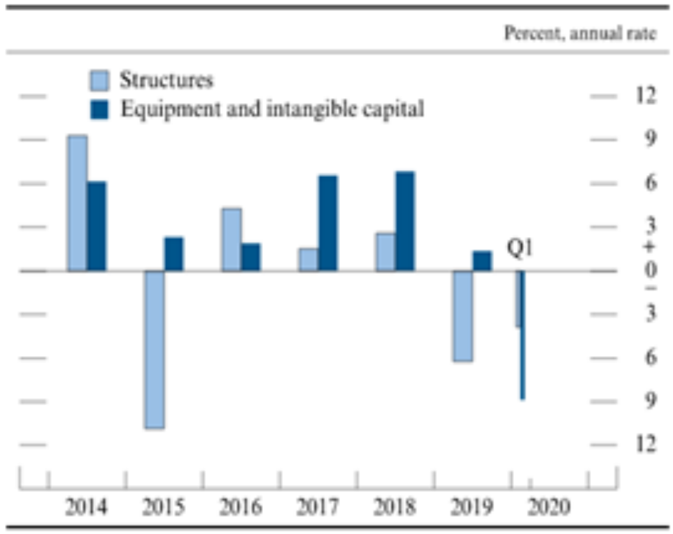
Personal saving rates[3]



On the other hand a huge increase in the personal savings rates is observed. Because of the pandemic, the uncertainties perceived buy the population, constrained them to take measures to hedge against the possible future problems. In this case, even by sacrificing the consumption, they tried to save their income for using them in the future in case of a worst scenario.

The personal saving rate, as a ratio of long term savings to total disposal income increased to 34%, the highest value observed since 2012, when it was only 14%.

Personal saving rates[4]



The business investments show a huge decline too. The general economic stagnation was spread in all the sectors of the economy, with some small differences according to the different sectors.

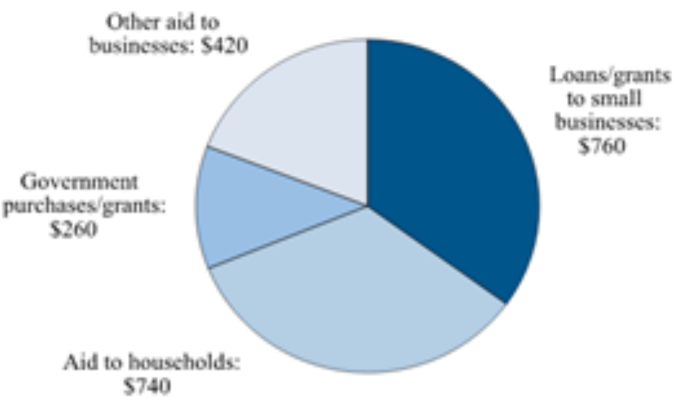
Too many investments have been either delayed or cancelled out due to the expectations on low or even negative returns. Not only did it decrease, but unfortunately this indicator reached a negative value up to -9%.

Federal receipts and expenditures[5]

1 Source: Bureau of Labor Statistics via Haver Analytics
2 Source: Bureau of Economic Analysis; all via Haver Analytics
3 Source: Bureau of Economic Analysis via Haver Analytics
4 Source: Bureau of Economic Analysis via Haver Analytics
5 Source: Office of management and budget via Haver Analytics

Given these conditions the government took measures to stabilize the situation. As it is shown from the report of the office of governmental management, the federal expenditures have increased too much in order to help the citizens, as well as the business recover from the crisis. For sure, the receipts expected to come from them have been declining due to their inability to pay to the government as well as its policy to extend these payments for a later period. This movement is expected to deepen the budgetary deficit which is something to be thought about, from the new cabinet. As showed in the graph, the increase in the expenditure was about 20% from the previous year and the decrease in the receipts was almost 5%, resulting in a deficit 25% higher.

Fiscal support[1]



Another measure of the government for stabilizing the situation was the support by the fiscal policy. This fiscal support was mostly expressed in the form of loans to businesses, and aids to households, with 35 and 34% accordingly. Government purchases and grants as well as other aid to businesses were some other measurements of fiscal support from the government, of about 12 and 19 %.

1 Source: Congressional budget office

6. Conclusion

In conclusion we might say that the pandemic of Covid-19 has got a huge impact on the overall lives of the entire population. Except from the health viewpoint, the indicator which suffered a shock, was no doubt the economy. In this paper, the measures taken from the USA government to recover from the crisis coming from the pandemic, were analysed.

The easing monetary policy is thought to be the most appropriate one to help overcome the crisis. The objective of keeping the federal reserve rate near to zero and the extend of the money supply, is a great help for the households but especially for the business to take deal with the problems that the pandemic arose. These policies had their positive impact on the prices stability and employment rates as well.

On the other hand, the fiscal policy had its positive impact as well, especially for the reestablishment of the business as well as in terms of household wellbeing. But it should be stressed the fact that this policy had other implications as well. The government expenditures increased too much and tax gatherings decreased, resulting in a budgetary deficit. This effect will have it implications in the future. It might increase the household and business taxes in the long run. The government might cover this deficit by an expanding monetary policy but it must assure that this measure will not bring inflation.

Based on the above, we can conclude that, even though the USA government was almost prepared to get protected from the crisis, its effects will continue in the future. The challenge is even stronger thus the government will need a full package of measures for keeping safe.

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