Consumer Response to the Coronavirus Stimulus Programs

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Research Question

- **Did families use rebates differently in 2020 than in 2008?**
  - Pandemic in 2020 versus collapse of house prices in 2008.
  - Stay-at-home orders and temporary shutdowns in 2020.
  - Larger, more rapid surge in layoffs and loss of income in 2020.

- **Were rebates an effective tool to stabilize the economy?**
  - Did spending out of rebates support demand?
  - Did it provide relief to those hardest hit in this crisis?
  - Should Congress enact more relief?

Key findings from research on prior rebates

- Numerous studies from 2001 and 2008 rebates show **high fraction spent** out of rebates **rapidly**—supporting demand.

  Johnson, Parker, Souleles (2006); Shapiro, Slemrod (2003, 2009); Agarwal, Liu, Souleles (2007); Parker, Souleles, Johnson, McClelland (2013); Broda, Parker (2014).

- Families with **less money easily accessible (low liquidity)** increase spending more and more rapidly

  Parker, Souleles, Johnson, McClelland (2013); Misra, Surico (2014); Broda and Parker (2014).

- Rebates were **more effective than other policies** to broadly support families in Great Recession.

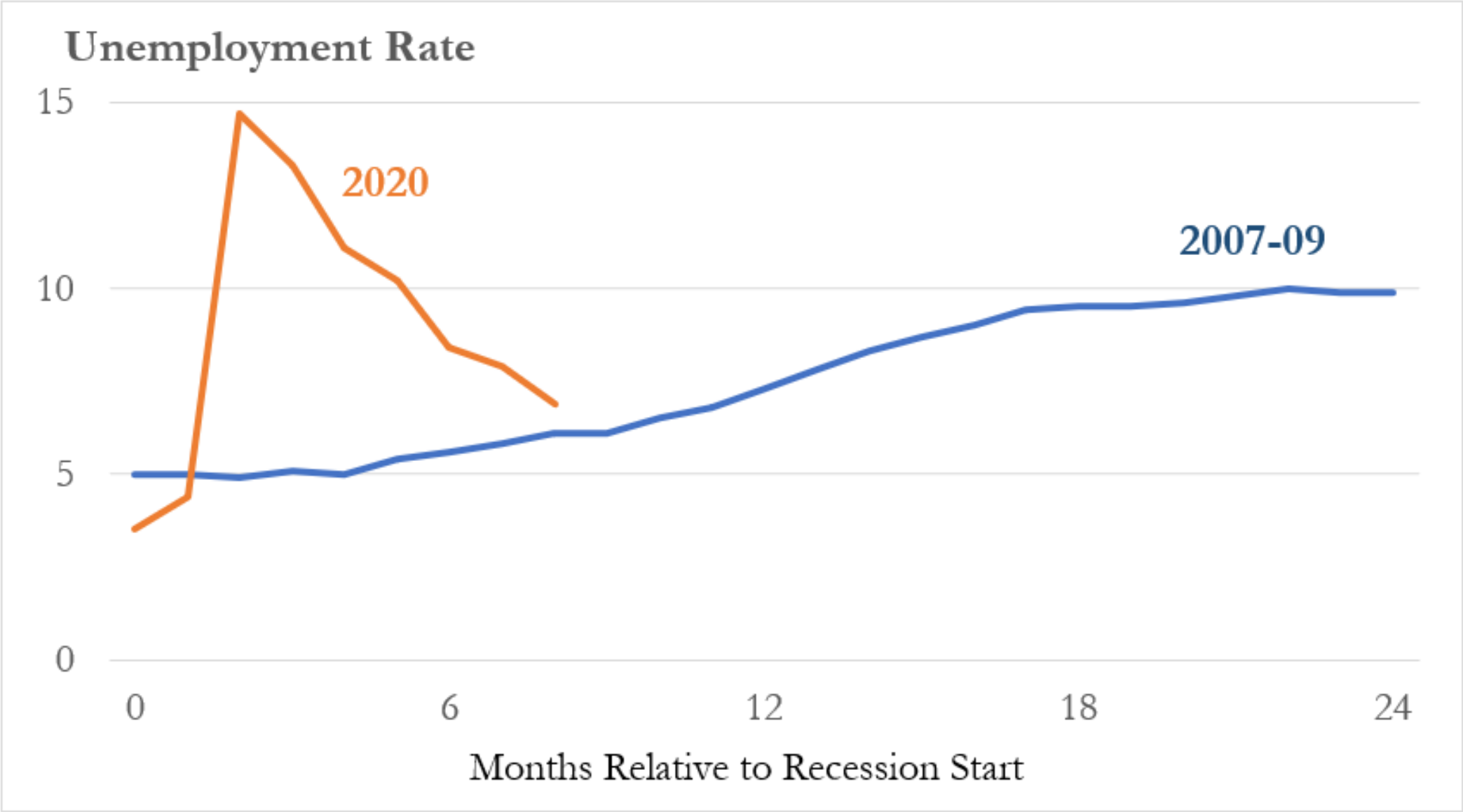
  Sahm, Shapiro, Slemrod (2011, 2016).

