



**AN IAS VIRTUAL CONFERENCE | 10 - 11 JULY 2020**

# THE ECONOMICS OF A PANDEMIC

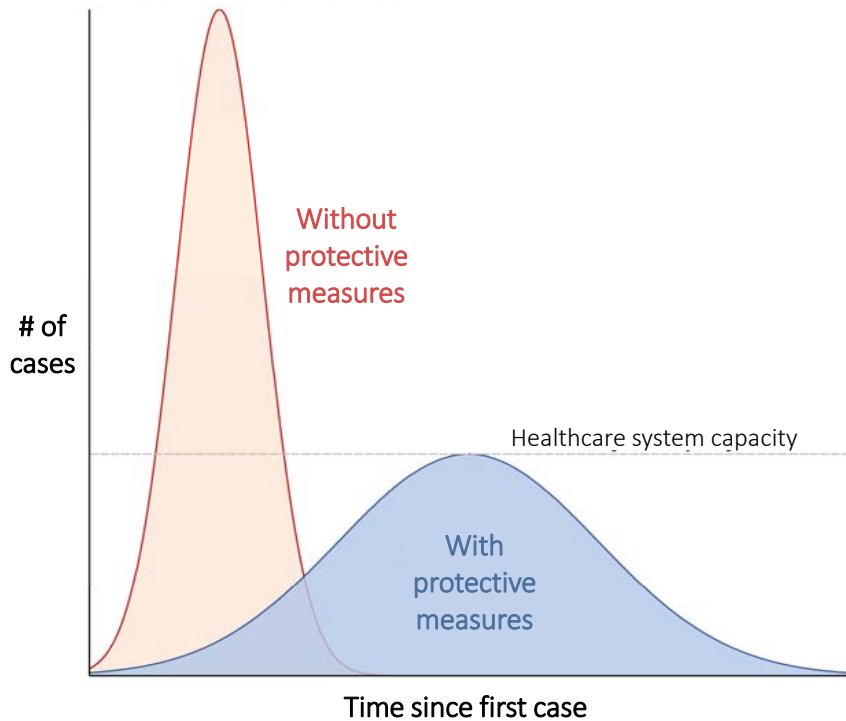
ANDREA GALEOTTI AND PAOLO SURICO

London Business School



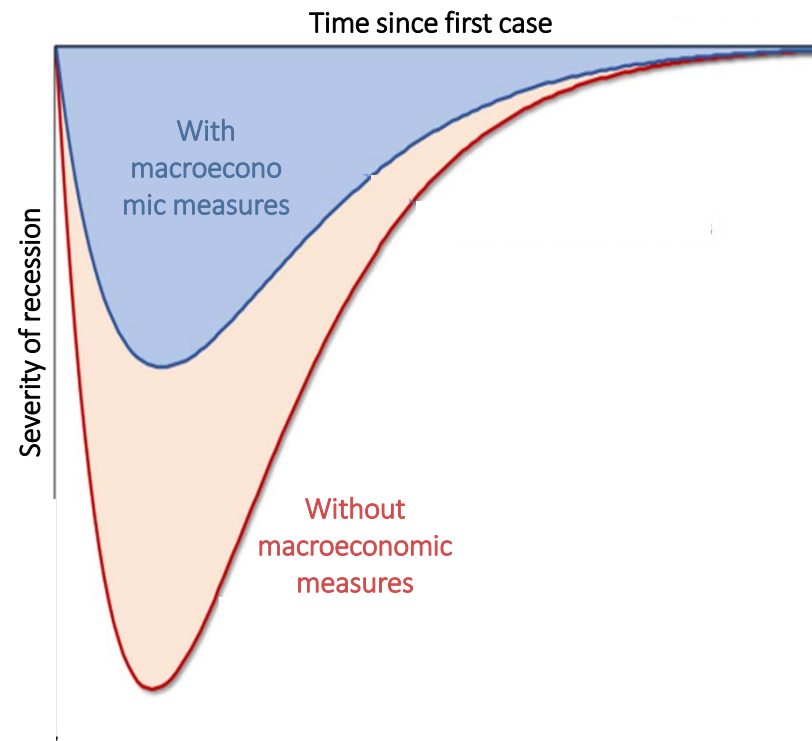
# A crisis within a crisis

## Flattening the contagion curve



Adapted from the CDC and The Economist. Visit flattenthecurve.com

