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1. INFLATION REARS ITS UGLY HEAD

The Bureau of Labor Statistics reported this week that in the last 12 months (through October), consumer price inflation had reached 6.2 percent—the fastest pace since the comparable period ending in November of 1990. Inflation in October alone was 0.9 percent, which is the highest rate in the last year bar the equal pace in June. The inflation rate had subsided somewhat in July, August, and September, making this latest reading an unfortunate surprise. To be sure, inflation was worst in the usual suspects of temporary price spikes: energy of all sorts and food, driven by supply chain failures in the wake of the pandemic. But even absent food and fuel, prices were up 0.6 percent for the month, and 4.6 percent for the past 12 months. The recent villains of new and used cars—new cars because of shortages of computer chips, used cars because of shortages of new cars—contributed substantially. New cars are up 9.8 percent over the last 12 months, and used cars by an eye-popping 26.4 percent. Just about everything else that comes in a box has seen inflation because of the supply-chain issue, and just about everything that comes from a service provider is up because of the pandemic and the resulting (directly and indirectly) shortages of labor.

Economists with gray hair will look at these numbers and say that this inflation is most likely transitory. It does not carry any of the hallmarks of the 1970s, when consumers, workers, employers, producers and the financial markets all shared embedded expectations of ever-rising prices, and formed a circular bucket brigade passing wage, price and interest rate increases along to one another. Again in contrast to the 1970s, this globalized and internet-connected economy is intensely competitive, making price increases much harder to sustain. And you can see an end point to many of these separate inflationary processes; once semiconductors are available again, new car markets will be competitive again, and used car prices will fall substantially, as just one example. The most likely outcome in labor markets is a one-time relative bump-up in wages for lower-paid workers (after [current strife](#) is resolved), for another. But consumers are not known to listen studiously to gray-haired economists, and the reality of [higher fall and winter home-heating prices](#), along with the inflation elsewhere in the economy, will without doubt elicit great angst.

Optimistic blond- and brown-haired economists have assured themselves (and others who would listen) that inflation would never again accelerate, and interest rates, as a result, would never again rise. That was the reasoning (politely) behind “Modern Monetary Theory.” It would be wonderful if they were correct. We will see.

2. NEW UNEMPLOYMENT INSURANCE CLAIMS EDGE DOWN (YET AGAIN)

In an apparent slow, slow process of normalization, the headline number of new claims for Unemployment Compensation benefits in the week ending November 6 decreased by 4,000, to 267,000. This is yet another new post-pandemic low, the lowest since March 14 of 2020. To give perspective on the “old normal,” before that fateful March and for almost a year, new claims bounced between 208,000 and 220,000 each week. So this economy is still volatile and still suffers layoffs, but we continue to approach the prior full-employment indicators, however gingerly. The four-week moving average of new claims also fell, by 7,250, to 278,000. That is yet another post-March 14, 2020 low. The number of claimants under the special federal pandemic-relief programs continues to dwindle, as administrative kinks in the unwinding of those programs continue to be ironed out.

Per the preceding story, analysts argue over whether the Federal Reserve or the fiscal authorities should tighten (or in the fiscal instance, at least not ease) policy to restrain the current inflationary burst. The Unemployment Insurance numbers bear on that debate. An inflation fueled by excess aggregate demand can be dampened by monetary or fiscal restraint. However, an inflation that is driven by structural supply constraints such as supply chain failures or other commodity shortages will not respond nearly so readily to aggregate restraint. So these arguments boil down to the same issues that we are discussing here: is the inflation transitory and supply-driven, is the labor market tightened by pandemic fear and by the lack of child care. If these hypotheses are true, then demand constraint through monetary and fiscal policy will reduce inflation only inefficiently, and at considerable cost.

3. REMARKS BY FEDERAL RESERVE GOVERNORS

Federal Reserve Governor Michelle Bowman [spoke](#) to the Women in Housing and Finance Public Policy Luncheon in Washington, D.C. Governor Bowman said that recent increases in housing prices appear to be more driven by fundamentals than by speculation, and so indicated only limited concern about a price “bubble.” Underlying demand, low interest rates, and shortages of materials are important causes. However, several years of below-trend construction and those same materials shortages could lead to continued rising prices, which could contribute to overall inflation. Meanwhile, pandemic forbearance policies have had their own adverse side effects, including straining many nonbank mortgage servicers.

Federal Reserve Vice Chair Richard H. Clarida [spoke](#) to the Symposium on Monetary Policy Frameworks at the Brookings Institution. Vice Chair Clarida expressed satisfaction at the recovery of the nation’s GDP to its pre-pandemic level, and projects above-trend GDP growth over the next two years to bring the economy at least very close to any reasonable definition of “full employment.” However, he said that the inflation of this year is much more than a “moderate” overshoot of the Fed’s target, and that he is concerned about any continuation of recent rates of price increase.

4. PAULINE IS MOVED TO TRACK NUMBER 2

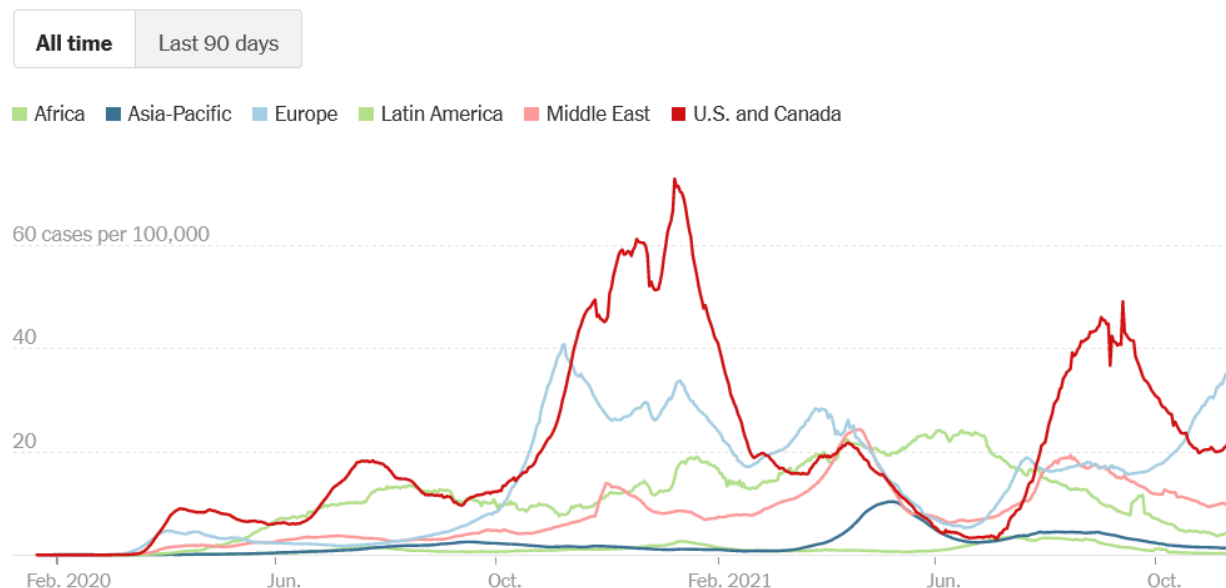
The majority in the House of Representatives relented and passed the bipartisan infrastructure bill. This followed from a commitment by some of the moderates to vote for the president's social policy reconciliation bill. A small number of those moderates has conditioned their approval on budgetary analysis, if not a [complete and formal bill score](#), from the Congressional Budget Office (CBO). That seems like progress, but there is a catch: Until recently, the House has made changes to the reconciliation bill only after at least some consultation with the Senate, but recent changes have elicited surprise and negative reactions from some of the swing Senate voters. It now appears next to certain that the House will take a painful and risky vote on its own version of the bill, the Senate will re-write it (with uncertain results), and then the House will have to take the bill up again and take yet another risky and painful vote. This is a far from politically ideal outcome for the congressional majority, but is not much of a surprise given the path to this point. So tune in next week, when we will have more (incomplete) developments...

