CED Public Policy Watch

12.17.2021

1. UNEMPLOYMENT CLAIMS RISE BUT REMAIN NEAR 52-YEAR LOW

New weekly Unemployment Insurance (UI) claims rose for the week ending December 11. The headline seasonally adjusted number increased by 18,000 to 206,000 (and was revised higher for the previous week, which had seen an epic decline), but remains well below the pre-pandemic 2019 levels that averaged 218,000 per week. The four-week moving average, which removes some of the volatility in the data and reflects the longer-term trend, fell for the tenth consecutive week to its lowest level since 1969. Employers continue to try to avoid layoffs given a labor market characterized by a smaller labor pool, elevated quit rates, and high employer demand for workers—all while supply chain disruptions and ongoing fear of COVID-19 variants intensify labor pressures.

The total number of individuals receiving regular state benefits (reported with a one-week lag) fell by nearly 8 percent to its lowest level (1.8 million) since the beginning of the pandemic. However, continuing claims for (expired) pandemic-related UI programs rose nearly 40 percent, the first increase in 12 weeks. This pushed the total number of UI claimants under both state and federal programs, which had fallen below the 2 million mark the previous week, back to nearly 2.5 million (compared to an average of 1.7 million per week in 2019). The administrative complexities of winding down these benefits continue to roil the numbers.

2. FEDERAL RESERVE TURNS TOWARD TIGHTENING

In its meeting this week, the Federal Open Market Committee (FOMC) took action to reduce its injection of liquidity into the economy, and signaled its intent to begin to turn toward tightening earlier than it had previously indicated. On the first score, the Federal Reserve will reduce (“taper”) its monthly asset purchases more quickly—twice as fast as it previously had. After that, the individual FOMC members, in their own personal forecasts of the economy and of the resulting optimal monetary policy, showed an expectation of earlier increases in the Federal Funds "policy" interest rate than they had when last they expressed their views on the outlook.

The new pace of tapering asset purchases will bring those purchases down to zero in just two more FOMC meetings. As always, the FOMC's statement promised to continue to review the economic situation from day to day, and to revise actions as appropriate. But Chair Powell said in his press conference that he has a strong expectation that this pace of tapering will be continued, because the economy is growing strongly, and the labor market has been improving by the month, with unemployment now approaching (but not yet achieving) "maximum employment."

On the second score, the FOMC members' "Summary of Economic Projections," or SEP (which has come to be affectionately known as the "dot plot"), now shows a median anticipation of the Federal Funds rate at 0.9 percent in 2022 (in September, the median was 0.3), rising to 1.6 percent in 2023 (was 1.0) and 2.1 percent in 2024 (was 1.8 percent). On a continuing basis, the FOMC median view is that the Fed Funds rate would settle at 2.5 percent, and so clearly the members anticipate that the economy will be back to a steady state in just a few years. In fact, the median member view is now that the unemployment rate will reach 3.5 percent next year. Again, the SEP is the outcome of individual members' economic forecasts and assessment of resulting appropriate monetary policy. It is not negotiated among the members, in terms of either the economic forecasts or the resulting monetary policy decisions, and there is no question that the members' opinions will change as the data change from week to week.

Chair Powell was asked in his press conference about the possible effect of the Omicron virus variant on these expectations. He expressed confidence that the labor market is improving rapidly enough, and that the economy is strong enough, that it is unlikely that the variant will lead the FOMC will choose to change its decisions in the near term. But as always, he pledged to watch the data closely.

Chair Powell also said that the weakest aspect of the labor market has been the slow and incomplete recovery of labor force participation. He cited the reluctance of some people to expose themselves to the pandemic, and the difficulties that some families have had in engaging needed child care. He also pointed out the likely increase in retirements. Notably, the most commonly cited labor force participation rate is the percentage of persons aged 16 and over—no upper limit—who are working or looking for work. Some erroneously see the current participation rate—61.8 percent—as an indication of a massive 38.2 percent of the adult population as available for work. But many of those not in the labor force are full-time students or retired persons (or parents who prefer to stay at home) who will not choose to work under any circumstances. And in particular, many baby boomers, with growing retirement portfolios and concern about COVID, have chosen to retire and therefore dropped out of the labor force. Chair Powell noted that we may not see labor force participation rate numbers as high as those that preceded the pandemic for that reason.