Our research design

- **Survey of households**, a nationally representative sample.
- **Design module** for Surveys of Consumers, University of Michigan in May and June; Google Survey weekly April to June.
- **Ask households directly** how they will use the rebate and how Covid-19 crisis has affected them.

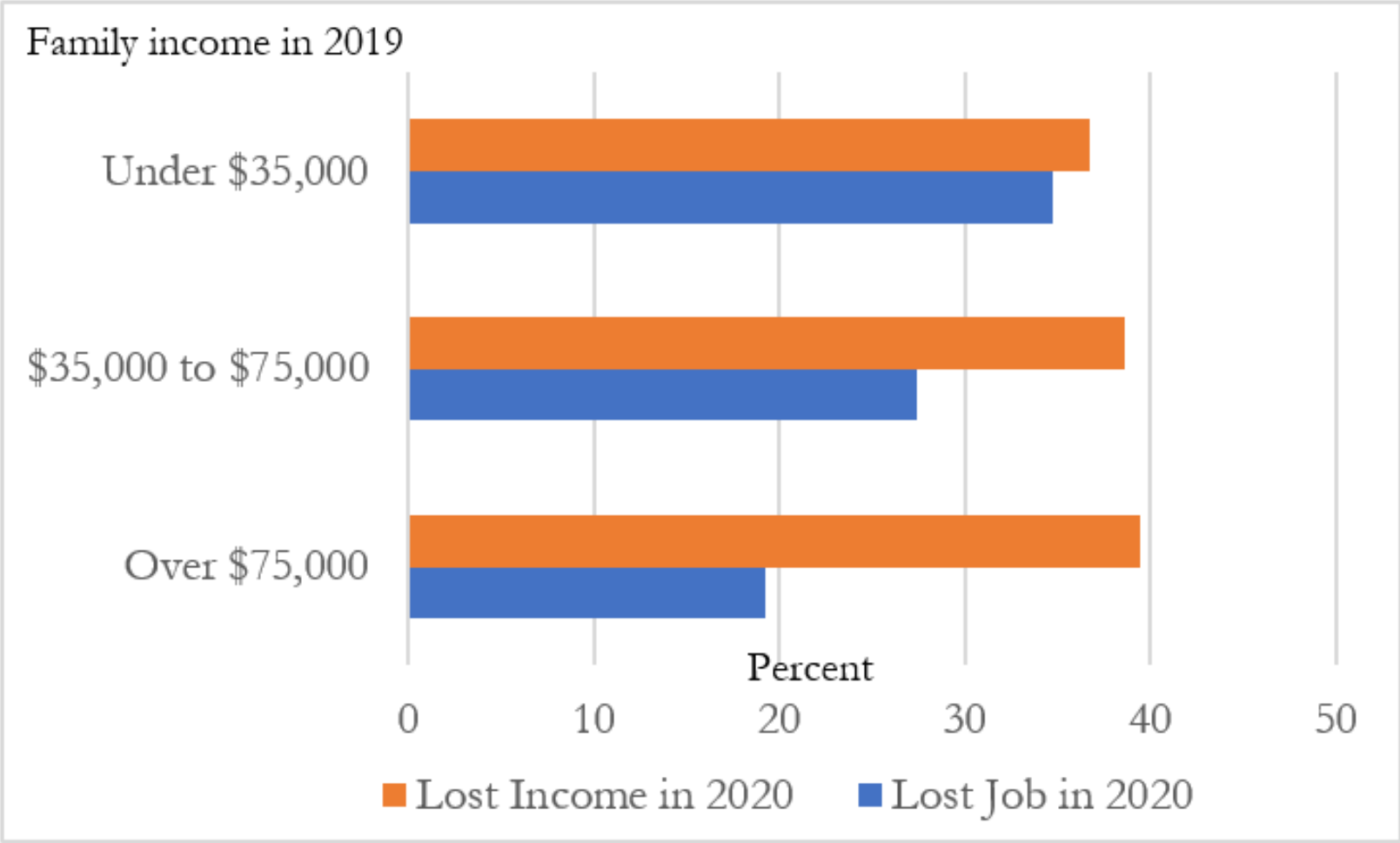
Covid-19 recession different from past recessions

Swings in unemployment larger and faster in 2020



Source: Bureau of Labor Statistics, December 2007 to October 2020.

