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ECONOMY

Fed Takes Emergency Steps as Virus Pushes Economy Toward Recession

Economic severity of outbreak to be determined by government's response, analysts say

Federal Reserve Chairman Jerome Powell.

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By Nick Timiraos, Harriet Torry and Josh Mitchell

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The Federal Reserve cut its benchmark interest rate to near zero and unleashed an aggressive set of additional moves aimed at stabilizing markets as the new coronavirus pushed the U.S. economy toward a recession.

The Fed, in a series of statements, said it would cut the federal-funds rate to a range between 0% and 0.25%, down 1 percentage point, and would buy $700 billion in Treasury and mortgage-backed securities, among other actions.

"The coronavirus outbreak has harmed communities and disrupted economic activity in many countries, including the United States," the Fed's rate-setting committee said in a statement Sunday. "The Federal Reserve is prepared to use its full range of tools to support the flow of credit to households and businesses."

The central bank will buy at least $500 billion in Treasury securities and $200 billion in mortgage-backed securities over the coming months to help unclog markets that grew dysfunctional last week, the central bank said. It said it would initiate the program, called quantitative easing, on Monday.

The Fed said it was activating with five other central banks, including the European Central Bank and the Bank of England, swap lines to smooth out disruptions in overseas dollar-funding markets, effectively encouraging foreign central banks to use existing facilities to supply dollars to their own financial systems.

The Fed's moves came as the coronavirus crisis has escalated sharply in recent days, with business closures and event cancellations cascading across the country. Companies sent workers home, and smaller businesses grappled with how to survive. Consumers, meanwhile, stocked up for an uncertain period where they are being asked to stay at home to combat the virus's spread.

Over the weekend, the House of Representatives passed legislation that would make testing for the novel coronavirus free and provide paid sick leave to certain workers affected by the outbreak, and Washington leaders promised more aid was coming. The bill is likely to clear the Senate this week before President Trump signs it into law.

Congress had already approved roughly $8 billion in funding to develop virus treatments and help for states, and Mr. Trump on Friday issued an emergency declaration that he said would free up tens of billions of dollars in emergency funding.

Treasury Secretary Steven Mnuchin said Sunday that he doesn't think the U.S. is in a recession, but that the administration would continue working with Congress to combat the virus's spread and help the economy. "I think we're in the second of nine innings and we will use whatever tools we need to make sure the economy and hardworking Americans will get through this," Mr. Mnuchin said on ABC's "This Week."

"The onus is now squarely on the Trump administration and Congress—there's no other way out," said Mark Zandi of Moody's Analytics. The measures so far will help, he said. "But this is a tsunami. They need something that's three or four times as large."

Analysts say the economic severity of the coronavirus outbreak will depend on several factors, including testing availability, central banks' response to keep liquidity flowing, and fiscal stimulus to boost demand.

Some economists are advocating for tax rebates or direct subsidies to households, like the 2008 bill to boost the economy that saw more than 100 million households receive rebate checks.

Economists say such efforts will temporarily help staunch the bleeding for workers, businesses and investors as vast swaths of U.S. commerce shut down, bringing economic activity to a standstill.

But they say Congress will have to provide a much bigger package—perhaps on the order of $400 billion—to prevent the world's largest economy from spiraling into a much bigger crisis. One big fear is that the widespread shutdown of businesses across the U.S. for potentially weeks, if not months, could lead to the collapse of many companies and then a vicious cycle of rising unemployment, falling consumer spending and more industry strain.

Some economists say that the end of the nation's longest economic expansion on record—which began in mid-2009—looks inevitable.

The U.S. economy relies on, above all else, the spending of consumers. Right now that spending is falling precipitously as commerce—including retailing, tourism, professional sports and entertainment such as Broadway—all grind to a halt.

JPMorgan Chase economists project U.S. output will decline at an annual rate of 2% in the first quarter and 3% in the second. They believe the economy will rebound quickly in the second half of the year, contingent on a $500 billion fiscal response from Congress.

