

CED Public Policy Watch

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- 1. UNEMPLOYMENT CLAIMS RISE FOR SECOND CONSECUTIVE WEEK AS BUMPY LABOR MARKET RECOVERY CONTINUES**

New weekly unemployment insurance (UI) claims rose for the week ending September 18 to levels last seen a month ago. The headline seasonally adjusted number increased by 16,000 to 351,000 (and was revised slightly higher for the previous week). This represents the second consecutive rise in initial jobless claims (a proxy for layoffs), highlighting the bumpy nature of the ongoing labor market recovery. The four-week moving average, which removes some of this volatility, continued its downward trend since mid-August, falling for the sixth consecutive week.

With the expiration of federal pandemic UI programs on Labor Day, the week ending September 4 was the last week that individuals were able to collect those benefits. Overall, the total number of people receiving unemployment benefits that week (note the lag in reporting) under both state and federal programs, measured by continuing claims, dropped significantly (7.1 percent) to a new pandemic era low (11.3 million). Since April, roughly 75 percent of all UI beneficiaries were receiving payments under special federal programs. The number of continuing claimants is expected to fall precipitously for the next reporting cycle.

- 2. FED POLICY HOLDS STEADY, BUT SIGNALS EARLIER FUTURE REMOVAL OF STIMULUS**

Our colleagues in the Economy, Strategy and Finance Center of The Conference Board blogged the following (slightly shortened for this purpose) on this week's meeting of the Federal Open Market Committee:

The spread of the Delta variant notwithstanding, FOMC participants are inching closer to beginning to remove the monetary policy punchbowl as soon as the November meeting. We provide five key takeaways from the September Fed meeting and what it means for the C-Suite.

1. **Despite uncertainty caused by the spike in COVID-19 Delta variant cases, the Fed appears to be generally pleased with the progress of the US economic recovery.** FOMC participants **stated** that economic activity and employment have continued to strengthen in the US, reflecting further progress on vaccines and strong policy (i.e., fiscal and monetary) support. Moreover, Fed Chair Powell confirmed that sectors affected by the pandemic generally improved, even though Delta has slowed the progress. Participants did dial down their **expectations** for 2021 real GDP growth (from 7 percent to 5.9 percent 4Q/4Q) and anticipated that the unemployment rate might land at 4.8 percent by December 2021 instead of 4.5 percent. Nonetheless, the revised forecasts project confidence that the US economy will continue to improve over the balance of the year. Indeed, the Fed's Summary of Economic Projections (SEP) forecasts are consistent with those of economists from a September Bloomberg survey (GDP: 5.8 percent 4Q/4Q; Unemployment: 4.9 percent in 4Q 2021), as well as those of The Conference Board (GDP: 5.6 percent 4Q/4Q; Unemployment: 4.8 percent in 4Q 2021).
2. **FOMC participants raised expectations for inflation, stating that they have been greater and longer lasting than expected, but continue to believe that the drivers are largely transitory.** Chair Powell highlighted bottlenecks in supply chains as a major factor driving prices higher, and, consistent with our own views, that bottlenecks may persist into 2022. The FOMC now projects that total and core PCE inflation will be firmer in 2021 – more in line with consensus expectations, but with only minor overshoots of the 2-percent target in 2022 and 2023. This suggests that the Fed does not anticipate that current elevated levels of inflation will persist. Importantly, the Fed still views consumers' long-term inflation expectations to be in-line with the Fed's 2-percent inflation goals, an important determination for not raising interest rates yet. However, Chair Powell reiterated that should expectations rise too much, the Fed would act.
3. **FOMC participants remain positive on the US economic outlook in 2022 and beyond.** Participants raised GDP forecasts for 2022 and 2023, and continued to anticipate above-potential (~1.8 percent) growth in 2024. Indeed, some of these upgrades anticipated that some of the recovery that would have happened this year absent the rise of the delta variant will occur next year. Potentially, the upgrades also reflected continued strength in the US expansion as the pandemic comes under control.
4. **The Fed is coming closer to believing that its dual mandate has been met, warranting the beginning of QE taper likely before yearend.** Policymakers outlined in the monetary policy statement that if progress towards the goals of maximum employment and price stability are met, moderation in the pace of asset purchases (i.e. Quantitative Easing) may soon be warranted. Chair Powell said that the inflation goal has been more than met, and that the maximum employment test may be deemed to have been met by the November 2021 meeting. Indeed, Chair Powell said that a "reasonably good" employment report in September would be enough for him, and that some FOMC participants already believe the full employment mandate has been achieved. The taper process for the \$120 billion of large-scale asset purchases could extend through the middle of 2022, but the pace could be adjusted to be slower or faster depending upon economic conditions.