Income and job loss widespread due to Covid crisis



Source: Michigan Survey. May and June 2020.

- 25% lost jobs; 40% lost income.
- Income losses at all levels of past income.
- Rapid shift makes targeting by income less effective.

2020 rebates are different from past recessions

2020 recovery rebates in Covid-19 crisis

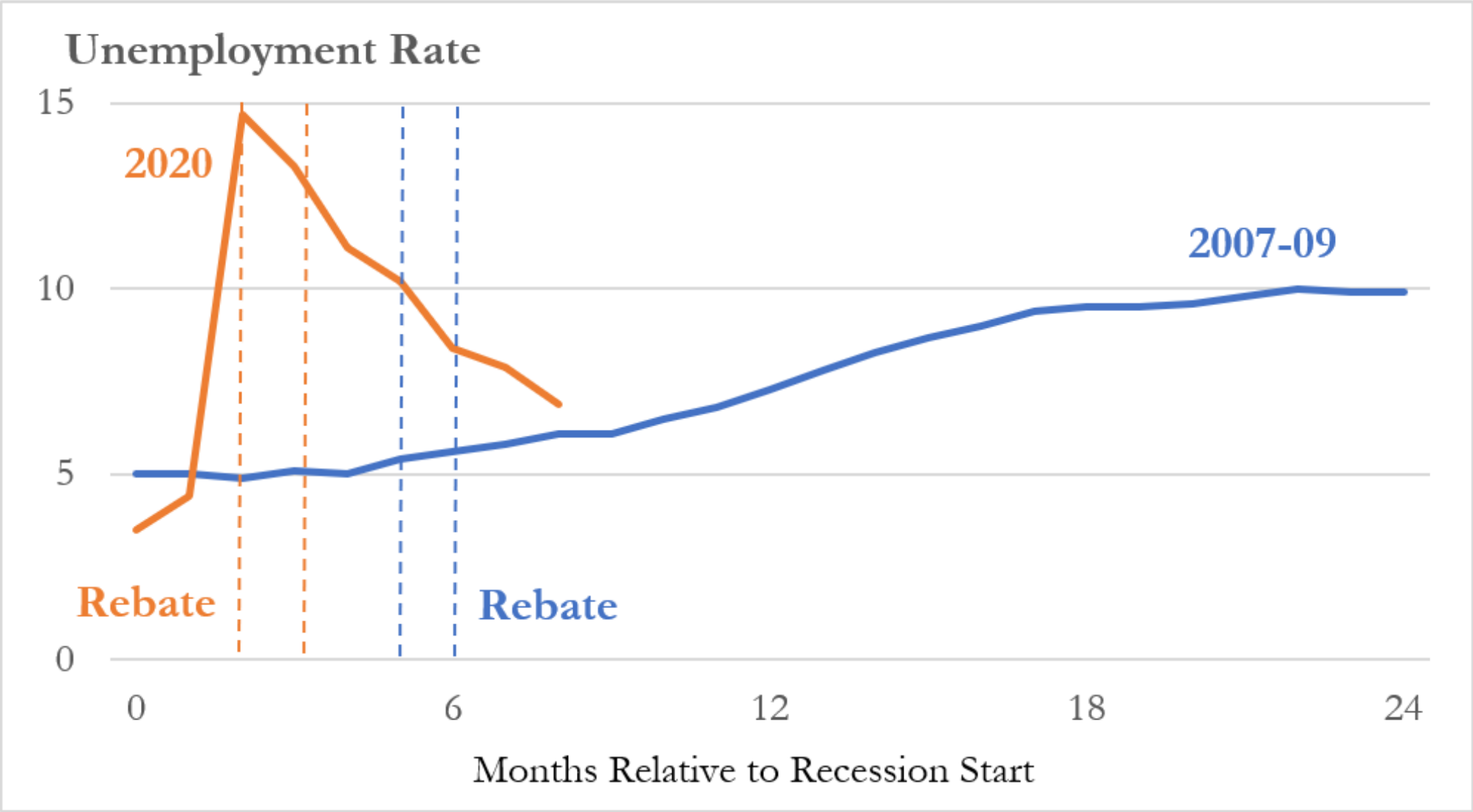
- **Congress enacted rebates** as part of $2.2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act on March 27th.