5. PANDEMIC NEWS

COVID cases are again on the upswing globally, and again that means a wide range of variation. Europe has been said to be the epicenter of the latest outbreak, but the United States is again seeing an aggregate increase in the number of cases daily.

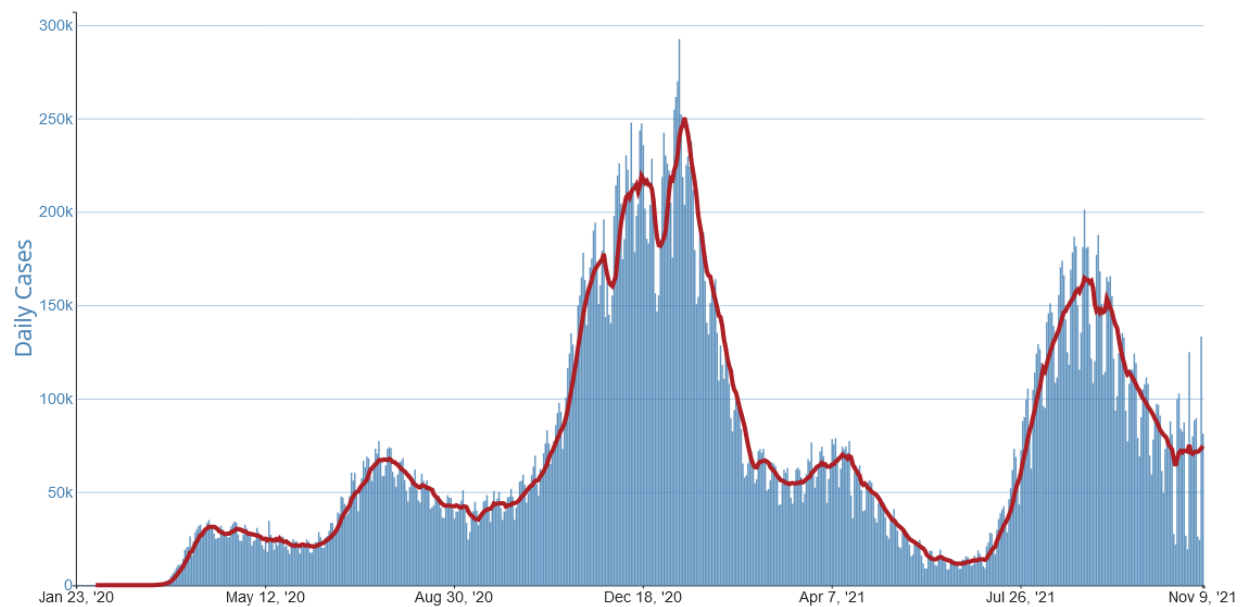
Cases by region

This chart shows how cases per capita have changed in different parts of the world.



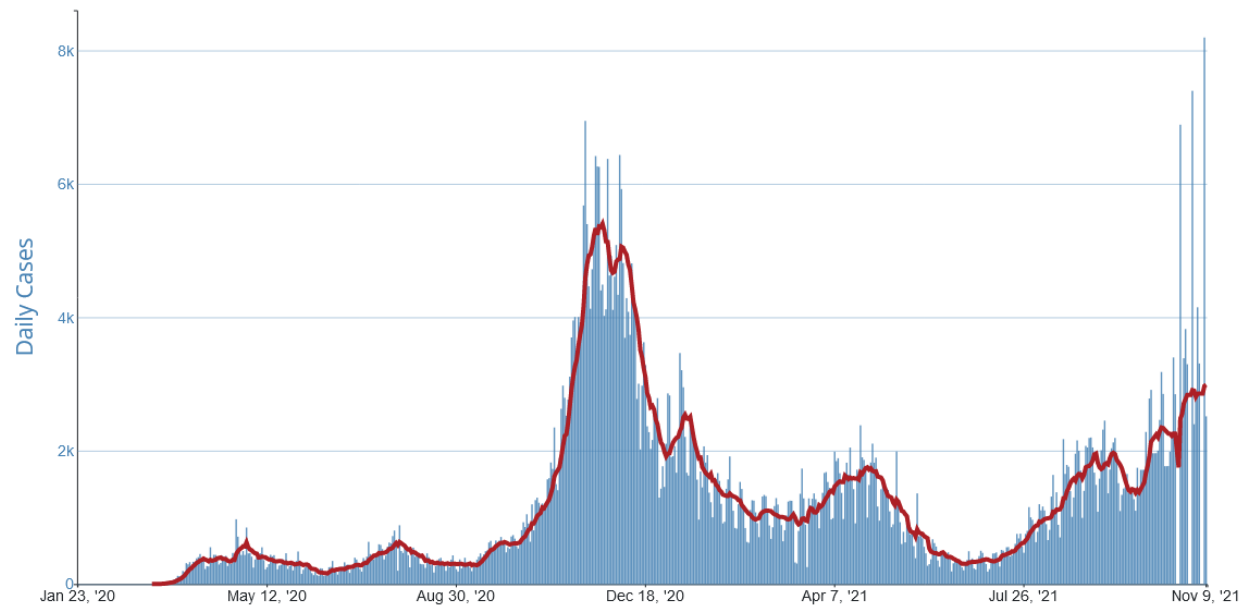
Source: *New York Times*.

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



And again in the United States, the outbreak continues to prey on the unvaccinated parts of the country—mostly now the mountain states. But there is an ongoing concern that new subvariants of Delta in both Europe and the United States might be behind what could become yet another serious winter surge. In this country, as just one example, Colorado continues to show rising case counts.