In summary, Chair Powell stated again that the economy has strengthened more rapidly than had been anticipated at the time of the coronavirus outbreak, but that the coronavirus itself has hung on longer than had been expected. As a result, the labor market has improved rapidly, but inflation has hung on longer, and there remains a potential cost of expectations of inflation to become somewhat stronger and closer to self-fulfilling. Therefore, the FOMC is balancing in the middle of its dual mandate of maximum employment and stable inflation, with the result being the dance that you see in this decision. Economists used to talk about policy trying to achieve a smooth landing for the economy, until we realized as a group that the economy never lands. So the dance will go on; enjoy the show.

A Must Read: Dana Peterson, Chief Economist of The Conference Board, penned an article on the Federal Reserve in the WSJ Year in Review Special Section on 12.16.2021

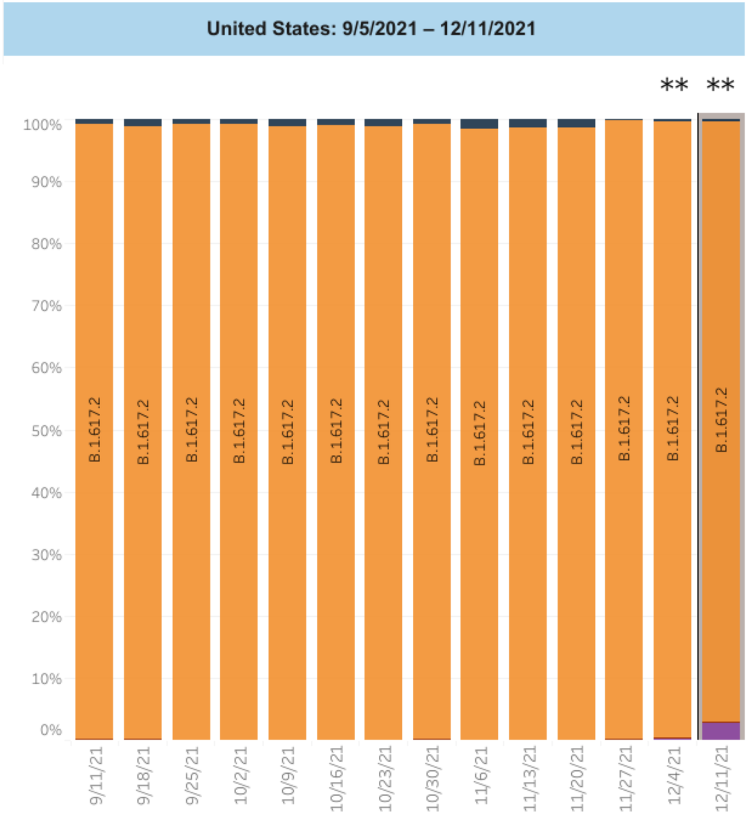
3. BUILD BACK BETTER INTERMISSION: PAULINE TO RETURN AFTER REEL CHANGE

The administration and its congressional majority had a strong and openly expressed goal (failing several earlier goals) of passing the Build Back Better reconciliation bill before going home for the holidays. That now appears increasingly unlikely. President Biden acknowledged on Thursday that the omnibus budget bill is unlikely to pass before the end of the year. A further giveaway was that the Senate has altered its 2022 schedule to return to Washington on January 3, one week before the prior plan. That would seem to signal that there will be more work to do, and Build Back Better would be the logical project. The next potential deadline would be the president's State of the Union address in late January. And failing that, although anything is possible, the consensus is that the longer the bill drags on into an election year, the less likely it is to pass.

4. PANDEMIC NEWS

It's all Omicron, all the time. And in fact it may soon be all Omicron.

