AN IAS VIRTUAL CONFERENCE | 10 - 11 JULY 2020
THE ECONOMICS OF A PANDEMIC

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A crisis within a crisis

**Flattening the contagion curve**

Without protective measures

With protective measures

Healthcare system capacity

**Flattening the recession curve**

Time since first case

Severity of recession

With macroeconomic measures

Without macroeconomic measures

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

Adapted from the CDC and The Economist. Visit flattenthefurve.com
The cash-flow spiral

Global uncertainty has never been so high!

US unemployment claims rise to 45 million!

COVID-19
US-China trade war
Trump election
Brexit
Financial crisis
9/11

Uncertainty increases
Workers lose their jobs
Households reduce consumption
Firms close down

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 the UK

Average weekly expenditure
index = 100 in the 2nd week of January

Decline in household spending started before lockdown and social distancing measures

Source: Consumption in the time of Covid-19: Evidence from UK transaction data, Hacioglu, 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, Hacioglu, 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): 46.2%
- Middle 50%
- Bottom 25% of earners (<£20K): 13.4%

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, Hacioglu, Kaenzig and Surico (2020)
Which sectors are loosing and which are gaining?

**Average Weekly Expenditures in the U.K.**

**Most negatively affected sectors**

- Retail
- Transportation & fuel
- Restaurants

**Highest growth sectors**

- Online shopping
- DIY & home repairs
- Alcohol & tobacco

Source: Consumption in the time of Covid-19: Evidence from UK transaction data, Hacioglu, 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!

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