

***CED PUBLIC POLICY WATCH No. 4***  
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The Federal Reserve had already pushed its conventional accelerator pedal to the floor, with the Federal Funds rate reduced to near zero. It also took its unconventional but established policy tool, “quantitative easing,” to the limit by announcing that it would add to its balance sheet by purchasing virtually any types of securities in the open market without a predetermined maximum. However, on Thursday, April 9, the Fed took substantial further steps to buttress credit availability and economic activity. Experts interpreted the Fed’s actions as well beyond the historical range, and a clear indication that it will go to great lengths to catch the precipitous economic decline.

The Fed had pledged to create a “Main Street” lending facility, and a lending facility for state and local governments. Legislation had provided funding for a lending facility for medium-sized businesses. (A lending facility is a combination of funds and legal authority to buy securitized loans or make loans. Medium-sized businesses, in this context, are firms that are too large to qualify for statutorily authorized small business assistance, such as Paycheck Protection Program (PPP) loans, but too small to sell their own securities in the open market.) Those pledges had been dormant for what in the current environment would almost qualify as an eternity – more than two weeks – but this week the Fed made good on them, and moved even further.

Even though PPP loans can ultimately be forgiven by the federal government, they would rest on the balance sheets of lending banks. The Fed on Monday announced a facility to lend to PPP banks, taking the PPP loans as collateral at face value. This would expand the lending capacity of those banks.

The Fed announced its Main Street lending facility for small and medium-sized businesses, and expanded the size and scope of the Primary and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF) as well as the Term Asset-Backed Securities Loan Facility (TALF) for households and businesses. And finally, the Fed created a Municipal Liquidity Facility to purchase securities of state and local governments.

In the current environment, all of these lending facilities could expect to take losses. The Treasury had requested and obtained appropriations for capital to back up these facilities and protect the Fed against those losses.

From one perspective, credit would not seem a problem in this economy; interest rates are extraordinarily low, because of the low level of total demand. However, many individual

markets had been freezing up under the fear of bankruptcies. Unrated (“junk”) bond markets were in distress, and sub-federal governmental units were finding it hard to raise cash (while many are prohibited from general-revenue borrowing because of balanced-budget requirements). By stepping into these markets through its new lending facilities, the Fed has reduced uncertainty and restored activity. Some large US firms whose paper had fallen into the junk category saw renewed trading and therefore have the potential to borrow should they need to.

The Fed and other experts note that not every distressed entity in the economy has the ability to borrow. Legally or constitutionally constrained governments, and marginal businesses and households, are among those that will not benefit directly from the Fed’s action. Thus, fiscal action by the federal government (such as the PPP program and aid to states and hospitals included in the CARES Act) remains essential.

## **Unemployment**

Job loss has been momentous and unprecedented. The survey for the Department of Labor’s March Employment Situation report was taken in the second week of the month, which had seemed painful at the time but was only the beginning of the labor market decline. The count of weekly new claims for unemployment insurance is inherently noisier than the monthly household and business survey – not all separated workers are eligible for benefits, and some workers delay filing claims, for example – but those numbers in real time since the March survey show cumulative new claims of over 16 million (3.3 million in the third week of March, 6.6 million in the fourth week of March, and another 6.3 million in the first week of April). With a March labor force of not quite 163 million, those new claims would add 10 percentage points to the March unemployment rate of 4.4 percent. In other words, the unemployment rate right now, just before the April survey will be taken, could well be 15 percent.

These statistics must be understood clearly. Job losers file new claims only once for every bout of unemployment. Therefore, high levels of claims cannot continue indefinitely. On the other hand, an immediate reversion to the steady-state pre-Covid-19 weekly claims number of a little more than 0.2 million would not indicate that the labor market was getting better, merely that it was not getting any worse. It is not clear how many of all of the workers who will be laid off have already been let go and have filed their claims. Some fear that the deluge of unemployment insurance claims is beyond the capacity of the states to handle, and so there may be many more not yet counted in the administrative pipeline, including in some states where reported claims seem to be implausibly low. So the unemployment rate at this moment, and in a few days when the April survey is taken, may or may not reflect the worst of this crisis. Our colleagues on the economic forecasting team at The Conference Board believe at this time that some dire predictions – Administration spokesmen have mentioned a 20 percent unemployment rate – overstate the likely peak before the economy recovers. But anything is possible in this unprecedented situation, which is changing daily.

Two caveats: First, the definition of unemployment in the monthly survey is precise, and individual responses to the survey can be unpredictable. The survey asks whether people out of work are looking for a job. A job loser in today's environment might expect a recall from his or her former employer when the pandemic eases, and so might not be looking. If such a person is on temporary furlough, he or she would be counted as unemployed; but the expectation of recall may be informal or subjective.