The test case for the United States is the United Kingdom, which was exposed to Omicron before the US was. Authorities there estimate that a massive 200,000 new Omicron cases occurred in just one day. Omicron cases are estimated to be doubling every two days. The United States appears to be headed down the same path. The earliest results of genomic testing show an enormous range of uncertainty, but no question that Omicron cases are increasing rapidly. And the upper bound of the Omicron share of new infections in the week ending December 11 is 14.7 percent. That is an increase from essentially nowhere the week before. Various localities and institutions have reported substantial increases in new cases of COVID, although genomic testing is struggling to catch up with the changing prevalence of variants.



United States: 12/5/2021 – 12/11/2021 NOWCAST

USA

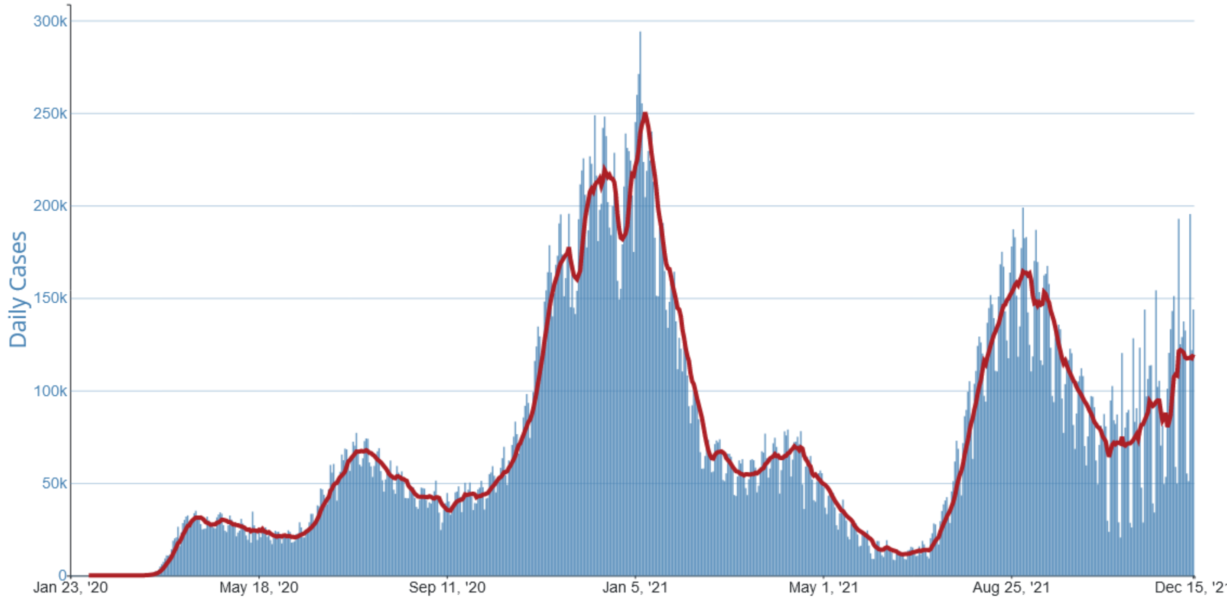
WHO label	Lineage #	US Class	%Total	95%PI
Delta	B.1.617.2	VOC	96.7%	85.9-99.6%
	AY.1	VOC	0.1%	0.0-0.1%
	AY.2	VOC	0.0%	0.0-0.0%
Omicron	B.1.1.529	VOC	2.9%	0.2-14.7%
Other	Other*		0.3%	0.2-0.6%

* Enumerated lineages are US VOC and lineages circulating above 1% nationally in at least one week period. "Other" represents the aggregation of lineages which are circulating <1% nationally during all weeks displayed.
** These data include Nowcast estimates, which are modeled projections that may differ from weighted estimates generated at later dates
# AY.3-AY.125 and their sublineages are aggregated with B.1.617.2. BA.1 and BA.2 are aggregated with B.1.1.529.

