Quantitative Easing:

Economic Effects in the United States during the Covid Era

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Abstract

In attempts to combat lowering asset prices, mass unemployment, and various other elements that deter economic prosperity to combat the Covid-19 crisis, the Federal Reserve re-introduced unconventional monetary policy tools, specifically Quantitative easing. While providing some stimulation to the economy during a time when it was deemed necessary, the consequences of that decision are beginning to rear its negative implications for some, and for others, the pandemic acted as means for exorbitant asset appreciation. Evidence suggests that implementation of new funds in the short term is beneficial, however the longer-term repercussions can lead to further unemployment as companies combat pricing discrepancies directly correlated to inflation, supply chain bottlenecks, and eventual quantitative tightening. During this time, pricing in market sectors such as consumer staples, real estate, and energy including petroleum soared, while working class Americans are most negatively affected by inflationary pressures as well as wage stagnation following the additional creation of monetary supply. Understanding the dynamics of finance at a macro-level can help ensure one's quality of life is not negatively interrupted. As the numbers affixed to an individual, and their own or family's net worth may remain constant as months, or years continue, the important idea to consider is that the buying power with those earnings diminish over time, knowing how economies function, and other factors that affect pricing are implemented can benefit or sway one to make well informed decsions regarding ones capital and how it is allocated.

Keywords: Quantitative Easing, Economic, the Covid Era

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1. Introduction:

1.1 Research Background

Quantitative easing (QE) is an unconventional form of monetary policy by which a central banks purchase securities with the aim of lowering interest rates, while increasing the supply of money which encourages investment and lending. (Investopedia 2021). QE was first utilized by the Bank of Japan in 2001 with the intent that a Japanese economic crisis was effectively managed and avoided, which included deflation and declining growth rates (Juneja 2022). Following BOJ's arguable success at avoiding disaster during the 2008 housing crisis, the US federal reserve implemented a QE strategy to stimulate the elements of growth, including credit, demand, and consumption (Reisenbichler 2019). With a new disaster, the covid -19 pandemic, central banks have utilized the tools at their disposal to again provide short-term stimulus, however, long-term risks may lead to more significant risks, including unemployment, hyperinflation, or even systemic collapse (Melnychenko 2020). Furthermore, with the disruption of lifestyle and economic adjustments, prices in areas such as air travel and hotels have increased as the demand to shift back to normal activities has increased (Shapiro 2021).

1.2 Research Problems

Understanding the negative implications of Quantitate easing from Covid -19 can only be articulated up until the present. Currently, in a recession, the United States continues to have a wealth disparity, and other problems. A Macro view among economists under the Biden Administration, officials at the Federal Reserve, as well as various sized business owners, suggests that US inflation is primarily a result of disruptions in supply chain that will prove to be transitory, and inflation pressures will soften as they are resolved (Greenwood 2021). However, more problems arise in times of economic adjustment. Following; 2008's economic downturn, wealth inequality declined temporarily during the recession, but subsequently reached new highs during the recovery disenfranchising younger millennials in the early stages of workforce entry (Zewde 2022). We are now seeing public health crisis in the form of homelessness in the US; as employment has stagnated, and other economic contributions have pushed many out of the workforce (Duber 2020). According to a public health journal published the same day as Covid was labeled as a public health emergency, more than 500,000 Americans were already experiencing homelessness on any given night for the past decade (Tsai 2020). For the people who were not yet experiencing homelessness, economic stimulus stipends spent on all or mostly housing attributed to 23% of Americans (Asebedo 2020).

1.3 Objective of the study.

The general objective of this work is to understand the significance and repercussions associated with quantitative easing. Focusing geographically on the United States of America, this work will highlight both ends of the socioeconomic spectrum to shine a light on economic advancement and economic disenfranchisement associated through correlation and causation research regarding quantitative easing.

1.4 Scope of the study

The scope of this study zooms in on factors attributing to wealth disparity in the United States. Areas such as healthcare, real estate, unemployment, covid 19, and monetary policy will be brought to light. All research has been gathered from sources within the past five years to provide up-to-date terminology and statistical data sets.

1.5 Research Significance

The analysis of QE during times of pandemic is vital because of the pricing manipulation. Should a reader be able to understand and identify times of monetary instability, one can use the knowledge gathered from research to make well-informed decisions. These decisions on how to allocate capital can potentially reconfigure one's financial well-being. As past implementations of Quantitative Easing have been deployed, congruent implications have been noticed.