5. **Some FOMC participants now anticipate the first rate hike in 2022 instead of 2023, but tapering timing does not carry a direct signal of “liftoff” (i.e., an increase in the policy Federal Funds rate).** In addition to the strong signal that taper is close at hand, the ‘dot plot,’ which shows FOMC participants’ individual estimates of when rate hikes will occur (based upon each individual’s own economic forecast), shifted forward. Whereas in the June SEP the majority of FOMC participants anticipated two rate hikes in 2023 with an end-2023 fed funds rate of 0.50 to 0.75 percent, now nine of 18 participants anticipate one rate hike in 2022, raising the rate to 0.25 to 0.50 by end 2022. There would be another two or three hikes in 2023, and three more hikes in 2024, leaving the fed funds rate at 1.75-2.00 percent (midpoint of 1.8 percent in the SEP) by end 2024. This would still be a fairly accommodative stance compared to historical rates. These estimates are individual FOMC member forecasts, by no means a single negotiated official forecast, but they suggest that members are more comfortable with the state of the US expansion and labor market healing, but potentially less comfortable with the intensity of inflation. Still, Powell continued to decouple the timing of the end of tapering with the start of rate hikes, reiterating that there is a higher threshold of economic improvement required for rate hikes than for tapering QE.

Insights for What’s Ahead:

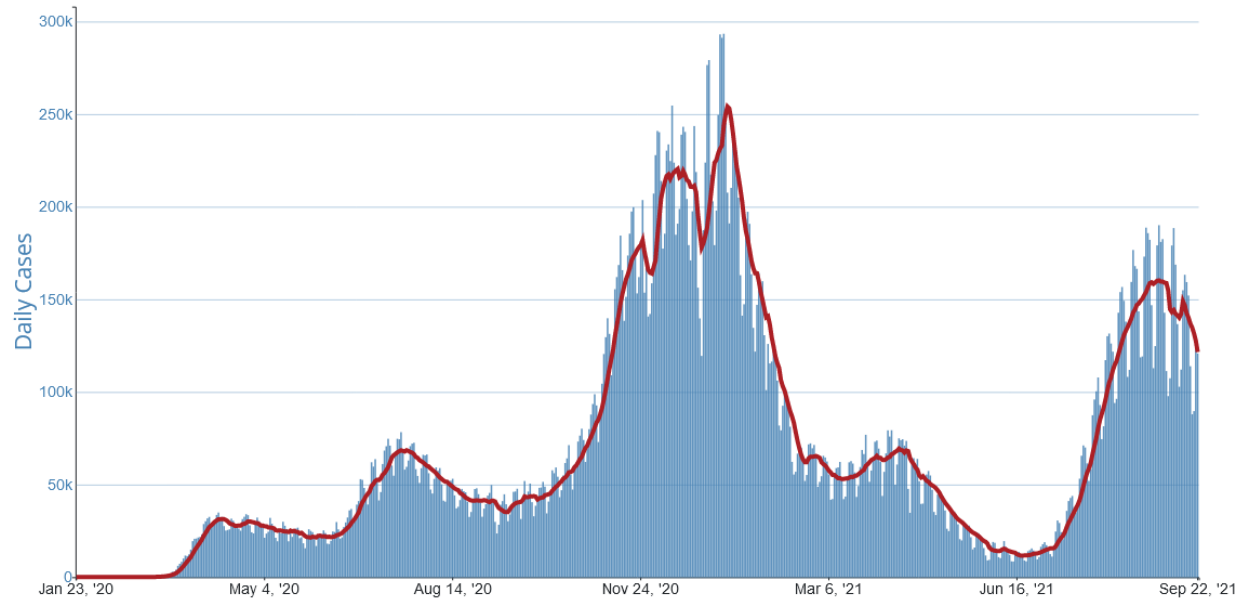
1. Businesses should expect higher inflation (e.g., input costs and wages) for somewhat longer as the Fed is declining to raise interest rates in the very near term. Indeed, interest rates are a blunt instrument, and the Fed does not desire to upset a satisfactory expansion to address what it views as a temporary spike in inflation, especially given the delta uncertainties. The FOMC’s inflation projections, along with our own, suggest that consumer prices may remain elevated into 2022 as the pandemic continues to stoke demand for goods and labor and disrupt supply chains, but will settle back near the 2-percent target by the end of 2022.
2. Meanwhile, as a nod to the strength of the US economy presently relative to 2020, the Fed is willing to reduce support for specific asset classes by cutting its Treasury and Mortgage-backed securities purchases. Tapering will reduce the pace of expansion of the Fed’s balance sheet and lessen financial stability risks associated with a sizable balance sheet. Indeed, QE has contributed to asset price inflation, most notably the steady gains in the stock market, and in some cases excessive investor risk taking. Still, if the Fed does not communicate the pace of tapering effectively, then there could be another “taper tantrum” where long-term interest rates spike, weighing suddenly on the economic expansion.
3. Businesses should expect interest rates to start rising faster than what economists had anticipated heading into the meeting. A September 10 Bloomberg survey of 45 economists projected the first rate hike to occur in 2Q 2023. Now that first hike may be shifted forward into 2022. Interest-rate-sensitive industries, including insurance companies and pension funds, should benefit from higher rates, while construction, real estate, and any heavily indebted firms may come under pressure.