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



As case counts go, so go hospitalizations, with the predictable results for the nation as a whole and for the most-affected regions. The national count has not yet fully reacted, but the decline from the September peak appears to be bottoming out.

Prevalent Hospitalizations of Patients with Confirmed COVID-19, United States August 01, 2020 – November 08, 2021



39,852

Current 7-Day Average
Nov 02, 2021 – Nov 08, 2021

42,552

Prior 7-Day Average
Oct 26, 2021 – Nov 01, 2021

123,899

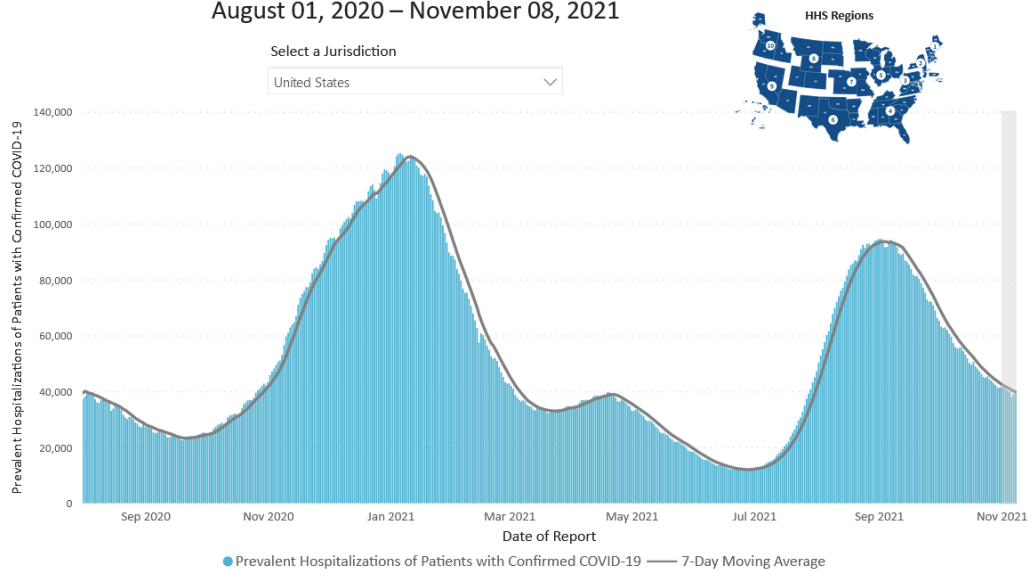
Peak 7-Day Average
Jan 05, 2021 – Jan 11, 2021

-6.3%

Percent change from prior 7-day
avg. of Oct 26, 2021 – Nov 01, 2021

-67.8%

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



The poster child of Colorado is reporting localized strains at levels comparable to the all-pandemic peak; even state-wide, the level of hospitalizations is approaching those painful levels.

Prevalent Hospitalizations of Patients with Confirmed COVID-19, Colorado August 01, 2020 – November 08, 2021



1,287

Current 7-Day Average
Nov 02, 2021 – Nov 08, 2021

1,223

Prior 7-Day Average
Oct 26, 2021 – Nov 01, 2021

1,761

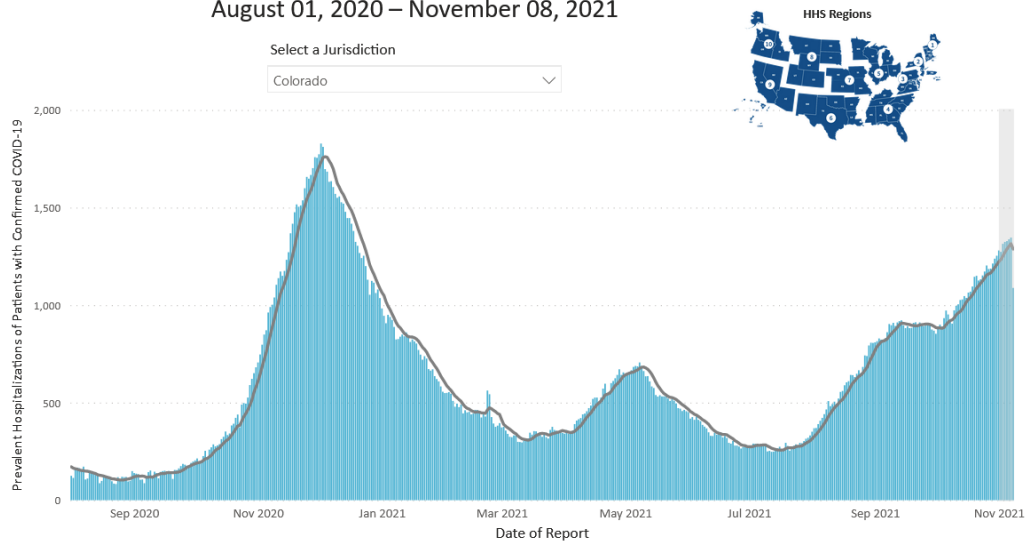
Peak 7-Day Average
Nov 28, 2020 – Dec 04, 2020

+5.3%

Percent change from prior 7-day
avg. of Oct 26, 2021 – Nov 01, 2021

-26.9%

Percent change from peak 7-day
avg. of Nov 19, 2020 – Nov 25, 2020



Hospitalizations for the mountain region as a whole are leveling off, but again at a height not far from the worst of last winter. And last winter, we did not have vaccines; now, we do—making the current penetration of the virus even more remarkable.

Prevalent Hospitalizations of Patients with Confirmed COVID-19, HHS Region 8 August 01, 2020 – November 08, 2021



