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CA Unemployment Insurance Claims During the Pandemic

The COVID-19 crisis has led to historically unprecedented increases in the level of initial Unemployment Insurance (UI) claims filed in California since the start of the crisis in mid-March.

Till von Wachter and UCLA's California Policy Lab have partnered with the Labor Market Information Division of the California Employment Development Department to analyze daily UI claims to provide an in-depth and near real-time look at how the COVID-19 crisis is impacting various industries, regions, counties, and types of workers throughout California.

2020 PhD Grads Accept Positions at Yale, Federal Reserve and Uber among others

The 2020 UCLA Ph.D. Economics job market outcomes were released April 30. Half the class will stay in academia, including positions at Yale, Southern Methodist, and Reed in the US, and Nottingham, Tsinghua and Shanghai University of Finance and Economics outside the US.

Others will work for governmental institutions, like the Federal Reserve and World Bank. And several students will move into private sector roles at tech firms (Uber, Amazon), economic consultancy (Analysis Group) and finance (Citadel).

A Historic Day for Big Oil

Contributed by Aditi Rudra, UCLA Undergraduate Economics Student

As the demand for non-essential services comes to a near halt due to the current COVID-19 pandemic, one industry that is acutely suffering is the oil industry. Due to strict lockdowns imposed by governments around the world, demand for oil has plummeted, and for the first time ever, this industry is experiencing negative oil prices. For a commodity that has for the most part has witnessed a trend increase in price since the industrial revolution, and one we deem crucial to our daily lives, this comes as a large shock with profound implications worldwide.

To begin, let's consider two of the largest crude oil indexes. Both West Texas Intermediate, the US index for oil, and Brent, the international index, are trading at prices 60-80% lower than at the start of the year. West Texas Intermediate traded a barrel of oil for as low as $-40.32 at the start of the last week of April. This was considered one of the largest drops in prices ever seen. These negative prices suggest that some suppliers were in fact willing to pay households and firms to buy the oil from them. Furthermore, Brent recorded oil prices to be lower than $16 a barrel, a fall from $63 a barrel in early January, indicating the lowest prices since 1999.

In order to deal with the falling demand, the OPEC cartel has agreed to cut down production by nearly 10 million barrels per day for the months of May and June, thus reducing the global oil supply. However, many argue that this cut will not be nearly enough to counter the drastic fall in the consumption of oil. In fact, an analyst from Ursa Space Systems heavily involved in finding storage spaces for excess oil claimed that even though supply has been cut by "historic amounts" these are still "a fraction of the decline in demand."

The next question that arises is that if these cuts are not enough to match the fall in demand, then why not simply cut supply further? The answer to this question lies in the nature of the oil rigs. According to Tedore Cowie, an analyst with Rystad Energy, "Shutting-in production is a very painful decision for an operator to make." This is because once an oil well is closed, it is a very difficult process to re-open; therefore, closing an oil well for a short period of time effectively means closing it forever. Cowie argues that because of this property of oil rigs, "often the economics support running an oil well at a loss for a certain period of time rather than shutting down the project completely". As long as prices are positive, oil suppliers are making some money that they can use to cover their fixed costs. However, the current negative prices may be an indication that these oil wells do need to be closed to deal with the extraordinary shortage in demand.

Since oil suppliers cannot just shut off production without future consequences, and they are unable to sell it right now, their only option is to store the excess oil. Right now, there are around 3.2 billion barrels of oil in storage spaces around the world, highlighting another record as a result of the coronavirus pandemic . According to a source in Orbital Insight, the most common form of land-based storage is Floating Roof Tanks commonly known as FRT. The current world FRT storage capacity is still at 55.6% which can amount to around 2 billion more barrels of oil. While this may seem like a large number, the uncertainty of the current situation could cause this number to rapidly decrease in the near future, if demand continues to fall.

Apart from FRT storage facilities, other alternatives do exist. These include fixed roof tanks, salt caverns and even floating storage tankers at sea. While the latter option is more expensive, it is estimated that almost 160 million barrels may need to be stored in sea-based tankers. This suggests that suppliers are willing to look to more expensive forms of storage in order to prevent them from closing their oil wells or oil rigs.

Despite the issues outlined above, some companies and countries are managing to maintain their profits through a strategy called 'hedging'. Mexico has used this strategy to maintain its ability to sell crude oil at high prices despite the global indexes dropping . In the oil industry, hedging is used to peg oil prices for a certain quantity of oil during a specific time period. If the index oil price falls below the pegged price, then the bank or other party would need to make up the difference. While this may seem like a great solution in these times of uncertainty, there is an evident risk as well. If oil prices increase, this would cause the suppliers to lose out.

However, in the current situation, hedging has worked in the favor of suppliers that have used it. According to Mexico's president Andres Mauel Lopez Obradaro, the country will earn up to $6.2 billion as a result of hedging, where they pegged the price of oil to $49 per barrel. Additionally, some North American producers have benefitted from this strategy by hedging heavily, locking oil prices as $52 per barrel. Unfortunately, companies that did not choose to invest in this strategy previously cannot benefit from now, as it would be difficult to engage any trader in agreeing to a hedging deal with the current state of uncertainty that the pandemic has caused.