2. Literature Review

2.1 Quantitative Easing

In response to the Covid -19, the Federal Reserve utilized an unconventional monetary policy tool called Quantitative Easing (QE). The aggregate impacts of QE have the possibility of having diverse impacts on households can be attributed to variances in the composition regarding income sources (Lenza 2018). It is a challenging task to gauge the distributional effects of QE; however, it is notable that income and wealth inequality can be further exacerbated. This is largely due to stock and equity markets generally rising and the underlying issue that these securities are mainly held by individuals deemed more affluent. However, one can argue that QE helps by reducing the rate of unemployment as well as stimulating the growth of worker's wages (Lee 2021). Because the unemployed depend on income-generating policies, this may be their only benefit since they are generally not affected by asset price fluctuation. Unfortunately, new data suggest QE policy has exacerbated the inequality regarding wealth and income distribution (hohberger 2020).

2.2 Covid -19 Pandemic

On March 11th; 2020, the World Health Organization officially declared that the coronavirus (COVID-19) outbreak was a global pandemic (Velavan 2020). The impact set forth by the covid -19 pandemic continues to cause economic disruption by stagnating the flow of goods and services, decreasing production, and directly correlating to support of monetary policy in the form of QE, decreased purchasing power of the community (Kunaifi 2021). Estimates from the Word bank published that 88 and 115 million people will be pushed into poverty (Deaton 2021). Furthermore, a study found that states with a robust standard deviation of income inequality have also been attributed to having a more significant number of deaths due to Covid -19 (Oronce 2020). A offered hypothesis for this is economic pressures to continue employment are deemed to be high risk. Large populace who are at increased risk is not afforded the option of at-home employment. Individuals with lower income tend to be employed in sectors that require person-to-person interaction such as restaurants, entertainment venues, or hotels. (Hinman 2021).

2.3 United States Housing

It is already understood that QE positively affects asset pricing, the housing being the United States' most distributed and generally household's most significant asset. The line of collaborative events between covid 19 and QE has led to substantial fluctuations in housing. The growth rate correlated to median housing pricing during April – August of the year 2020 directly associated with the Fed's unprecedented monetary policy has caused substantial pricing acceleration not seen since the 2007 global economic crisis. These findings are hypothesized to be partially attributed to Covid and QE-induced fundamental variations related to relaxed liquidity constraints, resulting in more pronounced standard deviations of wealth distribution (Zhao 2020). In the figure below pulled from the University of Connecticut's economic department shows housing price fluctuations years leading up to the pandemic and subsequent monetary remedies performed by the FED (zhang2021).