Still, higher interest rates should not halt the economic expansion if the Fed continues to communicate changes in policy well in advance of any action. Both the Conference Board and the Fed expect robust economic activity over the next three years and continued decline in the unemployment rate. Cooling of inflation pressures next year should also support growth as interest rates tick up to a level that would still be considered tame relative to history.

3. PANDEMIC NEWS

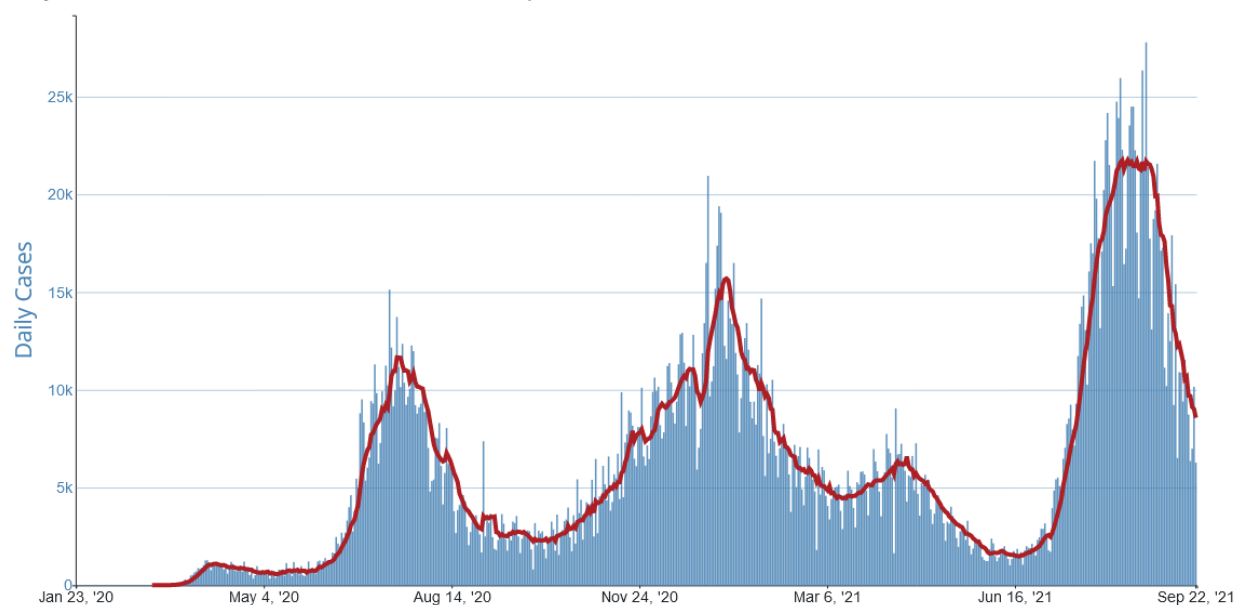
The latest data are solidifying the sense that the Delta wave of coronavirus infections is beginning to recede. Noting with caution that the most recent few days of data are not fully settled, the seven-day moving average of new daily cases as of September 22 was 121,532, down from the recent peak of 148,944 on September 14.

Daily Trends in Number of COVID-19 Cases in The United States Reported to CDC



The progress extends to the virus's recent stomping grounds. The September 22 moving average for Florida was 8,570, down from weeks in the 21,000s in late August. From recent history, Florida last few days of data have been revised more substantially than the national numbers (in percentage terms), but the case decline has been persistent in recent days.

Daily Trends in Number of COVID-19 Cases in Florida Reported to CDC



The relief is showing up in the number of hospitalizations as well, where a downward national trend is becoming well established. Of course, the pressure on health care institutions and their staff comes from the level more than the trend, and that pressure is still high on average, and more so in particularly afflicted parts of the country.

Prevalent Hospitalizations of Patients with Confirmed COVID-19, United States August 01, 2020 – September 21, 2021