With declining demand due to global lockdowns, the oil industry is doing everything it can to fight the effects of the pandemic. However, as a demand-driven industry, they may be defeated as the fall in demand overshadows all attempts to combat it. Fortunately, this means that the moment the world begins to recover from the pandemic we will see an immediate turn around for this industry. However, for now, as uncertainty in the spread of the virus and its effects continue to rise worldwide, the same can be said for the oil industry and oil prices, globally.

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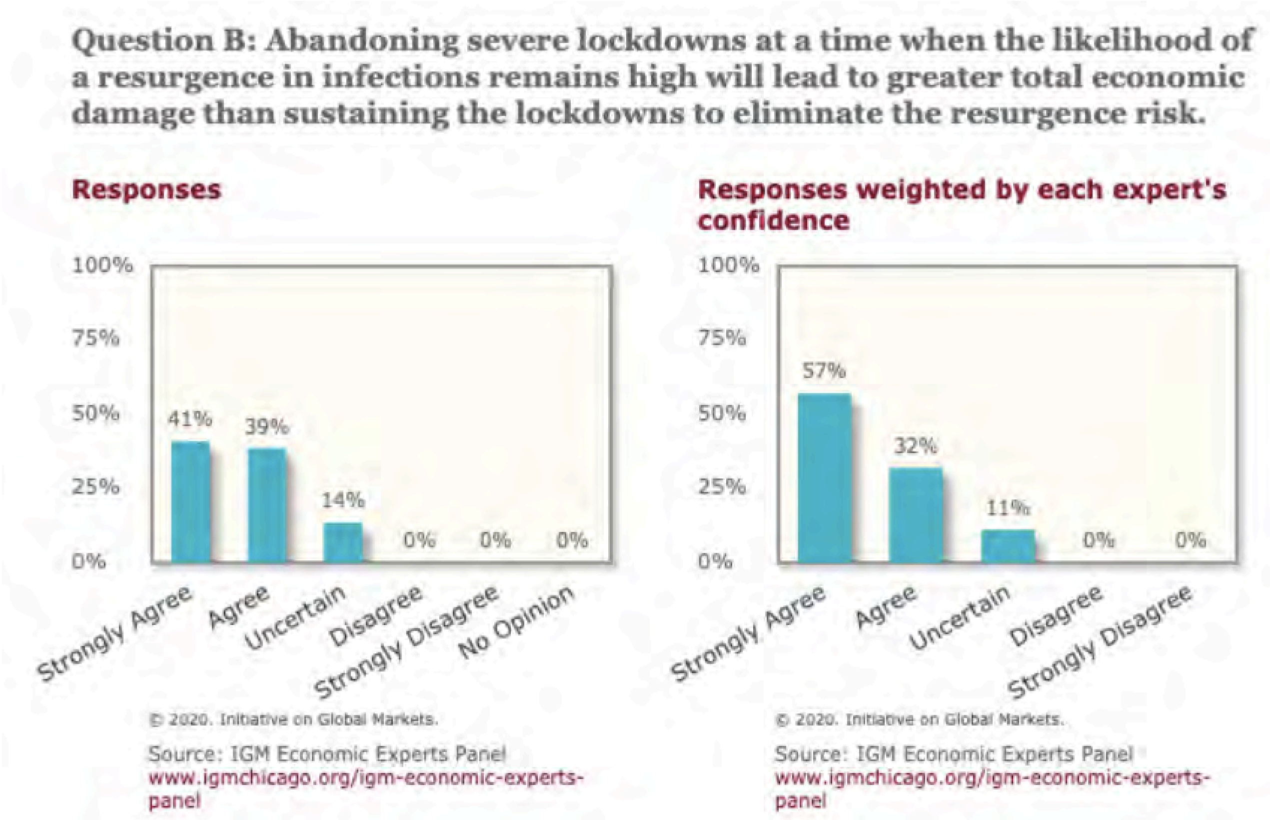
Why Strict Quarantine Measures can Benefit the Economy

Contributed by Andreas Paptousis, UCLA Undergraduate Economics Student

Believe it or not, a lockdown that forces business closures might be the lesser of two evils.

In recent weeks, protesters from across the country have sported signs reading, "The cure should not be worse than the virus." Understandably so, many Americans fear that the economic impact of lockdown orders will incur far greater damage than the virus would in unmitigated circumstances, and similar sentiments held by many Republican governors have solidified the widespread push for reopening the economy. The move to save livelihoods seems to be spearheaded by Georgia Governor Brian Kemp, and states like Tennessee have now followed suit despite seeing record jumps in case numbers.

But while Republican governors remain adamant about prioritizing financial health over public safety, many economic experts have refrained from endorsing the decision. In a poll conducted by the UChicago IGM forum, economists from around the United States almost unanimously agreed that premature easing of quarantine restrictions will spell greater economic detriment in the long run.