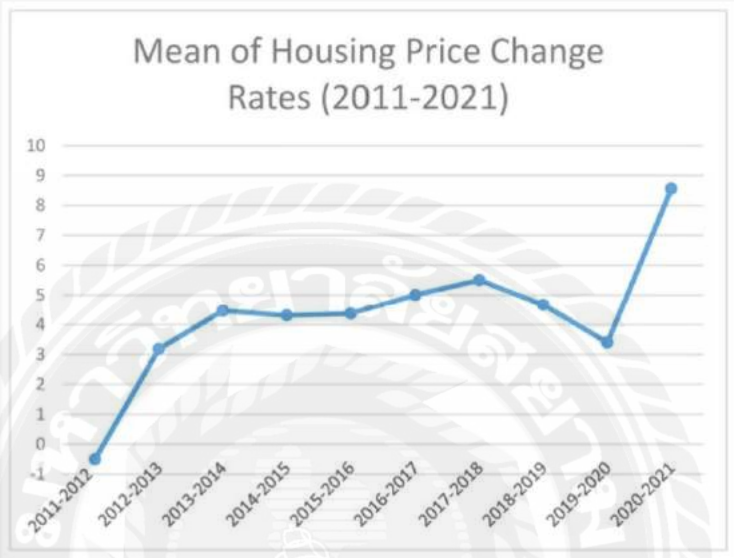

Figure 1

Further studies attribute other factors of Real estate disparity as a source of further displacing economic inequalities corresponding to the United States' biggest asset. When Covid-19 granted high-income urban areas and the employees within corresponding organizations were given the ability to work remotely, the US saw a shift in housing preferences into neighborhoods further from the urban core. Leaving property values to gain higher highs, as well as the property taxes associated with them (Lee 2022). When QE is a factor, traditional housing market dynamics may deviate from the conventional hypothesis. Pricing increases have a broader attribution than imbalances of supply and demand, and more accurately render outcomes regarding societal, political, and economic variances. Over the long term, pricing appreciation have been a vehicle fueled by mortgage credit expansion and the monetary policy of QE (Hochstenbach 2020). As liquidity pressures have reemerged, especially in the mortgage market during Covid and QE, time will be the ultimate portrayal of the possibility of buyers being able to continue funding mortgages during a textbook definition recessionary period the United States has currently entered (Pence 2022).

2.4 Past Research

A valuable metric for understanding implications of QE is to examine past usage of this particular policy. Previous to the 2021 Covid Pandemic response in the United States, Americans saw this monetary policy utilization as a result to the housing crisis of 2008. It is worth noting that as interest rates started to continue upward, equity markets continued to rise in 2009 (Olsen2014). As Lehman Brothers collapsed for their involvement in overly complex mortgage-backed securities, governments from developing nations and advanced countries reacted with abundant credit injections into financial markets, intense cutting of interest rates, and deploying fiscal stimulus packages in hopes of increasing discretionary spending (Verick 2010). Despite interventions, many similarities found in present economies including job loss, and without social security as a lifeline, many millions are threated to be pushed into poverty. Some of the most enlightening research uncovered would be the fact that prior to a fiat currency, when the dollar was pegged to gold reserves, the Fed still had ability to manipulate pricing. In 1928, Federal Reserve policy makers generated the consensus that the valuations of securities on the NYSE represented a potential speculative bubble that needed deflating. Following that theory, the FED began raising interest rates to purposely reduce the valuation of the stock market (Hetzel 2009). Arguably, one can hypothesize that with the entity that is the Federal reserve, there is no such thing as a free-market economy if monetary policy can be implemented to manipulate an economy when it is performing both well and unwell.

3. Findings and conclusion

In conclusion, months and years following a deployment of additional funds, and lowering interest rates through utilization of Quantitative easing have proven to appreciate both securities and real estate. With the Covid -19 pandemic alongside economic policy changes, the current United States housing crisis grew worse as housing for living transformed into a commodity (Versey 2021). The United States housing market is now showing signs of slower growth, in fact the number of homes sold is down 23.3% year over year from July of 2021, while the national average for a 30-year fixed rate mortgage is currently, as of August 2022, 5.4% up 2.5 points year over year (Redfin 2022). Understanding there is strong correlation between supply and demand in an economy, it is widely understood that new issuance of currency into a marketplace will drive prices to new highs. Categories post pandemic corresponding to supply driven pricing fluctuations including food, household products, as well as demand driven items including electricity and motor vehicles have also seen sharp rises (Shapiro 2022).

4. Recommendations

The best strategy for any form of capital allocation and overall investment is proper due diligence and understanding. With 42% of adults in the United States now having more credit card debt with nearly half of those debts being caused by the pandemic, understanding personal finance has never been more important (Konish 2021). In order to achieve optimal results, one must be aware of multiple variations of factors that can affect securities, bonds, and real estate pricing including, interest rates, overall economic macro and micro economic factors. There are positives and negatives in both life and financial markets, however armed with sound knowledge of what can drive change and being ahead of it can drastically improve your earnings. With mortgage origination volume surging to $846 billion in Q2 of 2020, being driven from largely refinancing, this suggests that savvy borrowers were able to lock in advantageous rates (Haughwout 2020). Not only knowledge of economic factors, are important, but the understanding of the asset class one enters is of the upmost importance. Making sure one understands the underlying security enough to invest in it, can ensure negative headwinds will not be detrimental. It has been stated that you should not invest what you cannot afford to lose, and during times of economic manipulation by the Federal Reserve, the pricing of securities can remain irrational longer than an investor can remain solvent. It is important to have quantifiable long-term goals for an average investor, to assure that large portions of principal are not lost. It is of the upmost importance to take initiative to better understand finances because physical and financial health are harmonious, financial stress has been known to lead to mental stress and ultimately compromising physical health (Anand 2020)

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