81,373

Current 7-Day Average

Sep 15, 2021 – Sep 21, 2021

90,243

Prior 7-Day Average

Sep 08, 2021 – Sep 14, 2021

123,899

Peak 7-Day Average

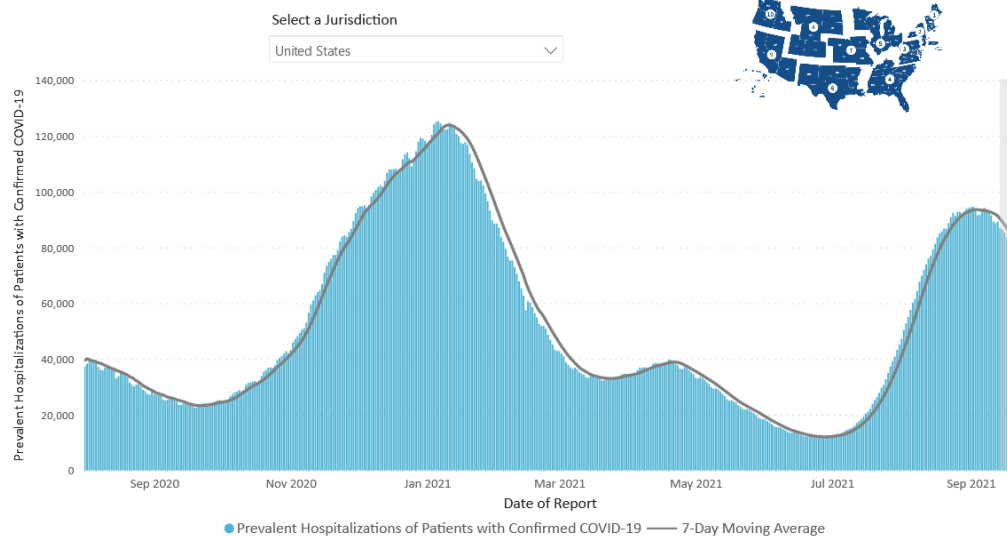
Jan 05, 2021 – Jan 11, 2021

-9.8%

Percent change from prior 7-day
avg. of Sep 08, 2021 – Sep 14, 2021

-34.3%

Percent change from peak 7-day
avg. of Jan 03, 2021 – Jan 09, 2021



Again we look to Florida, where hospitalizations are well down from their peak, but remain as high as they had been in the other worst surges over the past year.

Prevalent Hospitalizations of Patients with Confirmed COVID-19, Florida August 01, 2020 – September 21, 2021