2,747

Current 7-Day Average

Nov 02, 2021 – Nov 08, 2021

2,733

Prior 7-Day Average

Oct 26, 2021 – Nov 01, 2021

3,858

Peak 7-Day Average

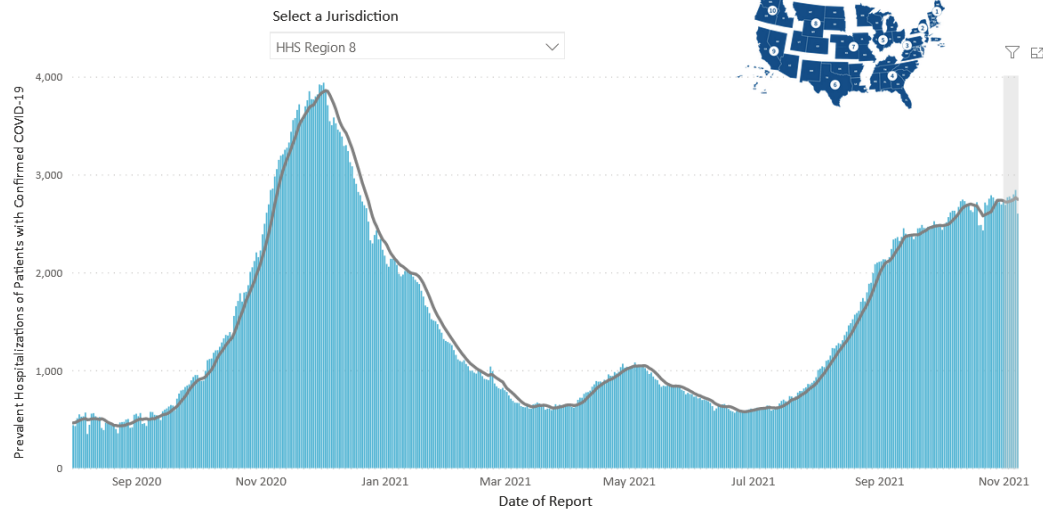
Nov 27, 2020 – Dec 03, 2020

+0.5%

Percent change from prior 7-day
avg. of Oct 26, 2021 – Nov 01, 2021

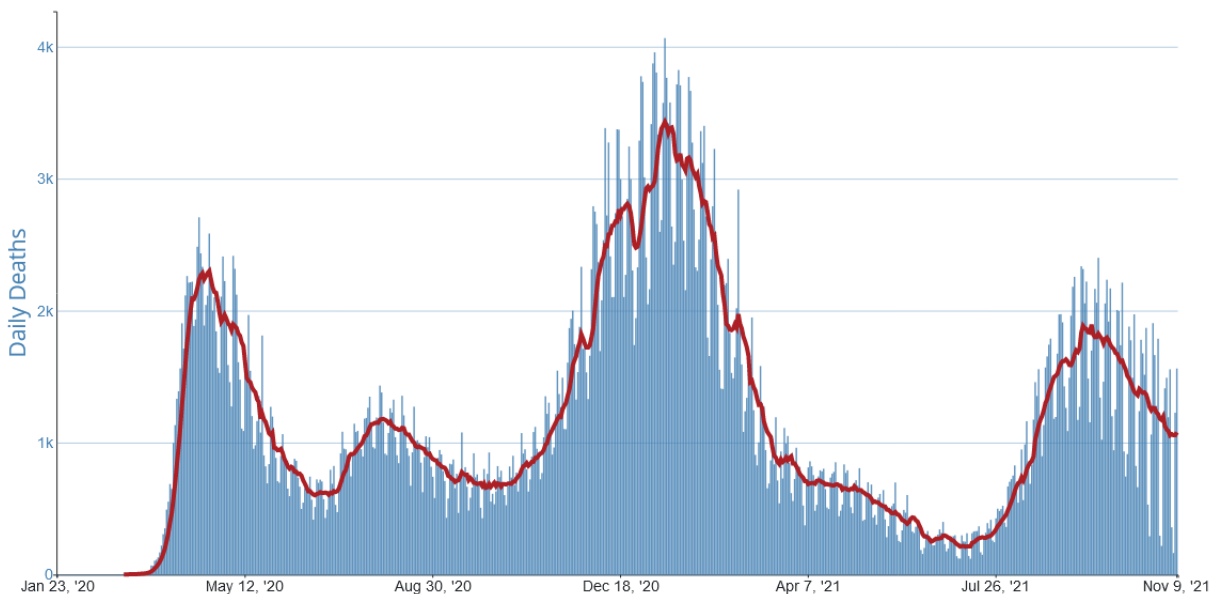
-28.8%

Percent change from peak 7-day
avg. of Nov 19, 2020 – Nov 25, 2020



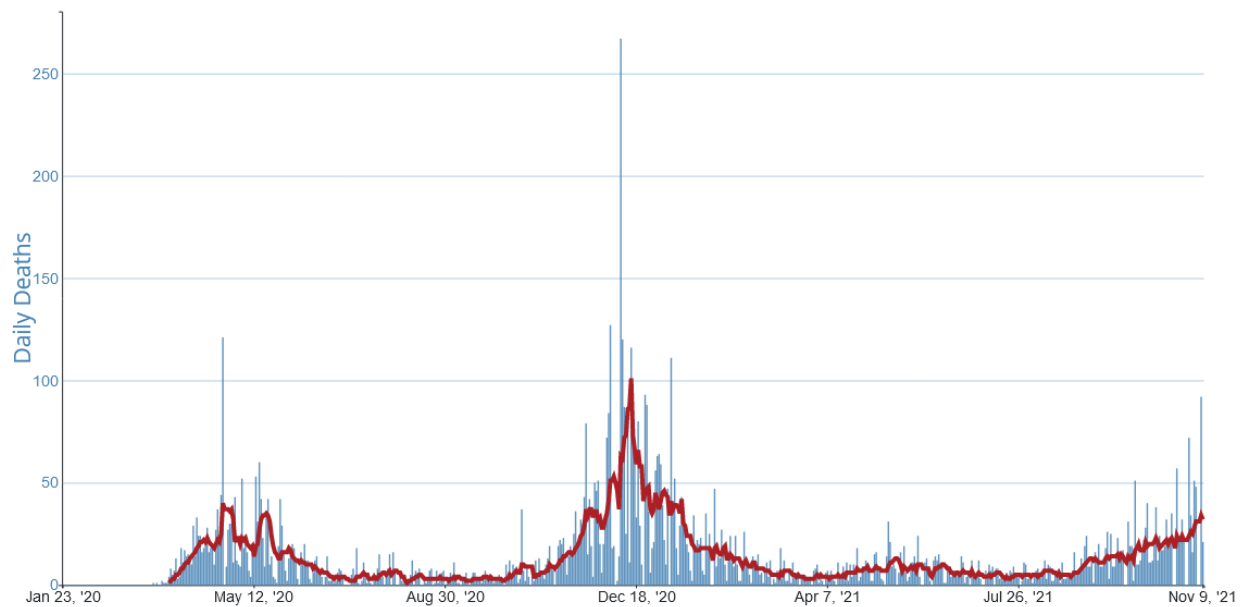
Nation-wide, deaths continue to decline, but are beginning to show signs of a bottom—again, far too high given the vaccine protection available to us.

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



And although the data in Colorado are thinner because of the smaller overall population, it seems clear that deaths continue to rise.