- One-time payment of **$1,200 per adult and $500 per dependent child**; anyone with Social Security Number but not high income.

- Total rebates of **$300 billion**—1.6% of GDP — distributed to families, starting mid April and nearly all paid out by end of May.

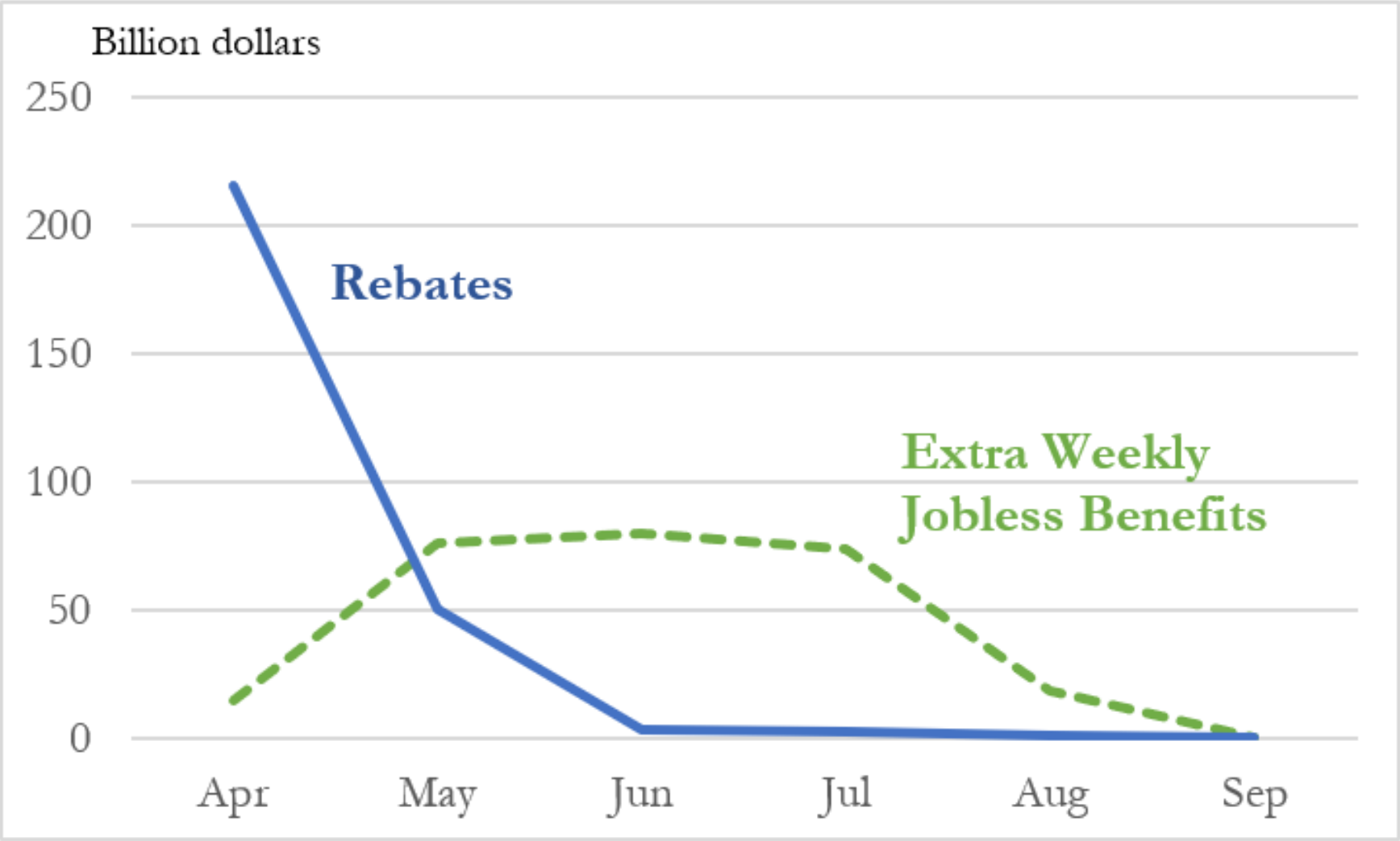
Larger, Faster, and Wider Eligibility in 2020 than 2008

Rebates arrived in 2020 during peak unemployment



Source: Bureau of Labor Statistics, December 2007 to October 2020. Bureau of Economic Analysis.

