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THE CORONACONOMY

THE NEW NORMAL?

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Agenda

- Overview
- Methodology for regional forecasting and policy analysis
- Widening Inequalities
COVID Changes Everything

- Fiscal and Monetary: CARES Act and Federal Reserve
- Political: Authority of the state; demonstrations; national election
- Uncertainty: short, medium and long-term policies need to take place under potential scenarios
- The longer the economy remains “socially distanced,” the more likely that “short-term” changes become permanent
- Dramatic disruptions in real estate, transportation, energy, tourism and services
1. Use an expertly-made national forecast of the economy, accounting for monetary/fiscal policies and international trade (RSQE, IHS, GS, Moody’s, CBO)
2. Create a regional (i.e. state-level) “top-down” simulation driven by the US forecast
3. Experts in a particular regional economy can tweak the naïve forecast with a “bottom-up” approach, accounting for previously unknown factors
Model Outline

National Forecast:
- GDP
- Personal Income
- Employment

Employment and Population Update

Regional Alternative Forecast

Policy Variables

Effects of Policy Variables

Regional Baseline Model

National Baseline Model

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Short-Term Employment

Source: REMI IQ+ with national forecast

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Widening Gaps

- The virus has exacerbated racial inequalities in the US
- People of color (POC) are less likely to hold jobs that can operate remotely
  - Impact 1: POC are more likely to be laid off from the pandemic
  - Impact 2: POC are also more likely to hold high-risk in-person jobs deemed “essential”
- Women are overrepresented in “social interaction” sectors that make up much of the job losses
- Women are also more likely to assume responsibility for childcare as schools close/go remote
- Wealth inequality: asset prices remain stable/rising with a simultaneous downward pressure on wages
Modeling Methodology

- **A. Economic Shift (demand side)**
  1. Industry employment forecast or scenario
  2. Translate into effect on occupations using NAIC/SOC
  3. Translate into effects by race/sex using occupational composition data (IPUMS)

- **B. Demographic shift (supply side)**
  - Labor force participation rates: 1.7% below February but -2.1% for women 25-54, -5% for black women, -4% for Hispanic women, and -2% for white women
  - Labor force productivity: lower investment in education, more use of capital
  - GDP = Total employed labor force x (Output/Worker)
  - Hysteresis effect: decline in labor force is difficult to reverse
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Employment, Labor Force, and GDP: 1% drop LFPR
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Reducing the Labor Force

Source: REMI PI+ assuming a diminishing decrease in labor force participation rates from -1% to -0.25% from 2021 to 2025