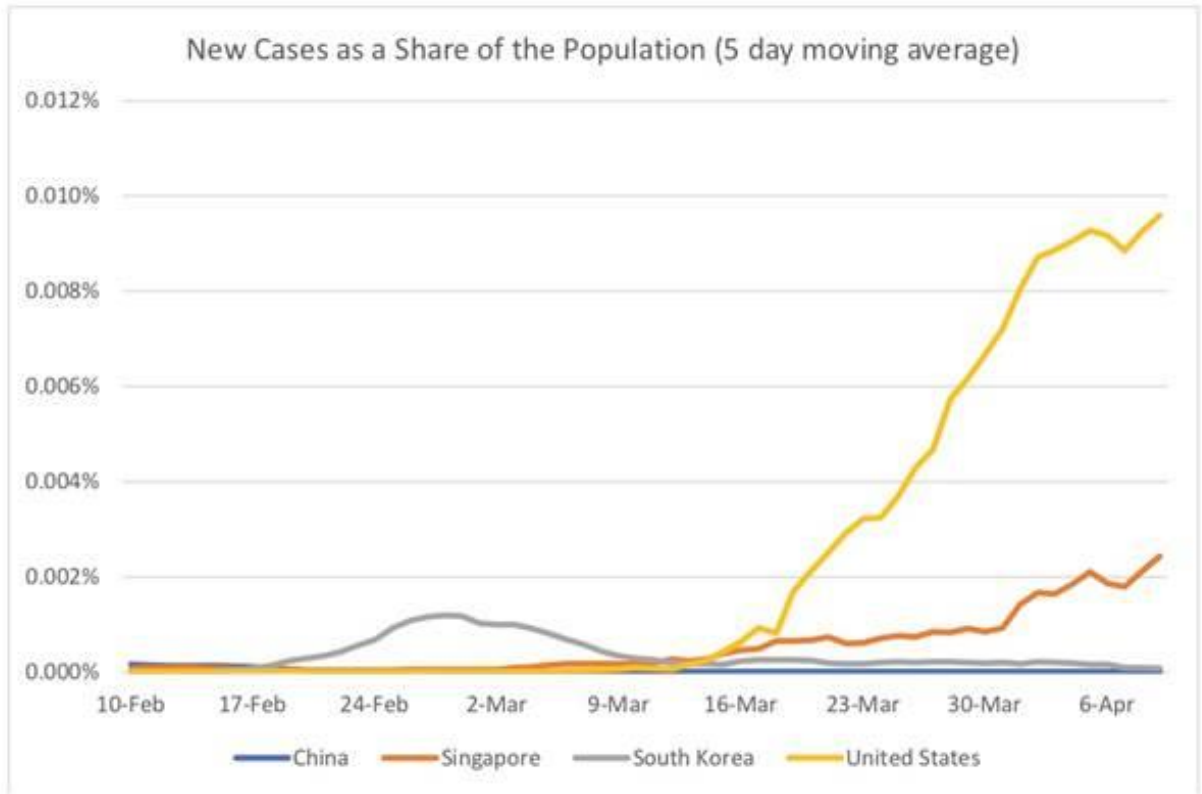
And second, unemployment strictly defined does not measure all of the distress in today's economy. Some workers might remain employed but be on reduced hours, or reduced pay. Polls of such workforce distress show far greater numbers (27 to 33 percent from [Pew](#) and [Gallup](#), worse for minorities) than will the unemployment rate.

We and our colleagues at The Conference Board will be watching the labor market closely, for its own importance and as an indicator of the path of the economy moving forward.

### **Covid-19 Reinfections?**

There are two related stories about the paths of the Covid-19 pandemic in the most-affected countries. One is the fear that affected economies might reopen too soon, and that an apparently vanquished virus might bounce back and force a second economic shutdown. Data from the Johns Hopkins University [Coronavirus Resource Center](#) do not at this time clearly document any such instance. With wide variations of current intensity, new-case counts appear to be flattening in the most-affected countries, and declining in a few – notably Italy and Spain. Day-to-day counts are subject to wide variation, and can reflect more the number of tests completed than actual infections with the virus. Data showing a total flattening in China are viewed with some skepticism.

Numbers from the [World Health Organization](#) are similarly indeterminate, but charting a five-day moving average suggests a possible rising of new cases from a plateau for both the United States and Singapore, while South Korea appears to remain under control, and China reports few new cases.



A second story arises from discussions of reinfections of individuals. Both China and South Korea have reported that some individuals who were tested and found to be infected with Covid-19, and then apparently recovered (and were tested negative), have subsequently been re-tested and found positive again. This has raised the specter of a potential reinfection not only of individuals but also of populations, should supposedly cured patients be sent to re-integrate with society and then again contract and spread the disease.

Press accounts have pointed in different directions. South Korean medical officials have discussed instances of positive tests among former patients, but have not reported instances of renewed symptoms of the disease. Chinese reports have been sketchier but more ominous, alleging deaths following reinfections. This raises questions about the quality and accuracy of tests. Discussions of the Korean findings have related that patients have for some time shown changing test results within 24 hour periods, which has led to caution in diagnosis and a practice of re-testing to confirm results. A benign explanation is that recovered patients could still have fragments of the virus that would show up in tests without those persons being contagious or sick.

In theory, reinfection is possible. Reinfection after periods of latency occurs in HIV and herpes, although not in most other viruses. Chickenpox in children can reactivate as shingles in adults. There has been no sign to date of such behavior by the coronavirus, but it cannot be ruled out. Also, it is possible that the virus causing Covid-19 could mutate, and that individuals could recover from an earlier version of the virus and then contract a later one. However, Dr.

Anthony Fauci has commented that the current coronavirus appears to be stable, and not to have mutated thus far.

In a related development, Apple and Google have collaborated on an app to be available in May, and on additions to their operating systems that will be available later, that will inform people if they have come into contact with others who have self-identified as having contracted Covid-19. The app could be backward looking, so that it could inform of contacts of two weeks prior, during the latency period of the virus, once an individual self-identifies. This has important public health potential, but also raises privacy issues.

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