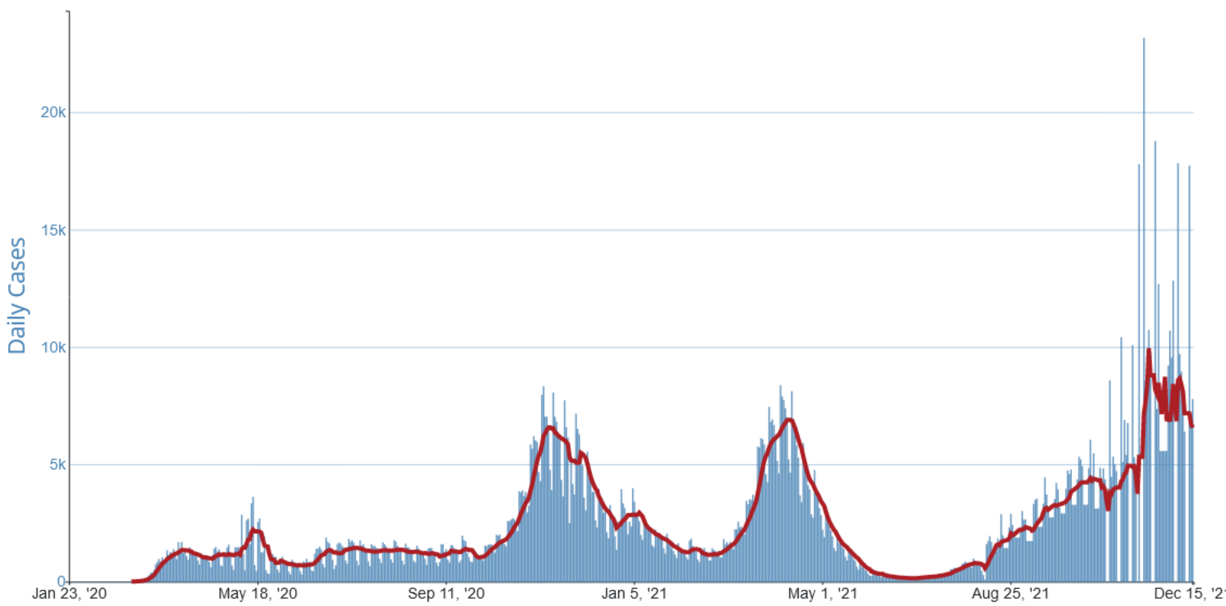
The good news, such as it is, is that existing COVID tests pick up Omicron, antiviral drugs (more below) are expected to work against it, and cases thus far appear to be comparatively mild, by and large. However, the first UK Omicron fatality was reported this week, and the variant is too new for us to be confident that it is mild rather than just slow, or that it will be any less likely to cause "long COVID" symptoms. Furthermore, even if Omicron infections are generally mild, the number of cases appears destined to be so large that the absolute number of fatalities may be painful, and the burden on already strained hospitals will harm all patients, from COVID and other ailments and injuries. And if persons with mild Omicron symptoms do not recognize them and isolate themselves, they will be more likely to spread the disease to others, who may not be so fortunate.