Rebates were first relief to get out to families



Source: Bureau of Economic Analysis.

- Rebates out faster than benefits.
- Rebates one time, broadly.
- Jobless benefits weekly, targeted.

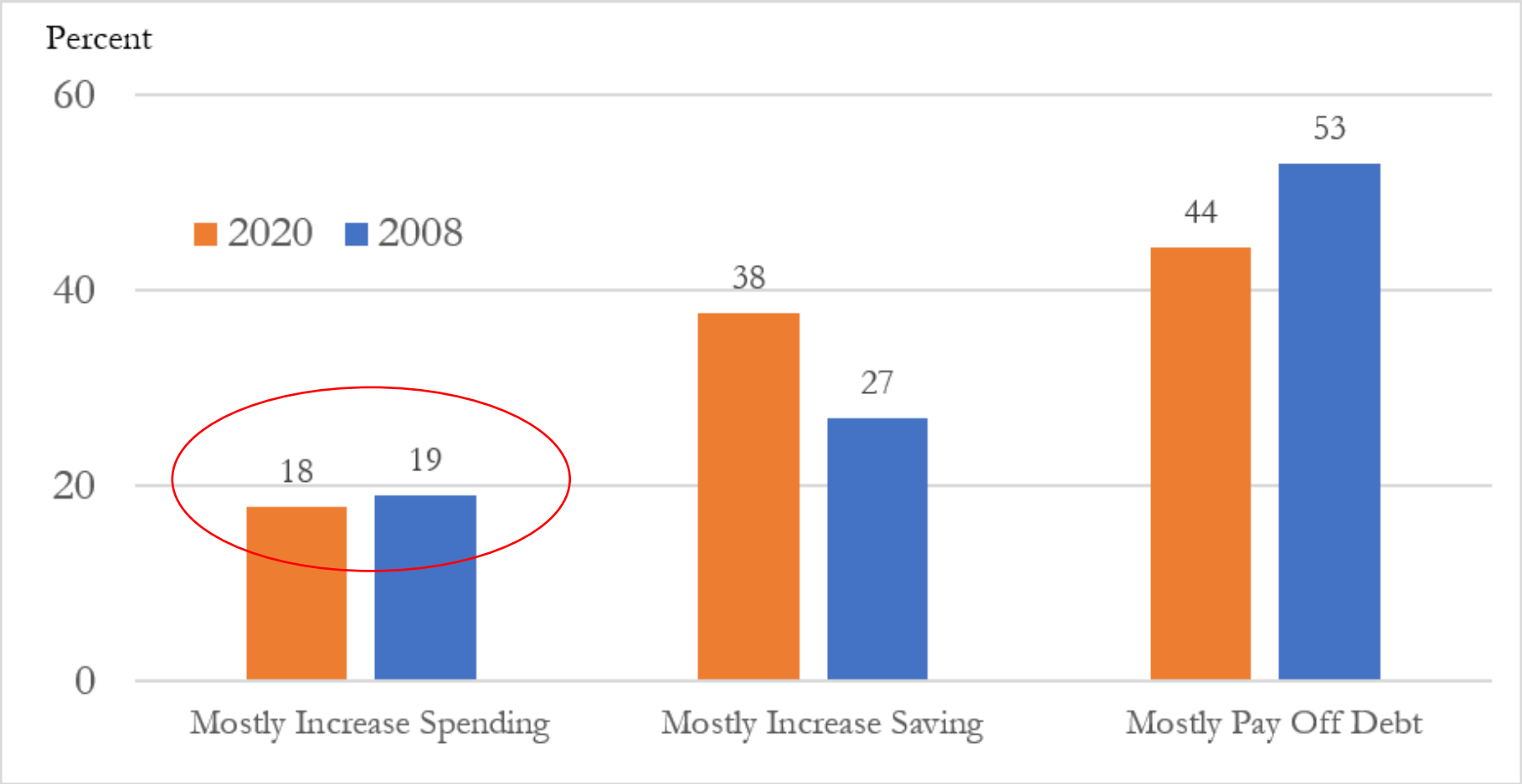
Use of rebates relative to past recessions

Main Survey Question

We want to understand **how the rebate will change decisions** you would have made without the additional money.

Thinking about your (family's) financial situation this year, will the rebate lead you mostly to **increase spending**, mostly to **increase saving**, or mostly to **pay off debt**?