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



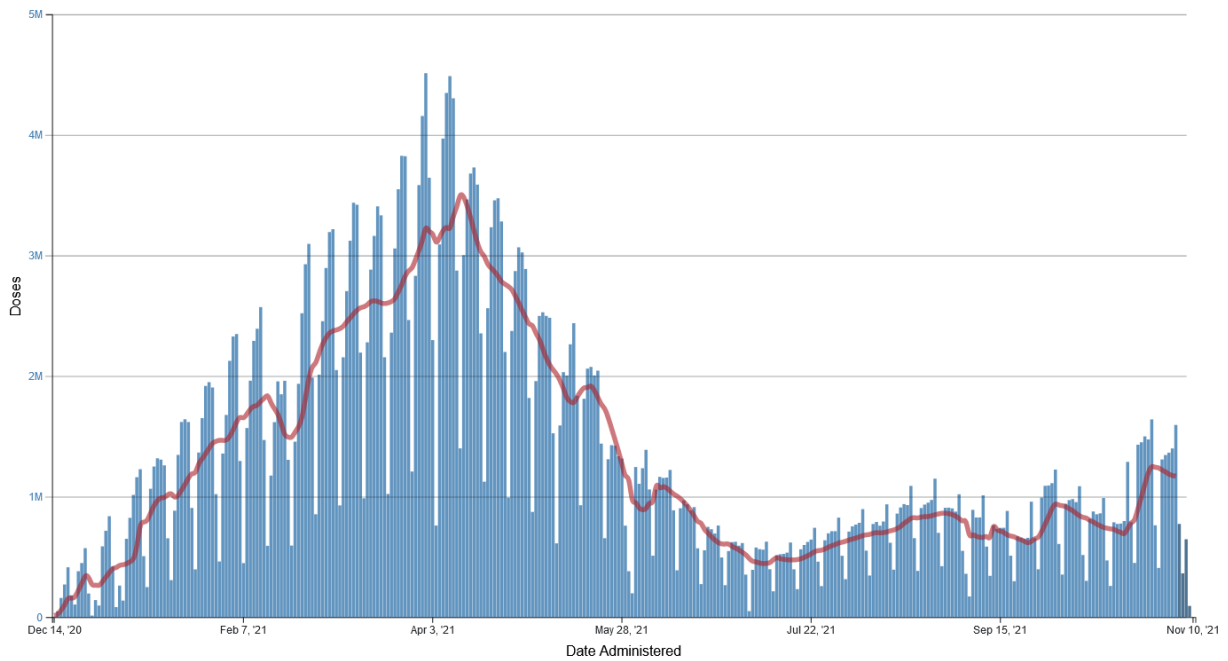
The confluence of all of these data takes us to the elephant in the room: Since the availability of COVID vaccines, there has been a [remarkable national coincidence](#) of the prevalence of the virus, the prevalence of vaccination, and the vote in the last presidential election. This coincidence of the numbers extends all the way down to the county level. As public health experts have been telling us for months, the key to suppressing the pandemic is vaccination, and vaccination has become a political statement—to the ill-health of too many Americans.

And as if that were not enough, [coronavirus infections have been found in 80 percent of tested Iowa deer](#). There is no telling how the deer got the infection from humans, and whether they could pass it back. But this surprising news at the very least raises the possibility that deer or other wildlife could keep the virus alive even after humans have defeated it, generate new variants among themselves, and then pass those variants back to humans at some later date.

6. VACCINE NEWS

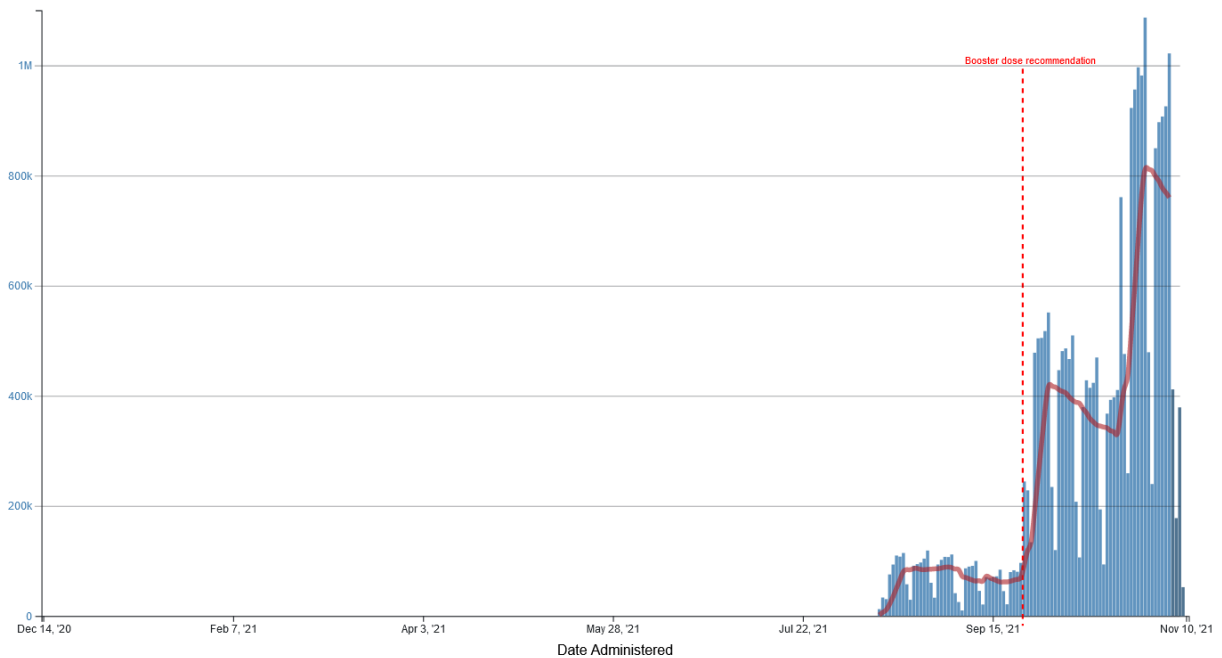
The sad trend of the last few weeks continues: Vaccinations are up, but even though there are some bright spots in the news, too many new vaccinations are going into already vaccinated people, not into the substantial unvaccinated minority who continue to give the virus fertile grounds to grow. Total new vaccinations are above the million-per-day level, but are declining somewhat.