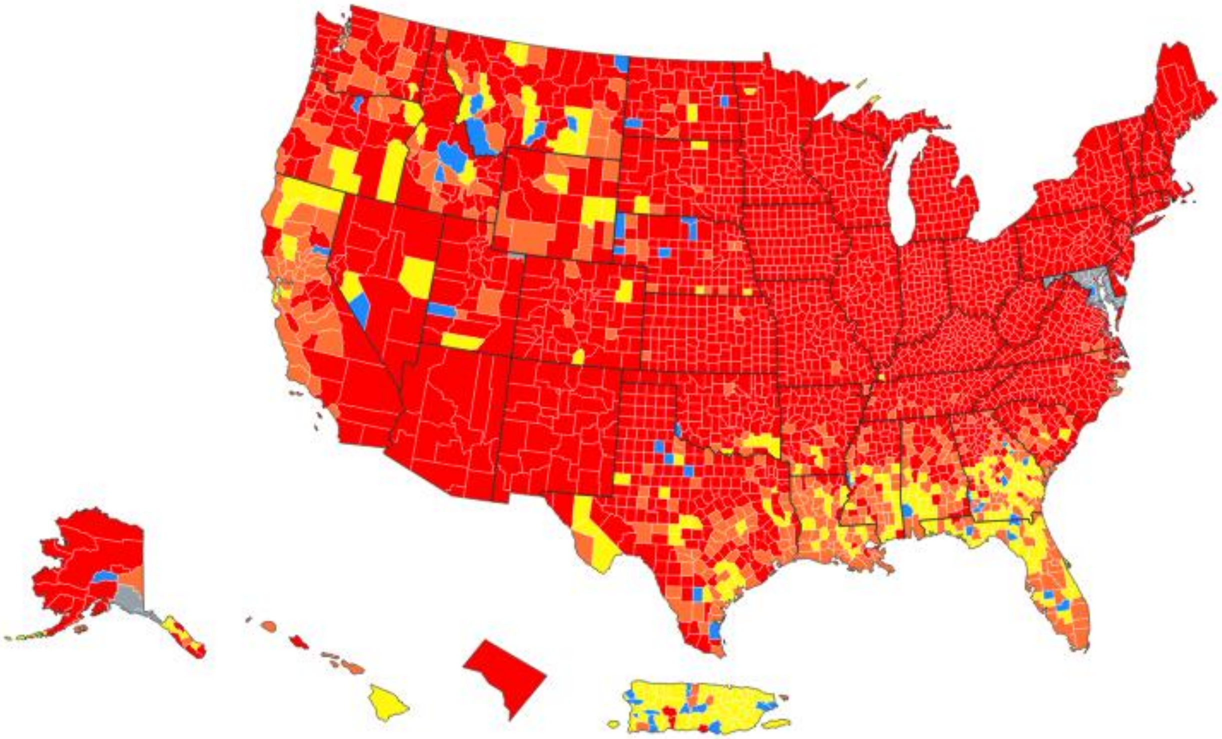
And the United States was suffering more than enough from the Delta variant already. The case count remains elevated nationally, and the winter is still young. New case counts in the current poster child of Michigan are just topping out, and whether Omicron will find fertile ground in the unvaccinated but currently burned-out South remains to be seen.