8,350

Current 7-Day Average

Sep 15, 2021 – Sep 21, 2021

11,016

Prior 7-Day Average

Sep 08, 2021 – Sep 14, 2021

15,950

Peak 7-Day Average

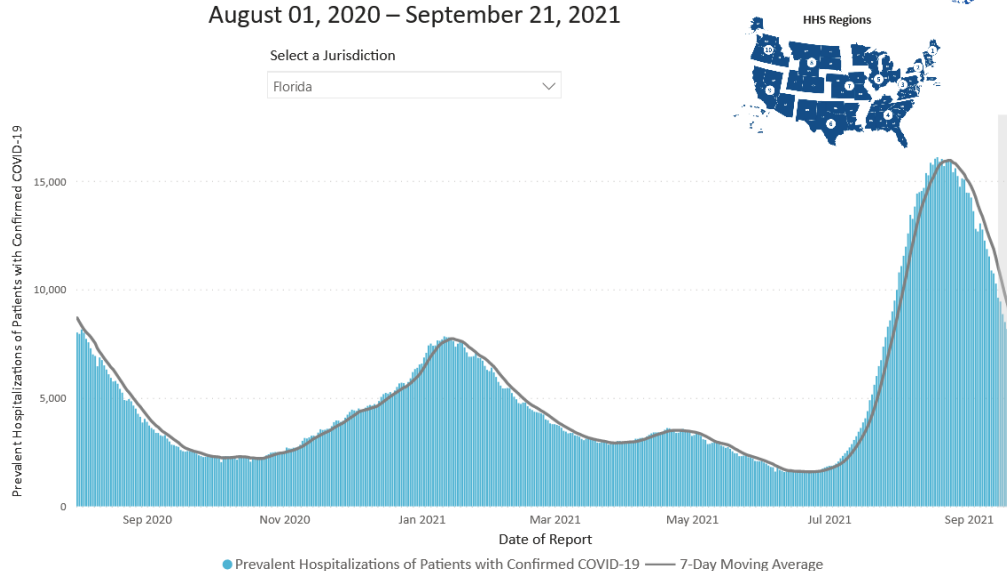
Aug 17, 2021 – Aug 23, 2021

-24.2%

Percent change from prior 7-day
avg. of Sep 08, 2021 – Sep 14, 2021

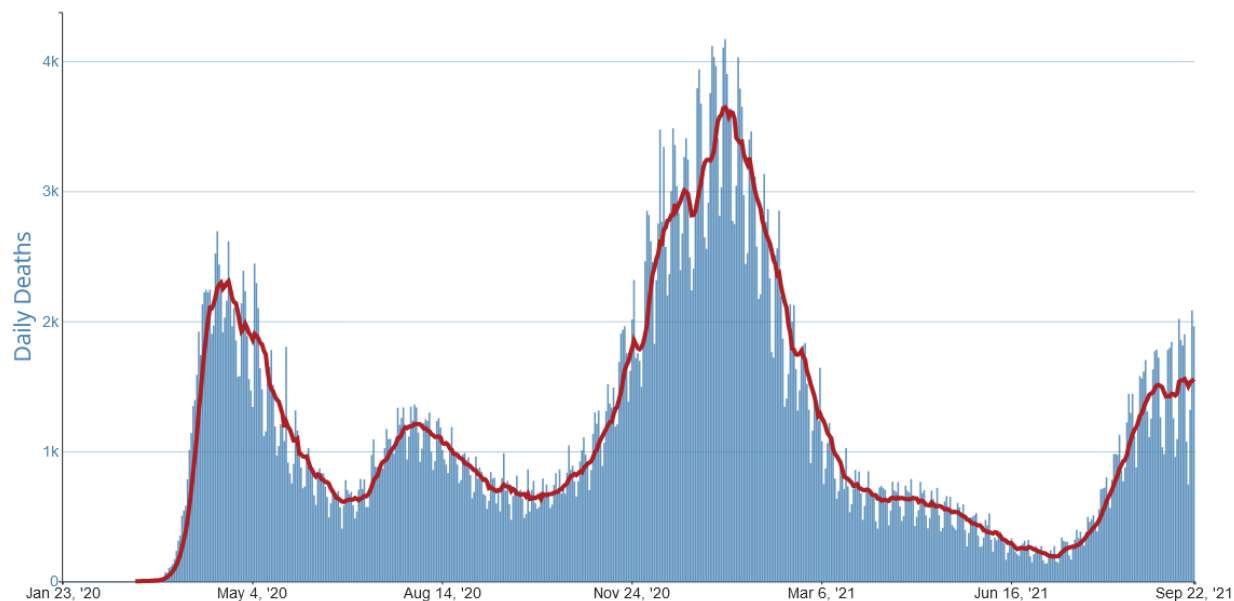
-47.6%

Percent change from peak 7-day
avg. of Aug 11, 2021 – Aug 17, 2021



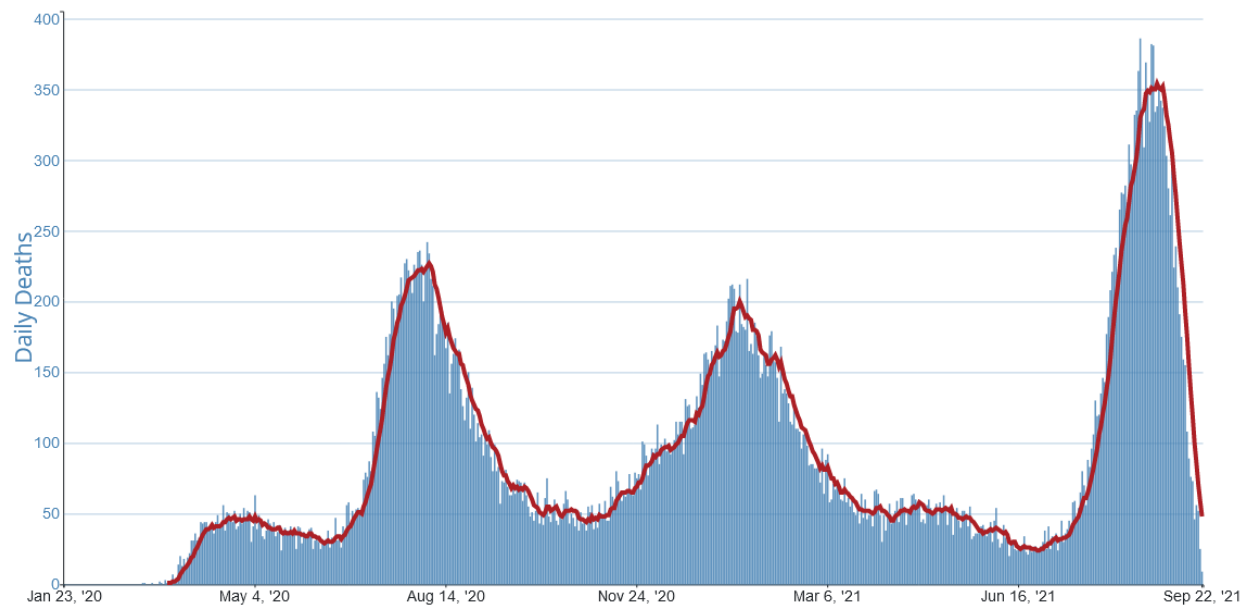
Deaths lag infections and hospitalizations, of course, and the good news on the infection front has not yet filtered through to the daily death count. The seven-day moving average of the number of daily deaths remains just shy of 2,000, where it has been (with fluctuations, even for a moving average) for the last week.

Daily Trends in Number of COVID-19 Deaths in The United States Reported to CDC



The picture in Florida is slightly different. The peak in cases was sharper and was reached earlier, and so there is a clear downward trend. However, the extreme drop in counted deaths probably overstates the trend because of lags in data reporting.