## Flattening the recession curve

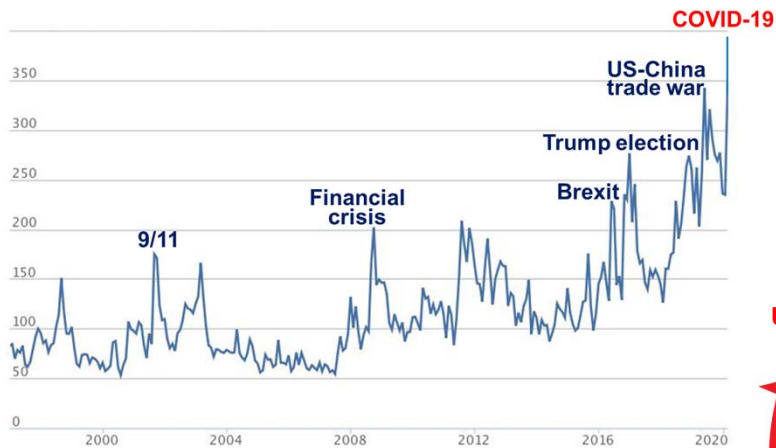


Source: Gourinchas, "Flattening the Pandemic and Recession Curves", 13 March 2020

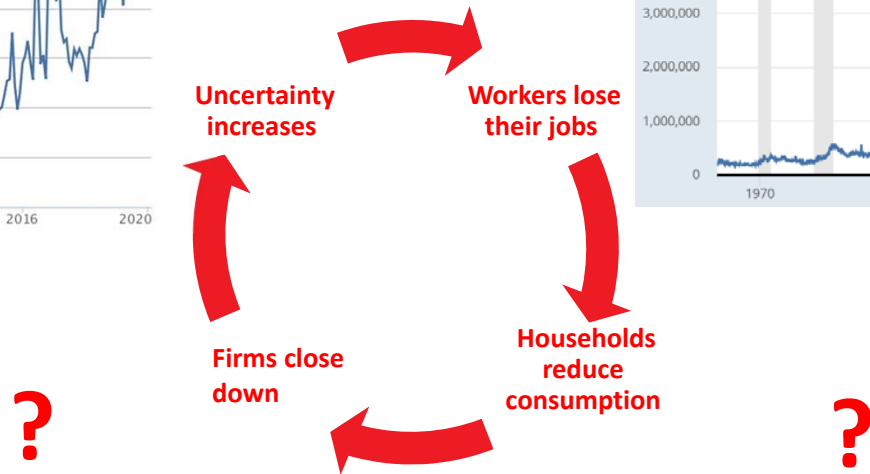
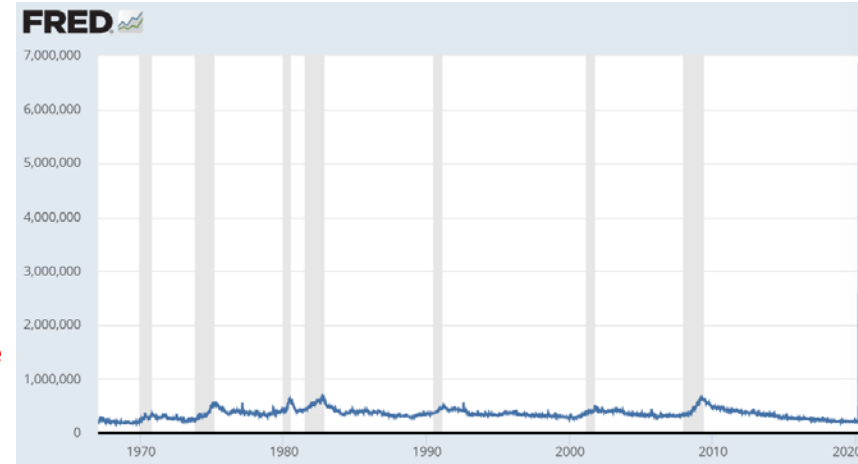


# The cash-flow spiral

Global uncertainty has never been so high!