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



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

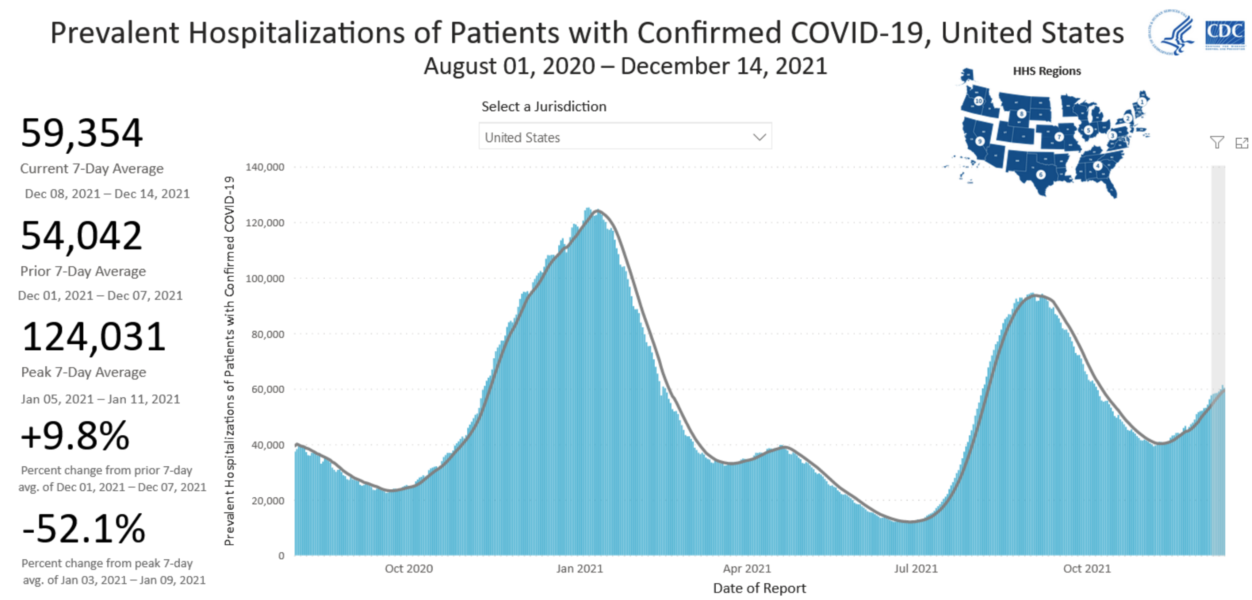


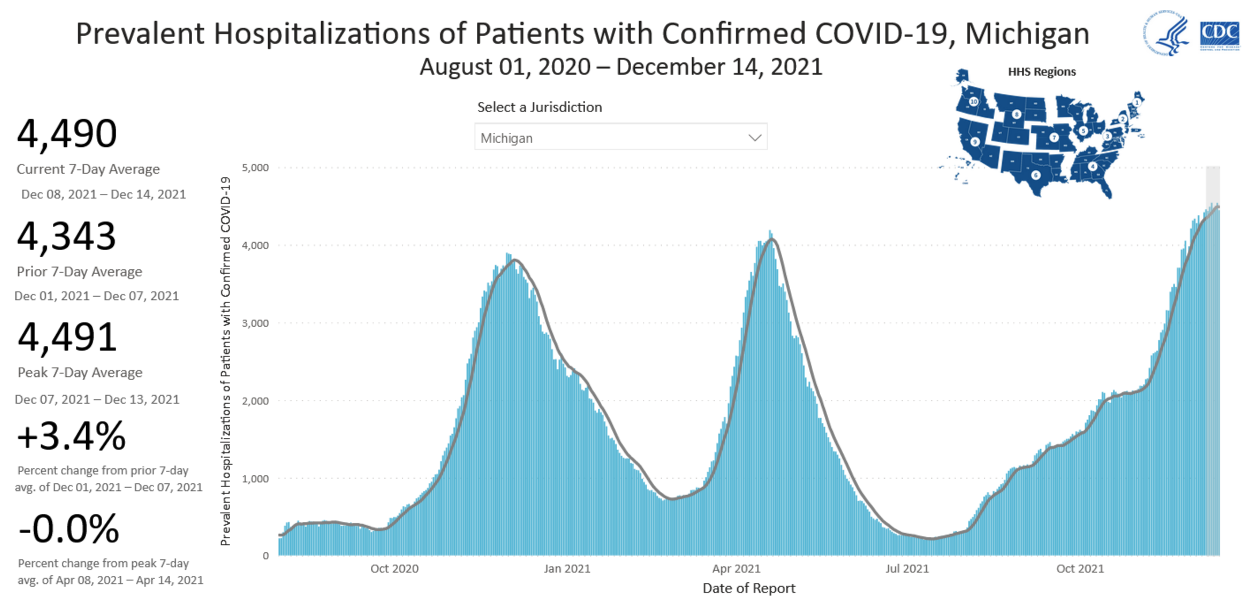


Community Transmission in US by County

	Total	Percent	% Change
High	2507	77.81%	-1.18%
Substantial	386	11.98%	2.05%
Moderate	240	7.45%	-1.92%
Low	61	1.89%	0.31%

