ECONOMIC FINDING

Fear, Lockdown, and Diversion: Comparing Drivers of Pandemic Economic Decline 2020

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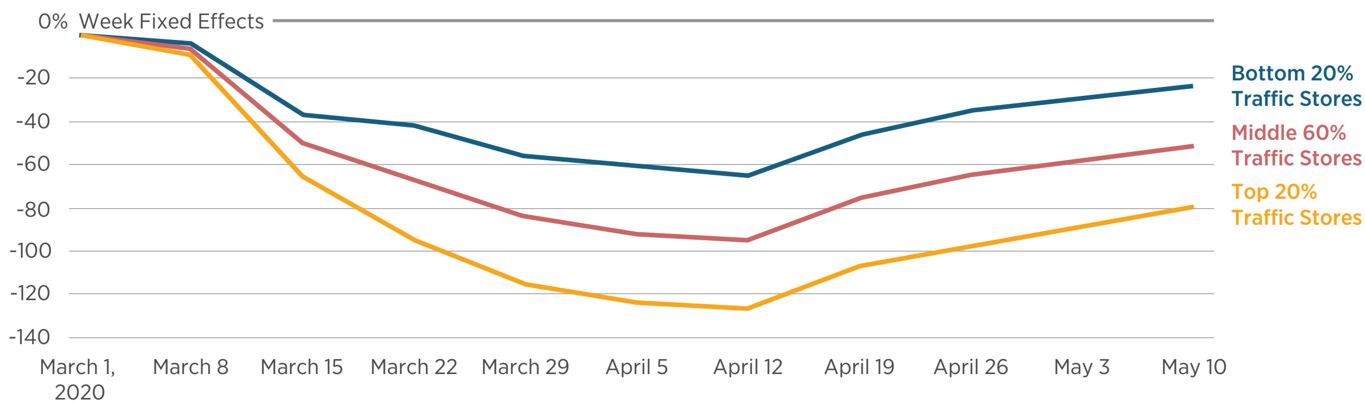
Consumer traffic to US stores fell by 60 percentage points at the outset of the COVID-19 pandemic, but legal restrictions explain only 7 percentage points of this decline.

The steep drop in US economic activity in recent months has been driven in large part by the fall-off in consumer spending at retail stores, restaurants, entertainment spots, and other social venues. This decline in spending has roughly correlated with government shelter-in-place (SIP) orders, and has given rise to fierce debates over "reopening" the economy. Were the various lockdown orders worth the economic pain of slowing the spread of the virus? When, and how fast, should economies reopen?

These questions presume that SIP orders were the primary determinant in keeping consumers at home. However, using data on foot traffic at 2.25 million individual businesses across the United States (including 110 industry groupings), the authors find that while total foot traffic fell by 60 percentage points, legal restrictions explain only around 7 percentage points of this decline. In other words, people were staying home on their own, and when they did go shopping, the authors found that consumers avoided larger, high-traffic businesses. Given the richness of their data set, and described in detail in their accompanying paper, the authors are able to compare, for example, two similar establishments within a commuting zone but on opposite sides of an SIP order. In such a case, both establishments saw enormous drops in customer activity, but the one on the SIP side saw a drop that was only about one-tenth larger.

Interestingly, and further supporting the modest size of the estimated SIP effects, when some states and counties repealed their shutdown orders toward the end of the authors' sample, the recovery in economic activity due to the repeal was equal in size to the decline at imposition. Thus, the recovery is limited not so much by policy as the reluctance of individuals to engage in social economic activity.

Figure 1 · Consumer Visits Over Time by Store Size/Traffic



Notes: Regression of log (weekly visits/day) on week-by-traffic size dummies and firm dummies. Traffic size category is computed based upon number of visits per day in January 2020, in each state-industry category.

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