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



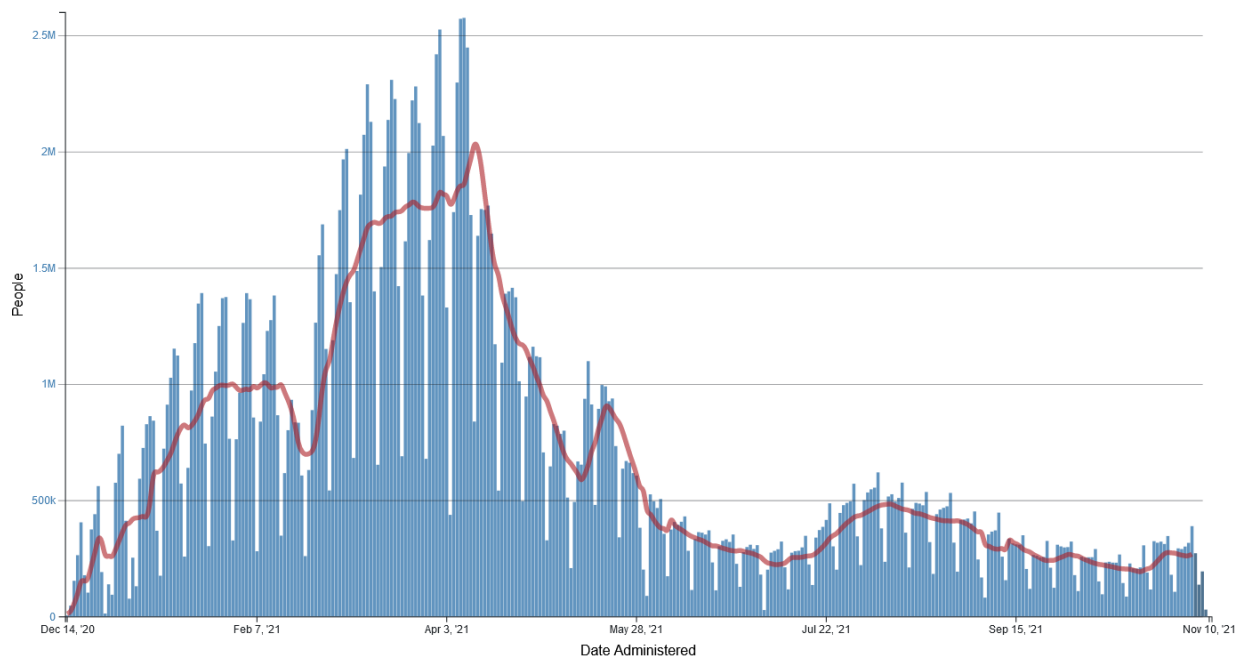
But of those one-million-plus new daily vaccinations, almost 800,000 are booster doses.

Daily Count of Fully Vaccinated People Receiving a Booster Dose Reported to CDC by Date Administered, United States

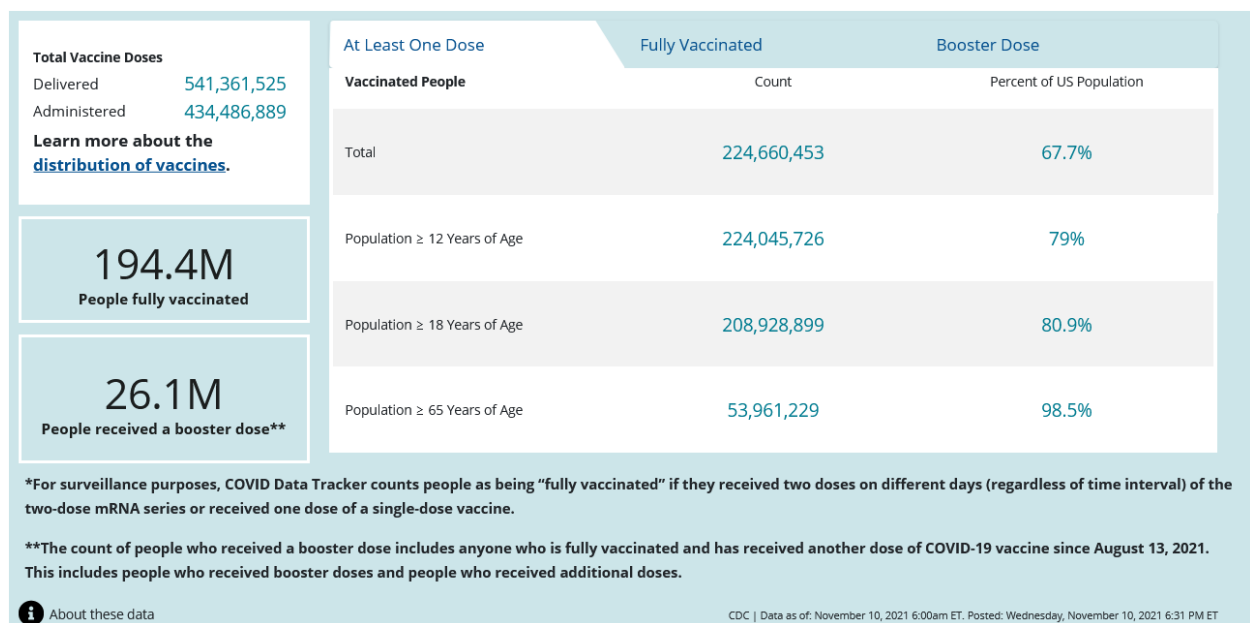


There is barely one new first vaccination for every four booster doses. A small upward blip in the first injections is a combination of the effect of mandates and the expansion of eligibility to 5-to-11-year-olds.

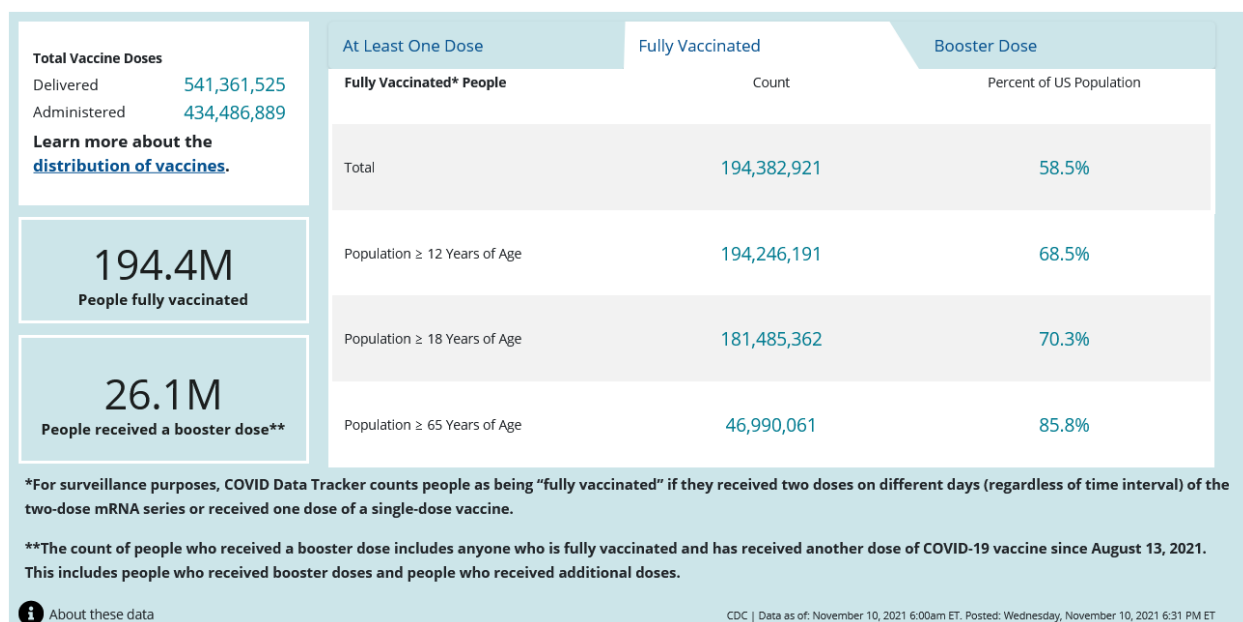
Daily Count of People Receiving Dose 1 Reported to CDC by Date Administered, United States