Several industries that will be hit hardest by the outbreak, S&P Global Inc. said in a note last week: airlines; auto factories and auto parts; hotels, resorts and cruises; and oil and gas. Those industries have experienced "significant changes in default risk, based on market signals," the rating firm said.

Box offices in the U.S. and Canada posted the worst weekend of sales in nearly 20 years, according to Comscore. OpenTable, the restaurant-reservation website, said the number of diners has fallen more than 20% in recent days compared with a year earlier.

Tourism to the U.S. has already fallen sharply as the virus spreads globally. The number of travelers from Asia alone fell by 26% in February compared with a year earlier, Tourism Economics said. The number of all international travelers visiting the U.S. will likely fall by 15% this year, matching the sharp drop in tourism that occurred in the months after the Sept. 11, 2001 terrorist attacks, the group said.

JPMorgan Chase economist Michael Feroli described the package in Congress as "a good first start" in responding to the medical emergency, but "certainly we're going to need much, much more."

"Now it's looking very likely that we're going into a recession; can we take steps to boost aggregate demand so in a few months we can get spending and jobs going?" he said.

The House bill passed Saturday would provide free coronavirus testing to anyone whose doctor says a test is needed, and allow for two weeks of paid sick leave and up to three months of paid family and medical leave. The bill also would provide more funding for state Medicaid programs, and extend unemployment benefits to furloughed workers.

“I call it fiscal assistance. In order to assist individuals and families and small business, we’ve put on the board $400 billion already,” top White House economic adviser Larry Kudlow said on CBS’s “Face the Nation,” referring to overall stimulus efforts. He added that the sum includes small-business assistance and deferred tax payments with no interest penalties.

Possibilities for the next round of government measures include broad tax cuts, cash payments to households, targeted assistance and increased federal spending. Also on the table: suspension of student-loan payments, infrastructure projects and aid to state and local governments.

“I think by the end of this year, we will be back to a strong economy,” Mr. Kudlow said.

Several factors could offset some of the economic pain. Consumers are likely to benefit—eventually—from the decline in interest rates and oil prices. Lower interest rates will likely translate into lower borrowing costs for cars, credit cards and student loans and mortgages.

The drop in oil prices, while hurting energy company profits, will likely reduce the price of gasoline, saving consumers money.

Hard-hit businesses may need government support. After the Sept. 11 attacks, airlines received a $15 billion bailout package to keep them aloft through a costly travel downturn.

Teresa Trejo, who works in food service at Los Angeles’s Dodger Stadium and two other area venues, applied for jobless benefits on Friday. The next few weeks of games and events she was supposed to work at were canceled.

“There’s only so much I can save living in L.A.,” said Ms. Trejo, 46 years old. “I own a house and I’m scared.”

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Her job provides health insurance to her husband, a self-employed driver whose work has also vanished, and to her two sons who live with her. Ms. Trejo wasn’t sure whether she would keep her insurance if her hours went down to zero.

A spokesman for Levy Restaurants, her employer at Dodger Stadium, said the situation was "evolving."

Many businesses are already suffering from a drop-off in demand.

Michael Morgenthal, a tour guide who owns Ray's Food & Walking Tours in Brooklyn, N.Y., said his busy season usually starts around St. Patrick's Day, but bookings have dwindled and cancellations have accelerated.

Mr. Morgenthal lost around $10,000 in business in one day when three different school groups canceled multiday tours on what he called "Red Thursday"—after the National Basketball Association season was suspended indefinitely and Mr. Trump announced a 30-day ban on some travel from Europe into the U.S.

"It's going to be a really, really rough spring and summer for tour guides and operators," said Mr. Morgenthal, who is now looking for temporary work. "There's no light at the end of the tunnel."

—David Harrison and Eric Morath contributed to this article.

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