Making Sense: Understanding the Financial Impact of COVID-19

A Guide to How COVID-19 is Affecting People and the Economy and What It All Means

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Making Sense of It All

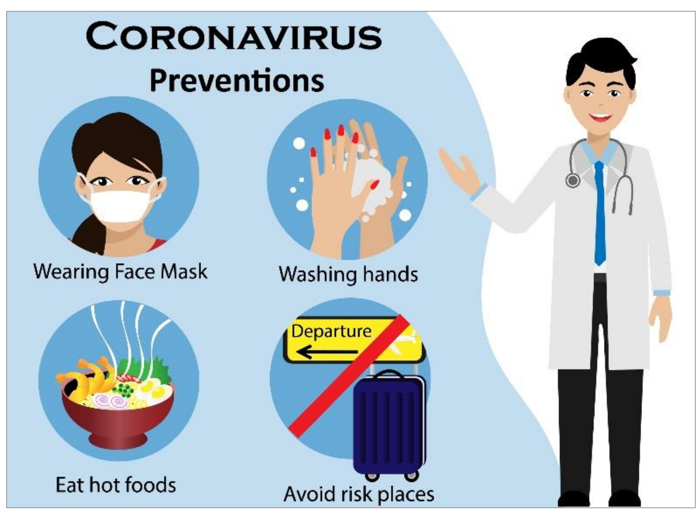
A lot has changed in a very short amount of time. At the beginning of 2020, the U.S. stock market was at an all-time high, the economy was experiencing an historic milestone of growth and things seemed to be going well for many people. Then, the coronavirus (COVID-19) appeared in the United States and in a very short amount of time everything changed.

While things may seem uncertain, and maybe a bit scary, know that what we are experiencing with COVID-19 won't last forever. We at Junior Achievement (JA) have some explanations about what's happening, as well as answers to some of your questions when it comes to the financial impact of COVID-19.

What Makes COVID-19 Different from the Flu or a Cold?

COVID-19 is referred to as a "novel", or new, coronavirus. This means it is new to humans, though it has probably been around in animals, such as bats, for a long time. It is believed that COVID-19 was first transmitted to humans from animals in Wuhan, China in late 2019. Because human immune systems – the human body's way of fighting disease – haven't had much experience with COVID-19, people who get it tend to be sicker for longer, though most people will recover from the disease.

To help put COVID-19 into perspective, think of leveling up in a game. If it's a level you've never experienced before, it may be harder and take you longer to beat it. But with enough time, you will win. For most people's immune systems, COVID-19 is like a new level of a game. Eventually human immune systems will get used to battling COVID-19 and will win more easily, most likely through a combination of vaccines and an increase in natural resistance. But this won't happen right away.

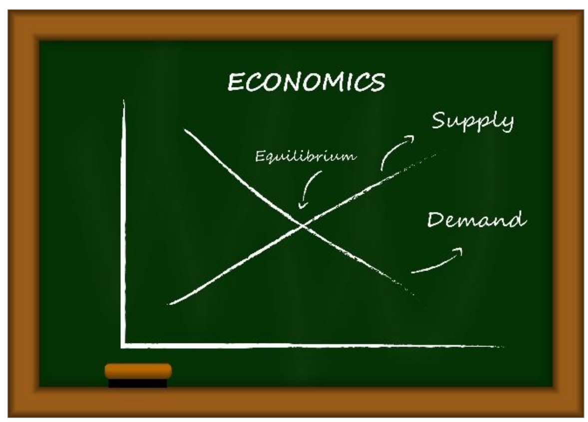


In the meantime, people are being asked to practice "social distancing," which means avoiding being around large groups of people; and to use good hygiene, such as frequent hand washing, to slow the spread of the disease. While these measures are essential for public health, they, as well as concerns about COVID-19, have had an effect on the economy and people's finances. With this in mind, here are some answers to questions related to the financial and economic impact of COVID-19.

Why Are There Empty Shelves at the Grocery Store?

One of the first things you might have noticed is empty shelves at your local grocery store. There's been a lot in the news and on social media about a toilet paper shortage as a result of COVID-19. However, there have also been shortages of what are referred to as "shelf-stable" foods, like pasta, rice and beans. This is because short-term demand for these products has outpaced supply, but it doesn't mean we are running out of these products.

Normally when there is more demand for a product than supply, one of two things happens. First, the price of the product will typically go up, which will cause demand for the product to go down until supply and demand become equal. In economics, this is referred to as "equilibrium." The second thing that can happen is that when conditions are such that prices either don't increase at all or don't increase fast enough to dampen demand, you end up with a shortage in the supply of the product. In these instances, essential products, like food or water or even toilet paper, are sometimes rationed to ensure everyone who actually needs a product can get it.



What's causing some of the shortages of products now is what is called "panic buying." People may have plenty of toilet paper at home, but they are buying more than usual out of concern it won't be available in the future. This is also happening with other products, such as shelf-stable and frozen foods, both of which can be stored for a long time. This is an artificial and short-term increase in demand. Grocery stores are working with product suppliers to ensure people get what they need and, in time, panic buying should decrease, resulting in store shelves being stocked again.

Why are Some People Losing their Jobs?