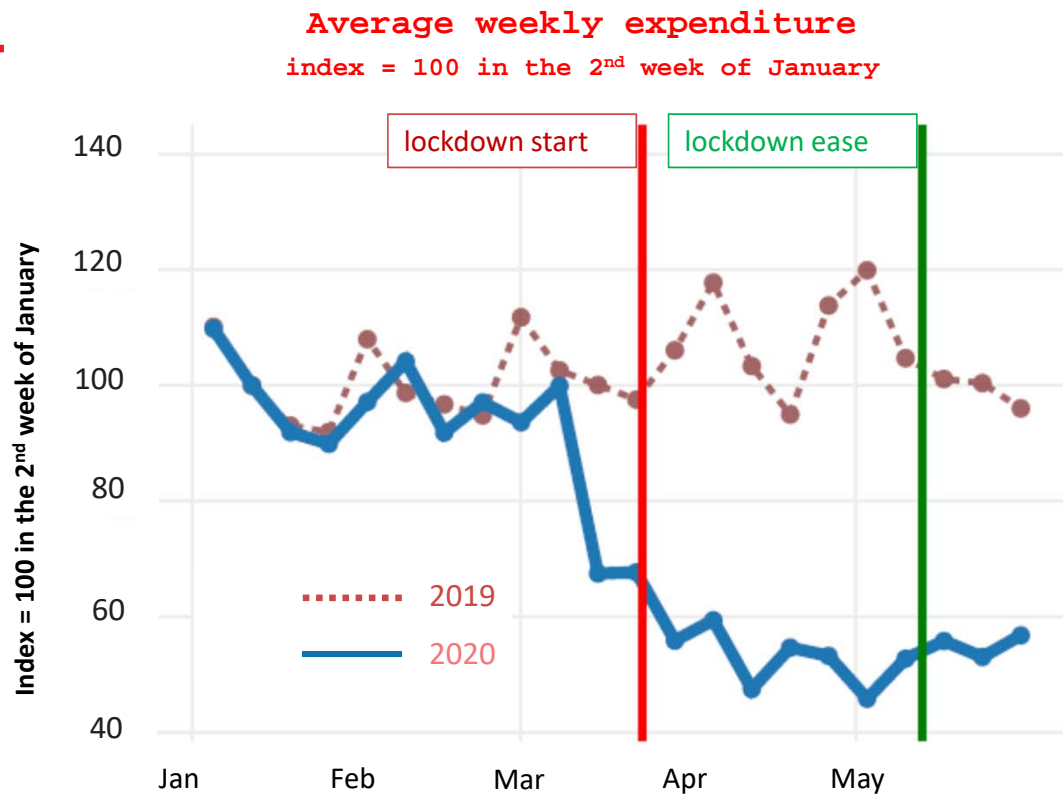


US unemployment claims rise to 45 million!



OUT OF THE BOX THINKING:  
we need new data to track the economy in real-time!!  
FINANCIAL TRANSACTIONS DATA

# Fears and uncertainty vs lockdown effects in household expenditure



**Decline in household spending started before lockdown and social distancing measures**

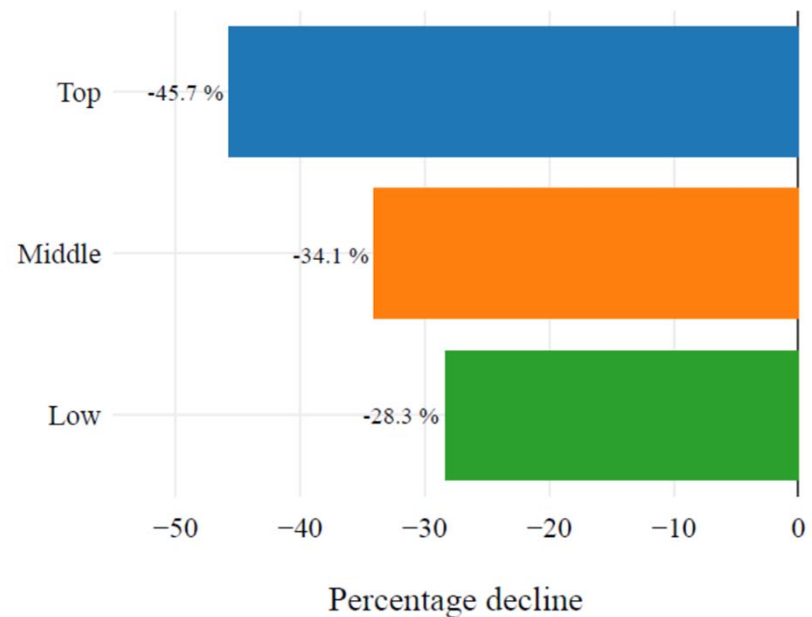
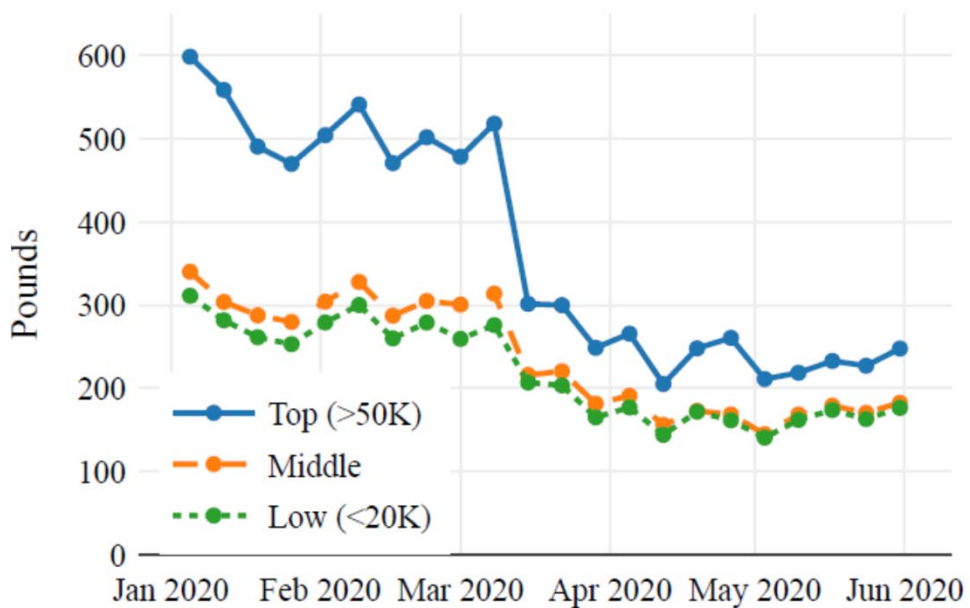
Source: Consumption in the time of Covid-19: Evidence from UK transaction data, Hacıoglu, Kaenzig and Surico (2020)