Daily Trends in Number of COVID-19 Deaths in Florida Reported to CDC



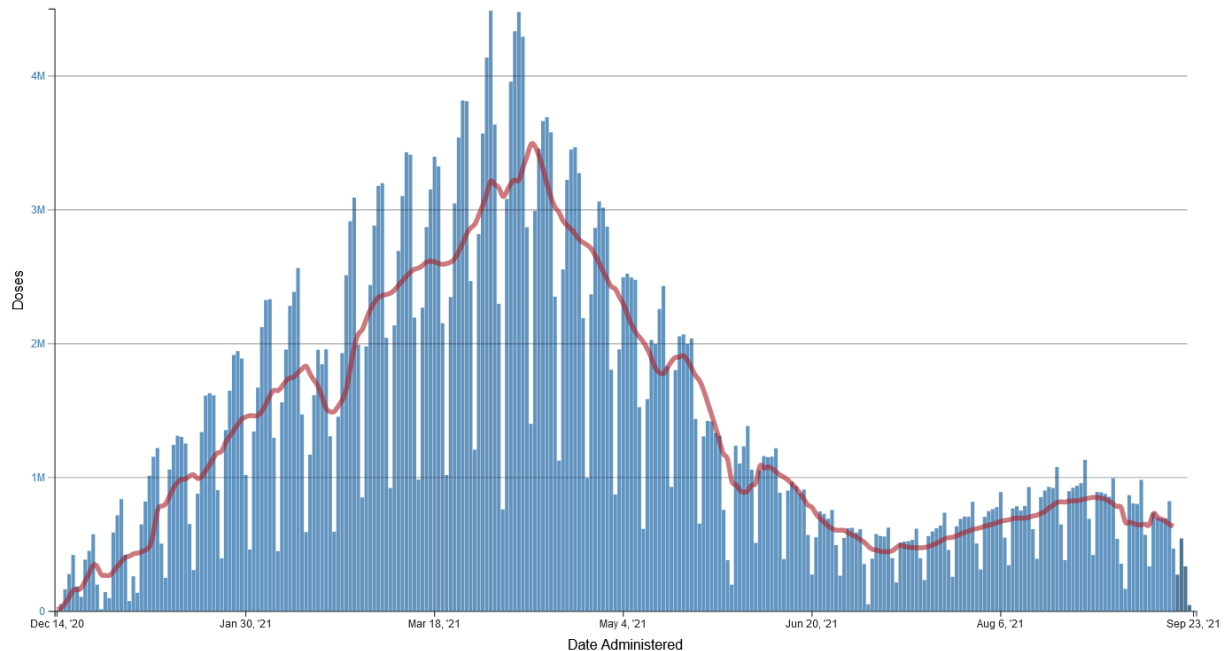
And again this week there is not a need to update the tracking of the prevalence of the various strains of the coronavirus. Delta remains the undisputed champion of the world. And experts believe that although the emergence of an even worse strain is possible, it is not likely. There are **limits** to how much a coronavirus can mutate, and there are **limits** to the ability of a spike protein to evade the resistance of the human body's cells once that resistance is established. We can only hope that this is borne out by future events.

4. VACCINE NEWS

Over the last week, Washington's public health policymaking institutions have labored to resolve the debate over the proper role of "booster" shots in this country's battle with the pandemic. Today, there is an apparent temporary resolution of that debate, but in an unusual fashion. The CDC director, Dr. Rochelle Walensky, **issued** a broader approval than her own advisory panel had recommended. In addition to injections for immunocompromised persons and seniors, Dr. Walensky approved boosters for young (over 18) healthy frontline workers. This was an exercise in decision-making with incomplete information, because the most-pertinent data available come from Israel, a different public health environment, and are based on only a few weeks of history past the six-month anniversary of vaccinations. That early snapshot suggested a waning of immunity from the Pfizer vaccine, but did not prove a substantial erosion over a longer period of time. Dr. Walensky was left to weigh the tentative indications in the data against the risks of side effects from additional injections (notably myocarditis in healthy young males), the chance of reduced immune responses from repeated injections, and the global vaccine shortage in which many persons in poorer countries have no vaccination at all, and hence not only suffer from the disease but also facilitate its propagation and mutation. Because the Pfizer vaccine was in use in the United States more than six months ago, with the recommended interval before a third injection being six months, we can expect a rush of demand. And because the entire eligible population by definition already sought vaccination, there will be no "vaccine hesitancy" to reduce the take-up. Evaluation of the Moderna and **Johnson & Johnson** vaccines lags somewhat, among other reasons because they have been less widely used and so have fewer data to document a decision.