Source: University of Chicago

Why might this be?

It's important to not conflate saving public health and rescuing the economy as two mutually exclusive scenarios. Economic strength and public health are inextricably linked, and as Representative Liz Cheney of Wyoming wrote, "There will be no normally functioning economy if our hospitals are overwhelmed and thousands of Americans of all ages, including our doctors and nurses, lay dying."

That's because prematurely easing social distancing restrictions will almost inevitably lead to uncontrollable flare ups of infection and resuscitate the need to reimpose stay-at-home orders, further prolonging the timeline before Americans can gradually return to normal life. To spiral into a roller coaster of turning the economy on and off between viral outbreaks will weaken its infrastructure with a dangerous sense of volatility that will not only stump investors, but could potentially lead to even higher rates of unemployment in the long run.

According to many economists, the ideal scenario to curb the spread of the virus and simultaneously salvage economic health includes restrictive quarantine measures that buy time for public health agencies, hospitals, and medical manufacturers to better prepare for future outbreaks. Armed with better preparedness, public servants would be able to slowly ease quarantine measures and allow a semi-normal return to life until the arrival of a viable vaccine. But to teeter back and forth would subjugate the economy to far more disastrous swings in consumer behavior that could generate even longer lasting impacts.

That may come as little consolation to the unemployed parents struggling to feed their children, and it's understandably difficult for an American family to contextualize their short term plight in the bigger picture of macroeconomic trends. But as New York Governor Andrew Cuomo said, "I say the cost of a human life, a human life is priceless." These quarantine measures, as financially frustrating and stressful as they may be, undeniably save American lives, and may also save the American economy from further collapse.

Governor Cuomo's political opponents point to estimates of one percent mortality rates as a justification for sending Americans back to work, an argument Cuomo responded to by saying "we're not going to put a dollar figure on human life." But mortality rates of the virus seem to differ everyday as information continues to accumulate regarding a disease that consistently surprises doctors with new complications. What we do know, however, is that the virus is particularly cruel to those with underlying conditions, rendering vast portions of the American public susceptible to severe illness, and subsequently, putting the economy at risk if they were to lose their lives.

Over thirty million Americans suffer from diabetes, seventy million experience hypertension, twenty-five million are diagnosed with asthma, and millions more experience combinations of multiple underlying illnesses. For those who are comfortable with putting a price on human lives, it may be helpful to understand that a virus which freely transmits in American society could cost millions of lives, and in layman's terms, that's pretty bad for the economy.

Given the rapid development and unpredictability of the situation, few studies have been able to offer reliably concrete models that would allow economists and public health officials to quantitatively weigh their options between the two scenarios. For now, public servants and health officials alike have to rely on the judgement that further distress to our nation's public health will inflict unnecessary damage to the economy in the long run.

Policy makers and politicians must also consider that opening up prematurely doesn't necessarily guarantee short term economic returns. Until a viable vaccine is developed and disseminated, consumer behavior will only be a shell of its former self. In the city of Wuhan, the pandemic's original epicenter, small business owners overwhelmingly reported that lifting lockdown restrictions has done little to spur consumer confidence, citing widespread fear that returning to life as normal will fulfill ominous predictions of future outbreaks. While American society differs in its cultural practices and tendencies, it's safe to say that flipping the switch on quarantine measures will not coincide with a flipped switch in consumer behavior.

Those planned trips to Vegas: likely cancelled regardless. Weddings set for June: probably postponed. Typical Thursday night bar crawls: likely to be replaced with at-home gatherings.

There's an understandable difference in consumer reaction to a reversal of stay-at-home orders once public health officials deem it safe versus lifting quarantine measures for the sole purpose of salvaging the economy. For a lawmaker to veer towards the latter scenario is an explicit confession that lives will be lost as a result of going back to work, and regardless of how deadly the virus is, the prospect of death will drastically alter consumer behavior for the worst.

Americans are faced with a choice. You can suppress the virus now and spend the next six months remedying the economic impact, or you can relax quarantine measures to save a month's worth of economic activity (which is not guaranteed) only to generate a more extreme health crisis that will force extended lockdown measures. As Jason Furman of Harvard's Kennedy School of Government puts it, "I think the right model right now isn't that you're trading lives off against better economic performance. It's that if you don't save those lives, you might have even worse economic performance."

Basic economics teaches us that strong economies grow in stable societies, which is why investors rather spend their money in France than Venezuela, because Nicolas Maduro cannot guarantee societal stability the same way Emanuel Macron can. But health crises like pandemics inherently generate volatility, the Achilles Heel of any economic system. These two conflicting forces of stability and volatility make it abundantly clear that to repair our economic predicament, it is imperative to first resolve our health crisis, no matter how financially costly it may initially be.

Even in chaotic times that cause humans to debate the price of human lives, we seem to learn that every life is invaluable.

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