While social distancing is an important tool in fighting COVID-19, one of the downsides is that businesses that are considered "non-essential" are being temporarily closed. Since these businesses are closed, they can't serve customers, which means the owners of these businesses aren't receiving money to pay employees. As a result, many of these employees are losing their jobs. This is not an easy decision for business owners or employers. Having to make such choices doesn't make them bad people. It is out of economic necessity and if not for COVID-19 people would keep their jobs.

Examples of non-essential businesses include those that aren't considered providers of critical products or services. It's not that these businesses aren't important, but in the current situation the risk of disease spread through customer interactions outweighs the need for them to stay open. Non-essential businesses may include furniture stores, hair salons, movie theaters, gaming stores, and clothing stores. Essential businesses, which may remain open, include grocery stores, hardware stores, pharmacies, banks, medical services, and skilled professions (such as plumbers, electricians and heating contractors). These businesses not only continue to employ people but, in some instances like grocery stores and medical services, are actively hiring more people.

To help those who are losing their jobs, the government is providing an additional cash payment to many people, as well as extending unemployment benefits and delaying the requirement for these people to make government-related payments, such as on student loans and Federal income tax. Many people are also able to delay paying rent, mortgage payments and other monthly expenses for a few months to help manage through the current situation.

Why Are Gas Prices Falling?

Though gas prices were trending lower in late 2019, they have fallen substantially in 2020 due to COVID-19. Some predict gas prices will reach historic lows. This is also the result of supply and demand, which was discussed earlier. Since most people are practicing social distancing, this means people who would normally drive to work are either not working or are working from home. Because there are fewer people driving, there is less need to purchase gas. Since there is a greater supply of gas than there is demand, gas prices are going down in the hopes of increasing demand and, again, achieving equilibrium with the supply of gas. However, with demand being artificially depressed by social distancing and people staying home, it's possible that even with gas prices becoming historically low, demand for gas still won't rise significantly.

What Is Happening with the Stock Market?

You may have heard in the news or through social media that the U.S. stock market has "crashed." The market has declined significantly as a result of COVID-19's impact on the economy. However, the decline during the famous 1929 stock market crash was much worse than what we are experiencing today, and so far the current stock market decline has not been as bad as the crash that occurred during the 2008/2009 financial crisis, which signaled the coming of the Great Recession.

When the stock market declines, investors are trying to assess the value of companies given changing economic conditions. For instance, airlines have seen a dramatic drop in passengers since the rise of COVID-19 cases, so investors may be more inclined to sell airline stocks than to buy them. Additionally, investors may be less likely to buy stocks in petroleum companies, which produce gasoline, or restaurant chains, which have had to close their dining rooms due to social distancing. At the same time, investors may be buying more stocks in health care or pharmaceutical companies or in major grocery chains.

The decline in the stock market reflects investors' perspective on what companies are worth given the changing landscape of consumer and business demand. The stock market will, however, eventually go up again, as it has done after every major decline in history.

Are We Going to Experience a Recession…or Even a Depression?

Most economic experts tend to agree that if we aren't already in a recession, we will be.

So what's a recession? The technical definition of a recession is two consecutive quarters of negative growth in the Gross Domestic Product. In other words, if the overall economy contracts, or shrinks, for six months in a row or more, we are in a recession.

A recession usually means a decrease in demand for things, which results in higher unemployment, more difficulty in selling homes, and an increase in borrowing or debt to help make ends meet. It often results in more businesses closing their doors permanently and fewer jobs being available. It also typically means lower prices for goods or services.

"Recession" can be a scary word, especially when people think back to the Great Recession of 2008/2009. But the fact is the U.S. economy has regularly experienced recessions throughout its history and most have not been as bad as the Great Recession. It's too early to tell what kind of recession we will experience this time, but it's possible it could be like the less severe recessions the U.S. has had in the past.

There has also been some talk of the U.S. experiencing a depression, like the Great Depression of the 1930s. The Great Depression was the result of a lot of things, including poor government oversight of the markets and financial institutions, unnecessarily punitive tariffs, the lack of social safety nets – like unemployment insurance and Social Security – as well as a myriad of other factors that led to bank failures, massive unemployment and the near collapse of the U.S. economy. Given the reforms that have happened since the 1930s, and a more proactive economic response from government, there are a lot of things that have been put in place since the 1930s to help prevent another depression from happening.

What Is the Government Doing to Help?

The U.S. government has been very responsive when it comes to addressing the financial and economic fallout of COVID-19. The Congress has passed legislation that is pumping $2 trillion into the economy. This funding will include sending a one-time payment to many Americans, extending unemployment benefits, providing low-interest loans to small businesses and offering government-backed loans to a variety of businesses to maintain operations through the current economic downturn. Many businesses are also turning their attention to producing masks, gloves and medical devices to help the health care system deal more effectively with COVID-19, which will also create more jobs.

In addition, the Federal Reserve, which acts like a bank to banks, has reduced interest rates on the money it lends to banks. This means it will be less expensive for Americans to borrow money to support their businesses or make purchases, which will also help the economy.

What Happens Next?

While times are challenging now, things will eventually get better. Though we don't know for sure when that will be, other countries around the world that had COVID-19 before the U.S. did are beginning to recover. With more people social distancing and taking proper precautions, the goal is for the United States to be in the same position in the not-too-distant future. Until then, we're all in this together.