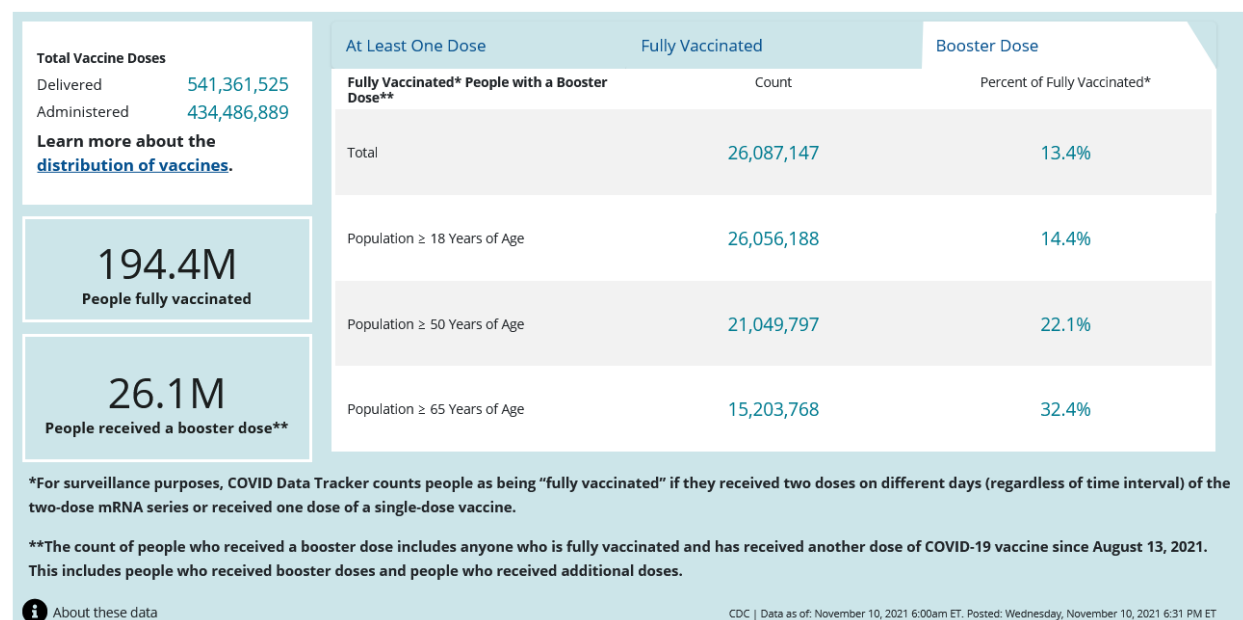
Total vaccinations are creeping upward. Now almost two thirds of the total population has received at least one dose. Over 98 percent of seniors have at least one dose.



Almost 60 percent of the total population has been fully inoculated; the proportion for seniors is over 85 percent.



Almost a third of seniors have had their boosters, and that number is rising rapidly. Booster penetration of the younger population, presumably the eligible frontline workers and the immune-compromised, is rising as well.



The Administration's vaccine mandate for large employers, as expected, is in court. The Justice Department has [filed arguments](#) against a temporary stay. Reportedly, large numbers of federal employees are [seeking religious and other exemptions](#) from the vaccine requirements being imposed on them.

Moderna has filed an [aggressive patent claim](#) for the mRNA vaccine, which allows no place for the contribution of the National Institutes of Health. There appears to be a long fight ahead.

And there is news on the booster front. Pfizer has [asked the FDA](#) to expand booster eligibility to all adults, broader than the current approval for the immuno-compromised and frontline workers (and seniors). And Colorado's Governor Jared Polis has already responded to its surge by [signing an executive order](#) that makes any adult who has passed the minimum time interval from his or her last dose (six months for the mRNA vaccines, two months for the Johnson & Johnson vaccine) eligible for a booster shot.

And there is more news on antiviral and other therapeutic drugs. Regeneron reported positive results for an [antibody cocktail](#), saying that it can cut the risk of contracting COVID by more than 80 percent. This approach is said to be a potentially fruitful alternative for those who are immuno-compromised or might otherwise not respond to vaccines. Both Pfizer and Merck have [announced positive results](#) for antivirals that in early treatment can prevent infected individuals from becoming seriously ill.

7. SPOTLIGHT ON REOPENING: CHINA AND “ZERO COVID” POLICY

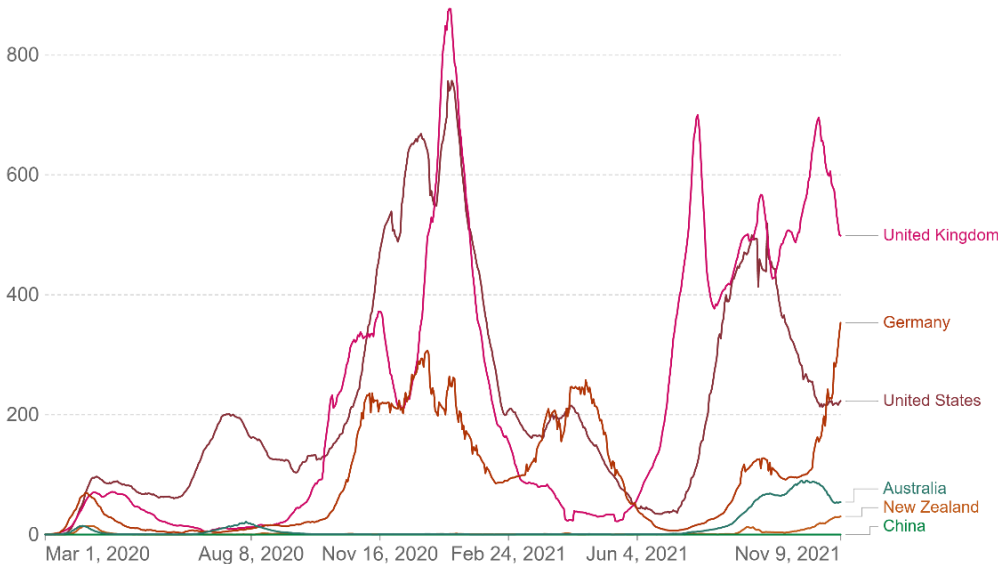
China now stands alone among Asia-Pacific countries in its zero-COVID strategy, as other nations have thrown in the towel on such [aggressive measures](#) to contain the virus.