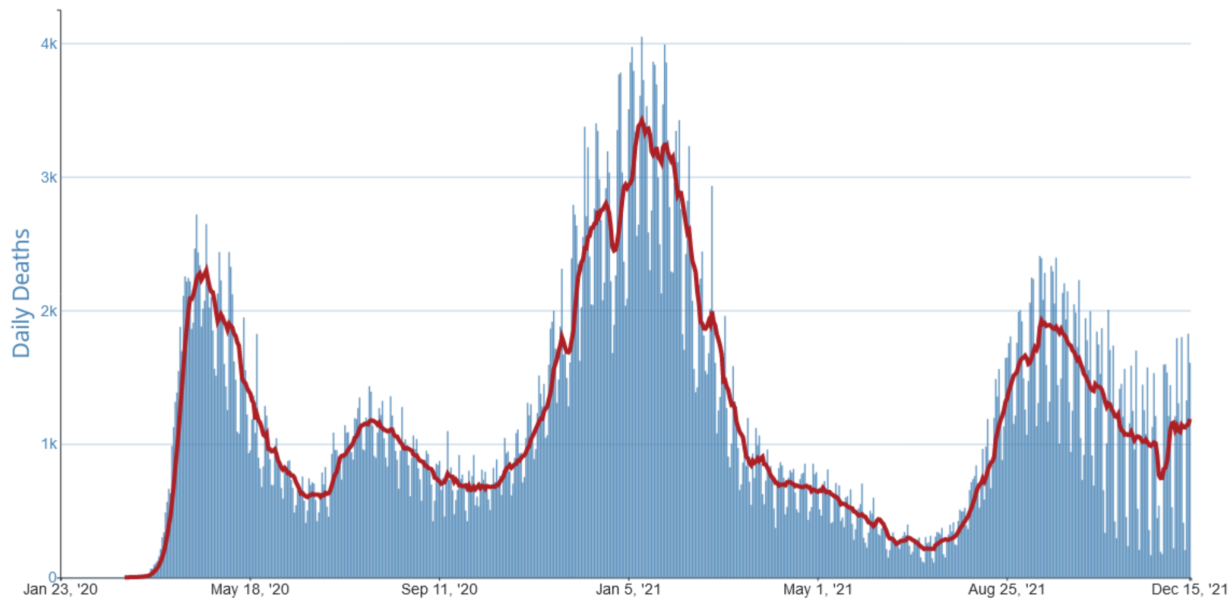
Nationally, hospitalizations are still rising. In Michigan, hospitalizations continue to increase from what are already all-time pandemic record levels.



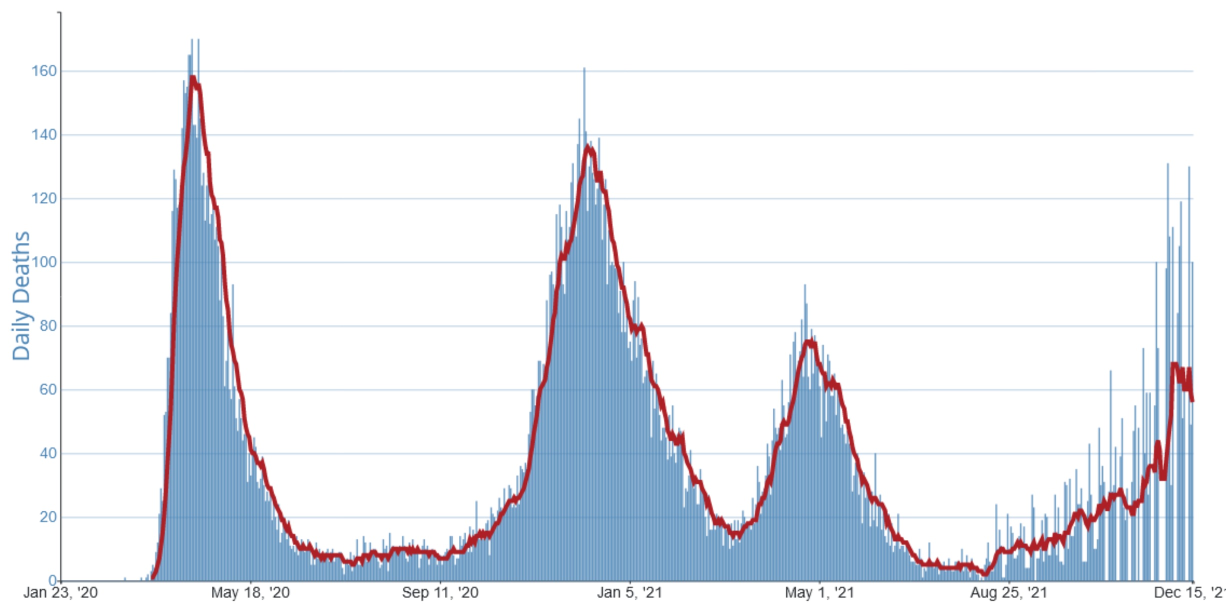


And the death count continues to rise, although the pace has slowed in recent days, nationally and in bellwether Michigan.