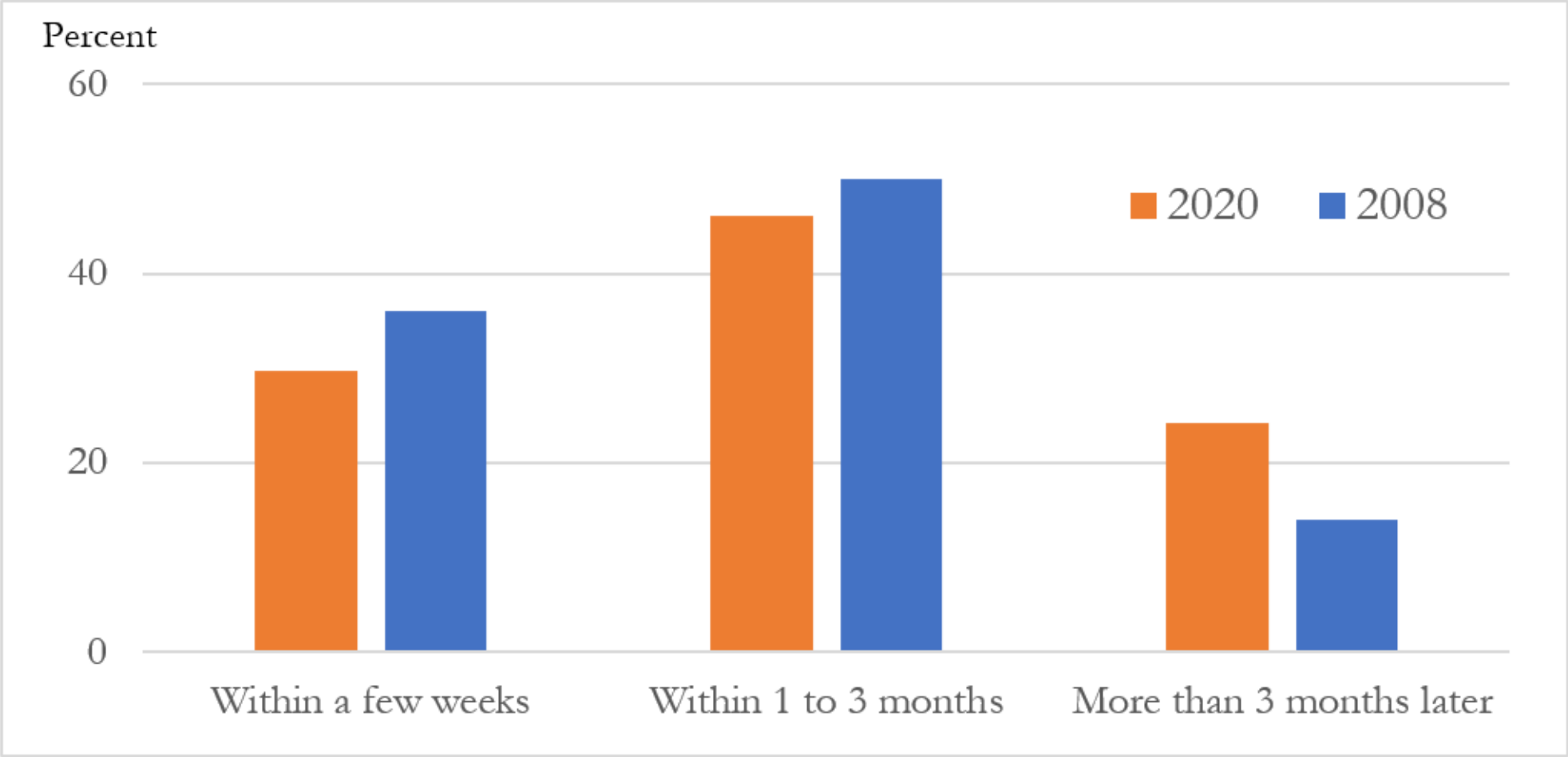
Percent "mostly spend" same in 2020 and 2008



Source: University of Michigan Survey of Consumers from May and June in 2020 and 2008. Note: Authors' weighted tabulation.