A zero Covid strategy, [as commonly understood](#), involves strict lockdowns (even after the detection of just one or a handful of cases) and extensive testing, heavily controlled or closed borders, as well as robust contact tracing systems and quarantine mandates. Earlier in the pandemic, Australia, New Zealand and Korea employed such stringent social measures almost to the exclusion of vaccination, and achieved considerable success. However, in early October, New Zealand abandoned its zero-COVID strategy as the highly infectious Delta variant proved too difficult to stop amid strict lockdowns and closed borders. “For this outbreak, it’s clear that long periods of heavy restrictions have not got us to zero cases,” said Prime Minister Jacinda Ardern during a press conference. “But that is OK. Elimination was important because we didn’t have vaccines. Now we do, so we can begin to change the way we do things,” said Ardern. Likewise, in early September, Australia announced that it will from then on “[live with the virus](#),” abandoning its COVID elimination strategy. Thus, in a world with a vaccine, abandoning “zero COVID” means forgoing severe social policy crackdowns and accepting some infections in the interest of maintaining economic activity.

In contrast, the authoritarian state of China has decided differently as it continues to take its version of zero-Covid to the next level, imposing extensive testing and aggressive contact tracing and quarantine measures.

Daily new confirmed COVID-19 cases per million people

7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.



Source: Johns Hopkins University CSSE COVID-19 Data

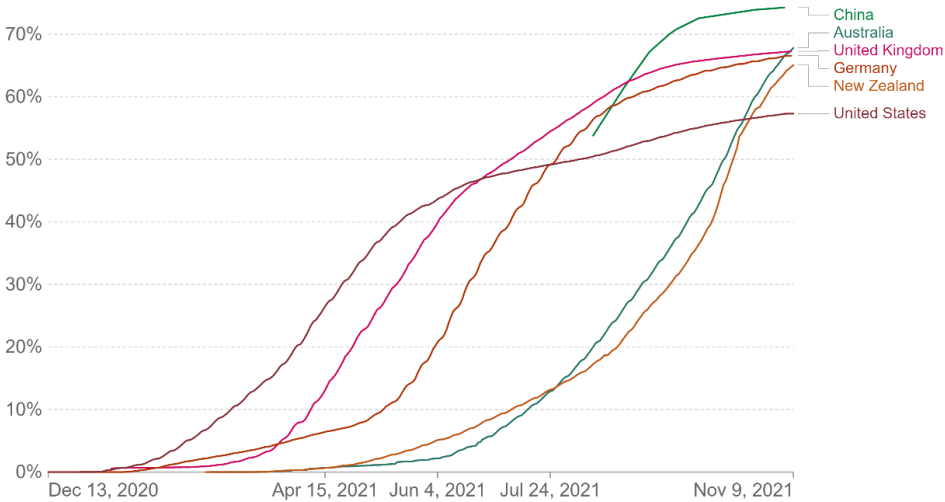
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Despite China's zero tolerance strategy combined with its [high vaccination rate](#) with 76 percent of the population being fully vaccinated, the virus continues to spread. To be sure, as the chart above indicates, China's reported infection rates are miniscule compared to other nations, and almost surely would be hailed as victories elsewhere. China's [Sinovac and Sinopharm](#) vaccines have both been shown to successfully prevent virus spread in countries using them – it is clear that the effectiveness of the country's vaccines is not the issue. "[We don't stand a chance](#) if we pursue a target of zero Covid," said Guan Yi, a virologist at the University of Hong Kong. Yi has been nicknamed the "virus hunter" by the Chinese media for his work in identifying the animal origins of the coronaviruses that caused SARS and MERS. A "zero tolerance" approach to Covid-19 will not succeed now that the coronavirus has fully adapted to people and cannot be eliminated, warned Yi. However, the response of Chinese authorities remains zero-COVID: doubling down on vaccination and strict stringency measures. Two weeks ago, China began vaccinating children as young as three years of age, and on the night of Halloween, visitors at [Shanghai Disneyland](#) were required to take COVID tests to exit the park after authorities learned that close contacts of a COVID-19 case had visited the park the week before.

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

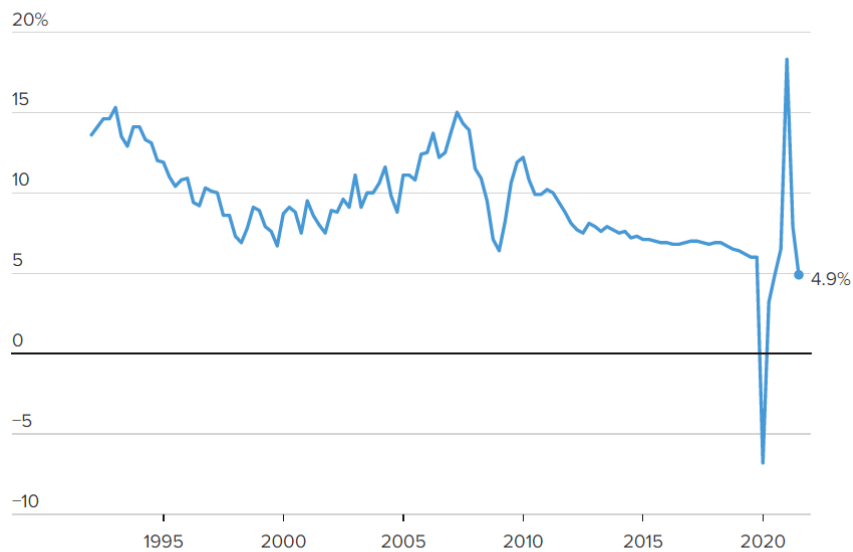


Source: Official data collated by Our World in Data. Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.
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The fear is that China risks economic collapse if authorities continue to pursue zero-COVID amid the country's [economic slowdown](#). Industrial activity has slowed as a major energy crisis continues to hit production. Meanwhile, real estate giant Evergrande strains under its debt burden as the government tries to deleverage the sector; fears of industry collapse have spread to other developers. Domestic demand will remain under pressure if China sticks to its zero-COVID strategy. There is no sign that China will ease its stringency measures any time soon, but in the meantime, it is safe to say that economic activity will continue to slow in China, said Hao Zhou, senior emerging markets economist at Commerzbank.

China's economic performance

Year-on-year percentage change in real GDP



Source: National Bureau of Statistics of China, Refinitiv