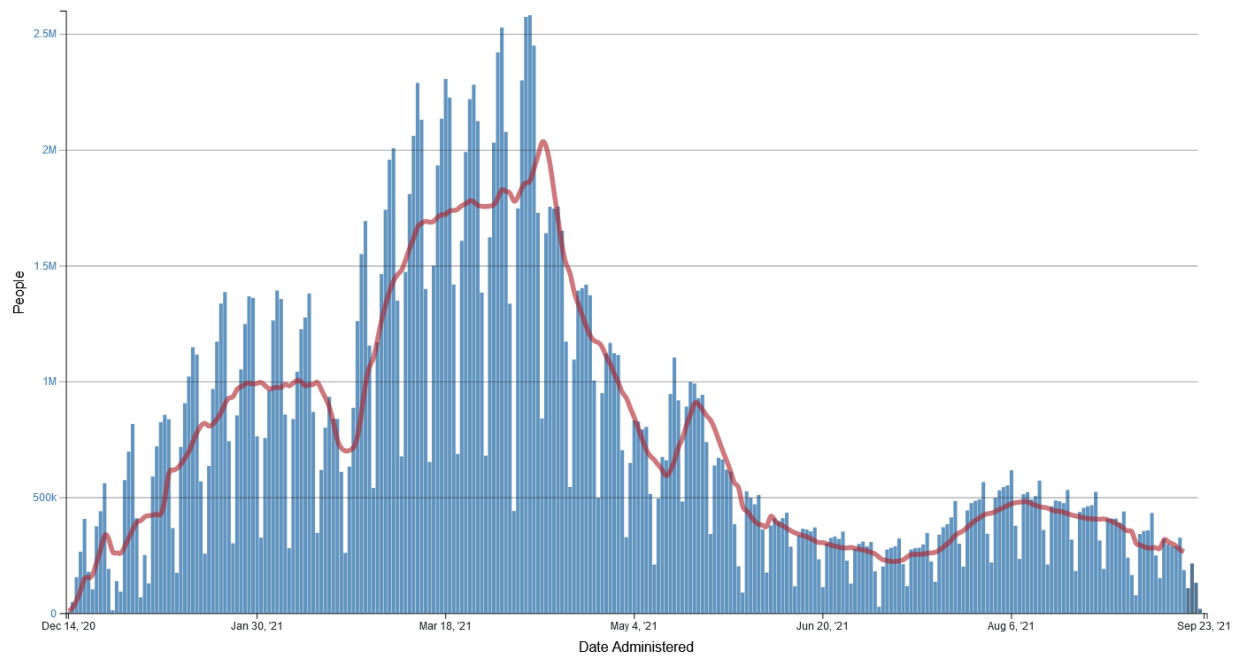
Meanwhile, despite the elevated levels of Delta infections and the stresses on hospitals and their personnel, the number of vaccinations performed continues to decline.

Daily Count of Total Doses Administered and Reported to CDC by Date Administered, United States



And worse still, the number of initial vaccinations—which could be the best indicator of the degree to which the vaccine-hesitant have decided to act to reduce the risks they run—is declining, possibly, even more. The number of first vaccinations, using the seven-day average, ran in the 400,000s in August, as some vaccine skeptics got religion—or public health, if you prefer. But those numbers would have needed to continue, or really to rise (and to be well geographically located) to make a big difference in the era of Delta. Instead, the numbers began to decline in September, and now are cut about in half (assuming that the last few very low daily counts will be revised upward).

Daily Count of People Receiving Dose 1 Reported to CDC by Date Administered, United States



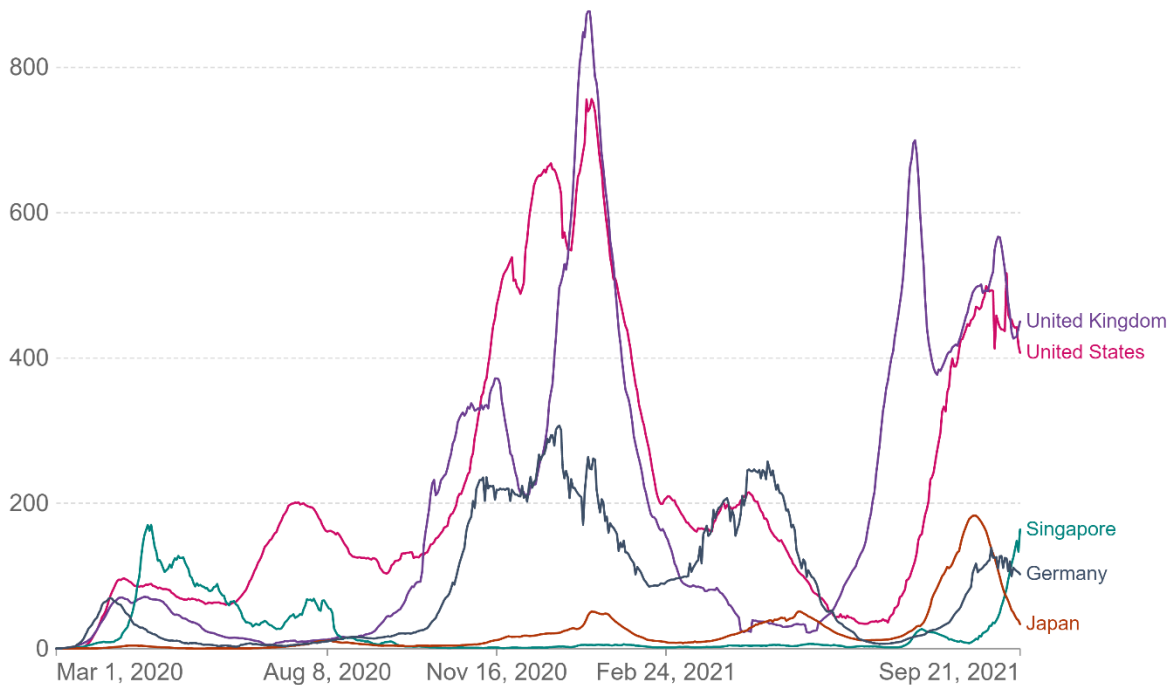
5. SPOTLIGHT ON REOPENING: SURGE IN SINGAPORE

Singapore, a vaccine pace-setter where 82 percent of the population of 5.7 million is fully vaccinated, is experiencing a dramatic spike in COVID-19 infections. The city-state confirmed 1,009 **new infections** on September 18, and 1,012 new infections on September 19, according to data from the health ministry. This is the highest rate of new infections since April 2020 (before vaccines were available—emphasizing the severity of the current surge in a highly vaccinated nation).