# Largest spending decline among top earners

Consumer spending across income groups

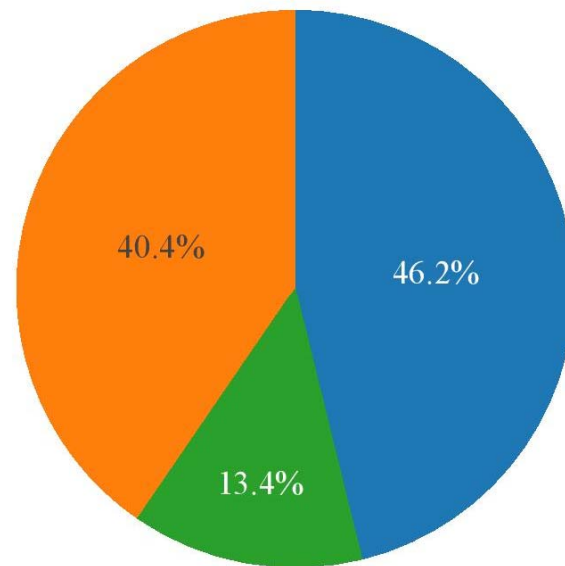
Quarterly decline (%) relative to March-to-May 2019



Source: Consumption in the time of Covid-19: Evidence from UK transaction data, Hacıoglu, Kaenzig and Surico (2020)

# Spending decline driven by the highest earners

Contribution (%) to spending decline by income groups  
March-to-May 2020 relative to same quarter 2019



Top 25% of earners (>£50K)

Middle 50%

Bottom 25% of earners (<£20K)

**Top 25% of the income distribution accounts for about 46% of the decline in aggregate consumption!**

Source: Consumption in the time of Covid-19: Evidence from UK transaction data, Hacıoglu, Kaenzig and Surico (2020)