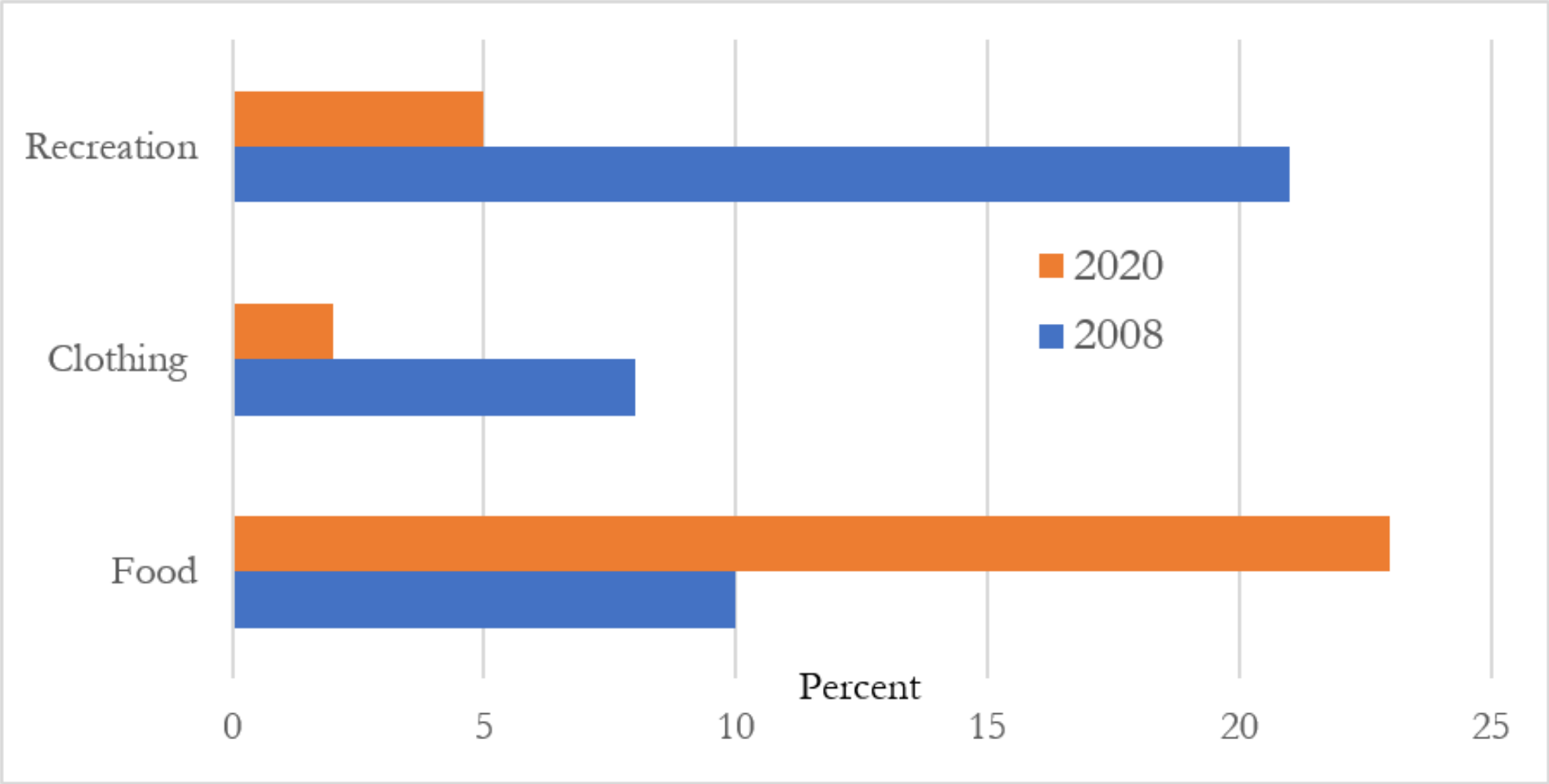
Implies marginal propensity consume = 0.4 to 0.6