Daily new confirmed COVID-19 cases per million people

Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.

Our World
in Data



Source: Johns Hopkins University CSSE COVID-19 Data

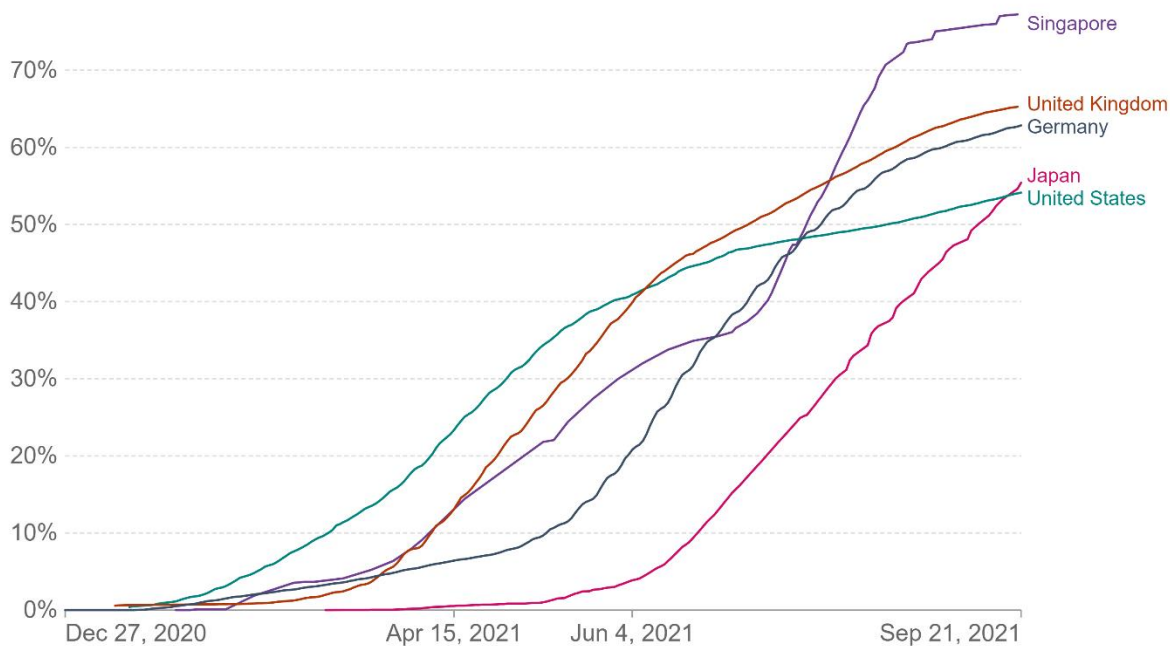
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Over the past month, 98.1 percent of infected people were asymptomatic or had mild symptoms, according to the [health ministry's website](#). However, the number of [patients requiring oxygen](#) doubled to a record 54 on September 12 from two days before, an important gauge to judge whether ICUs could become overwhelmed. The next two weeks "will be critical," Finance Minister Lawrence Wong said in a Facebook post. Health Minister Ong Ye Kung said in a separate post that while ICU capacity is "still holding up," emergency departments and [general wards are coming "under pressure."](#) Both gentlemen sit on Singapore's COVID-19 task force.

Share of the population fully vaccinated against COVID-19

Total number of people who received all doses prescribed by the vaccination protocol, divided by the total population of the country.

Our World
in Data



Source: Official data collated by Our World in Data. Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.
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Some health experts in Singapore are calling for **mandatory vaccination** against the virus, particularly for the elderly. Fifteen percent of infected unvaccinated people aged 80 or older required treatment in intensive care or died. Only 1.7 percent of those vaccinated in that age group were so afflicted. Singapore has not made vaccination compulsory because the country's two vaccine providers, **Pfizer and Moderna**, only have emergency approval in the country. With 87,000 seniors still unvaccinated, experts say full approval could pave the way for a mandate. Singapore began giving **booster shots** to the elderly and immunocompromised groups last week, with Prime Minister Lee Hsien Loong receiving his shot last Friday.

Amid the Delta-induced spike in cases, the government has refrained from tightening its COVID-19 stringency measures. Instead, the city-state is transitioning to a long-term strategy of **living with the virus**. This approach stands in stark contrast to the government's **earlier Delta wave strategy**, where measures tightened with cases in the low double digits. Still, the government paused its gradual reopening plans to limit the number of deaths and avoid overwhelming hospitals.