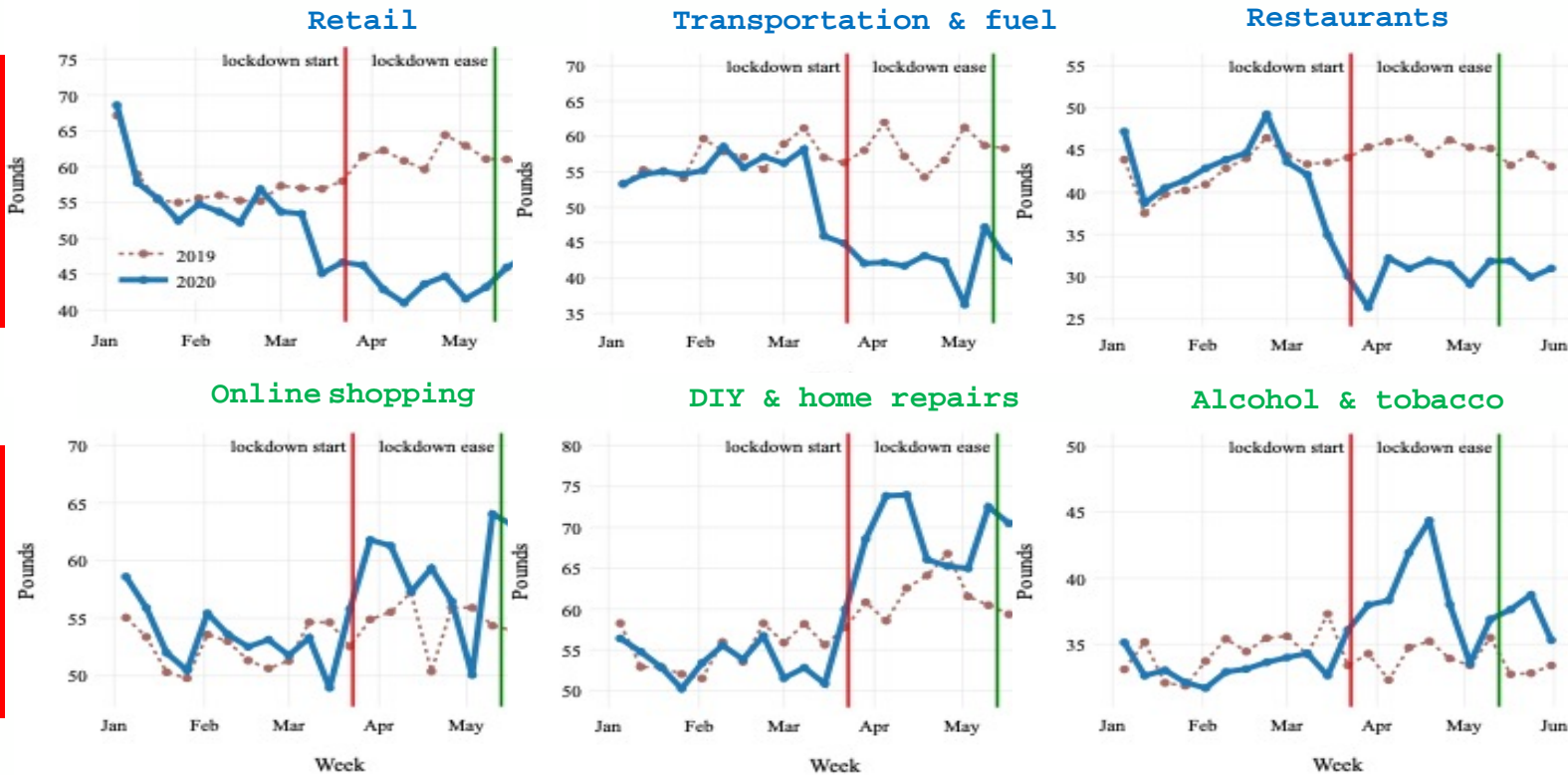


# Which sectors are loosing and which are gaining?

## Average Weekly Expenditures in the U.K.

Most negatively affected sectors

Highest growth sectors



Source: Consumption in the time of Covid-19: Evidence from UK transaction data, Hacıoglu, Kaenzig and Surico (2020)





# Summary

- Large aggregate consumption drop driven by the spending cuts of high earners; most of their basket is on non-essentials goods & services.
- High earners are increasing their savings.
- Basket of low earners mainly made of essentials and thus their smaller pound fall in spending has had a larger effect on their standard of living.
- Low earners are increasing their borrowing.
- BUT, low earners are employed in the sectors where high earners have dropped their spending most: restaurant, entertainment, hospitality, retail, etc.
- Economic policy needs to break this short-circuit to pave the way to recovery.

THANK  
YOU!

ANDREA GALEOTTI

PROFESSOR OF ECONOMICS  
LONDON BUSINESS SCHOOL

E: [agaleotti@london.edu](mailto:agaleotti@london.edu)

W: <https://andreagaleottiblog.wordpress.com/covid-19/>

PAOLO SURICO

PROFESSOR OF ECONOMICS  
LONDON BUSINESS SCHOOL

E: [psurico@london.edu](mailto:psurico@london.edu)

W: <https://sites.google.com/site/paolosurico/covid-19>

