Response to the Covid-19 pandemic: UK and US experiences

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Pre pandemic: similar initial conditions

• Record low unemployment rates
  – Labour markets appeared tight by historical standards

• But price inflation pressures subdued

• Debates about:
  – the slope of the (price) Phillips curve;
  – size of the output gap;
  – level of full employment
Covid-19: similar economic shocks

Deaths per million people, cumulative

Sources: John Hopkins University CSSE Covid-19 Data, Bank calculations.
Different outcomes: larger GDP fall in the UK

United States

Sources: BEA, Federal Reserve and Bank calculations.

United Kingdom

Sources: ONS, Bank of England and Bank calculations.

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Different outcomes: much larger fall in US employment

United States

United Kingdom


Sources: ONS LFS. Latest observation: Jan 2021.
Outcomes related to differences in policy approach

• A sports analogy…

• UK/Europe: individual defence
  – Short-term work schemes, government pays wage bills
  – Protects existing job matches of individual workers

• US: zone defence
  – Shock propagated more completely to the labour market
  – Enhanced unemployment benefits & stimulus cheques boost aggregate household income (and spending)
Labour market: US unemployment an outlier

Sources: OECD and Bank calculations. Notes: Harmonised unemployment rate.
Labour market: UK job retention scheme

• March 2020: temporary UK govt. job retention (furlough) scheme
  – Government pays 80% of wages (up to certain limits)
  – Intended to protect labour-market matches

• Scheme extensions as pandemic persisted
  – Most recently to end Q3 2021

• Similar schemes in many other European countries
Savings: different reasons for increase

United States

- Household saving
- Household disposable income
- Household personal outlays

Sources: BEA. Latest observation: Jan 2021.

United Kingdom

- Household saving
- Household disposable income
- Household consumption expenditure

Sources: ONS and Bank calculations. Latest observation: 2020 Q3.
Savings: less pent-up demand in services recession

Normalised IRF to US monetary policy shock (Beraja & Wolf, 2021)

Source: Beraja and Wolf (2021)
Savings: skewed distribution in the UK

Savings by household income

Spending intentions

Sources: BoE/NMG household survey and Bank calculations.

Sources: BoE/Ipsos Mori household survey and Bank calculations.
Open questions for researchers

• Extreme shock highlights the major role of counter-cyclical policy influencing business cycles.
  – How can we better account for this in our models?
  – And in analyzing past cycles’ data?

• What have we learned about counter-cyclical policy design? How do the effects depend on:
  – Time horizon of the shock?
  – Structure of the economy?