Families who spent their rebates did so quickly



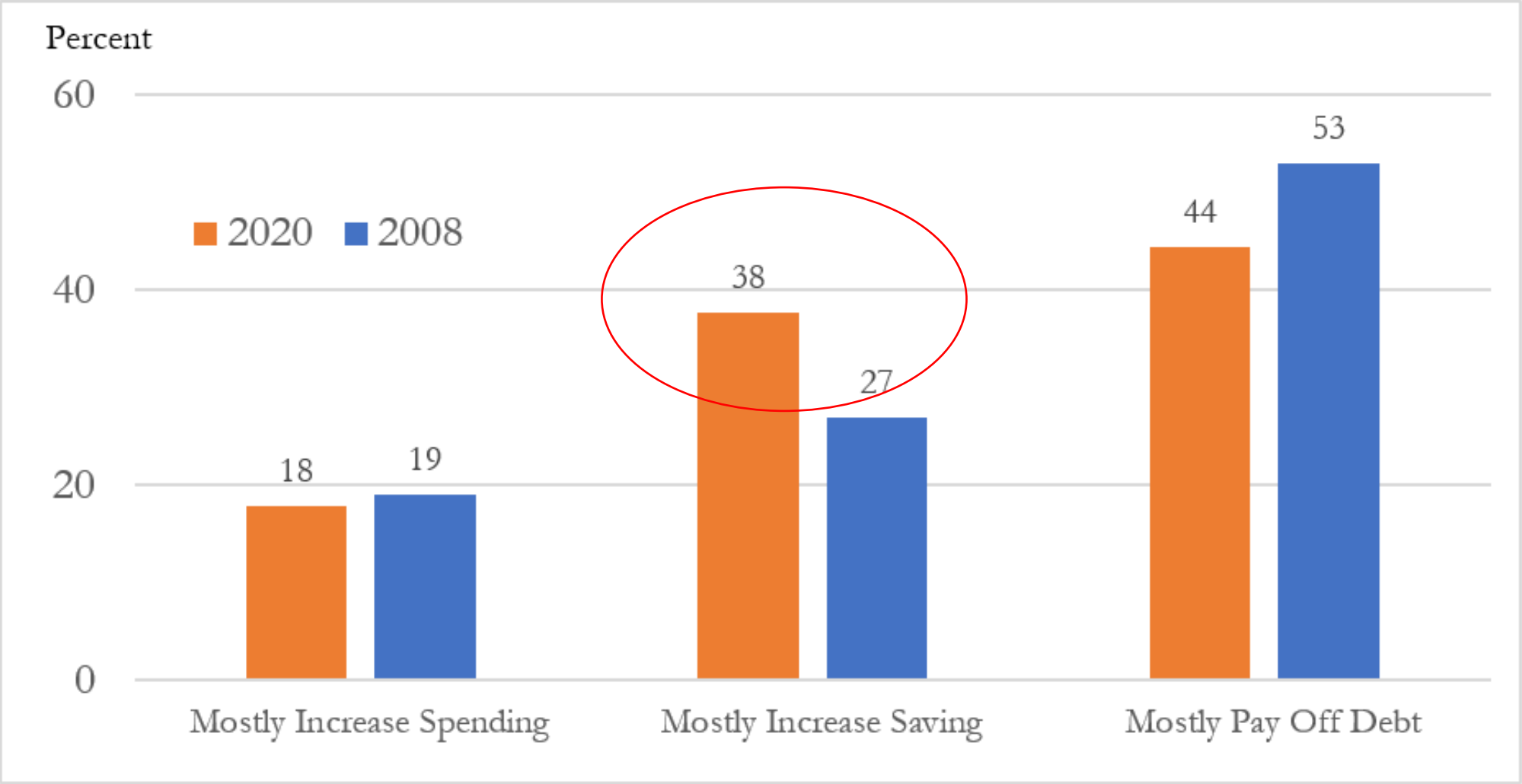
Supported demand in late spring and summer 2020

Types of spending differed in 2020 and 2008



Differences reflect pandemic and staying at home

Percent "mostly save" higher in 2020 and 2008



Source: University of Michigan Survey of Consumers from May and June in 2020 and 2008. Note: Authors' weighted tabulation.

Higher the income last year more increase in saving

	2020	2008
Spend		
Under $35,000	13	19
$35,000 to $75,000	19	19
$75,000 and over	18	19
Save		
Under $35,000	27	22
$35,000 to $75,000	35	28
$75,000 and over	44	31
Pay Off Debt		
Under $35,000	60	59
$35,000 to $75,000	46	53
$75,000 and over	38	50

- More demand for cash on hand.
- Less mortgage debt to pay down.
- Mortgage forbearance.

Use of rebates differs by setbacks this year

	Spend	Save	Pay Off Debt
Lost Income			
Yes	**14**	**30**	**56**
No	**20**	**43**	**37**
Lost Job			
Yes	14	**25**	**61**
No	19	**43**	**38**
Fallen Behind on Bills			
Yes	**7**	**13**	**79**
No	**19**	**41**	**44**

- Hit hardest spend less.
- .Those who can save more do.
- Paying off debt by hardest hit.

Implications for economic policy

- **Rebates and other relief programs were effective** in 2020. Supported demand early in recession and created financial buffers.

- Rebates out the door and most other relief expired. **More relief needed.** Better to **use automatic stabilizers** in future**.**

- Faster recovery, less permanent damage. **Should do more deficit spending** especially since monetary policy less effective now.

Thank You

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