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



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



5. VACCINE AND REMEDY NEWS

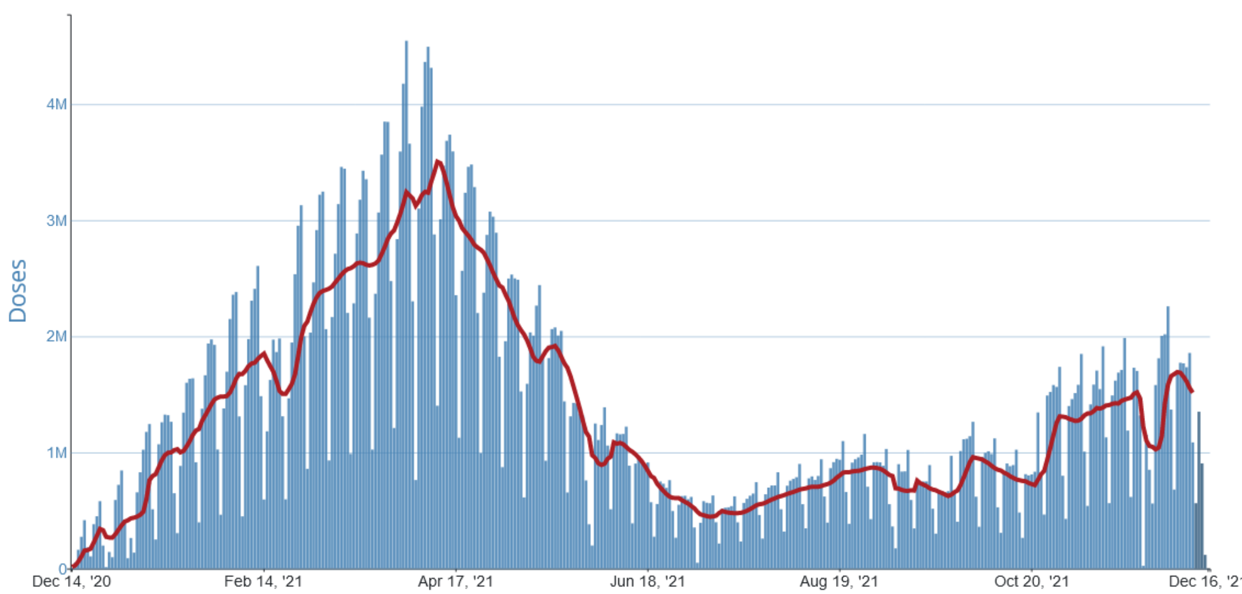
The Centers for Disease Control and Prevention changed its vaccine recommendation to specify that the mRNA vaccines (Pfizer and Moderna) are “preferred” over the Johnson & Johnson vaccine. The CDC based its recommendation on the greater risk of blood clotting (thrombosis with thrombocytopenia syndrome, or TTS) and the lower protection of the J&J vaccine. The blood clotting had been detected earlier, but more recent data indicated that it is more common than had been previously understood. This decision comes at a difficult time, given that vaccination is the most important element in the battle against the virus, but public trust is in short supply.

Meanwhile, researchers are [struggling to determine the efficacy] of existing vaccines against Omicron. The current unclear picture suggests that two doses of the current mRNA vaccine provide less protection against Omicron infection than against previous strains of the virus; Omicron has achieved "escape" in that sense. However, two doses do appear to provide better protection against serious illness than against mere infection. With a booster dose, the existing vaccines perform better, and there are indications that a previous infection can add some protection to a later vaccination (although the protection from previous infection alone remains unpredictable).

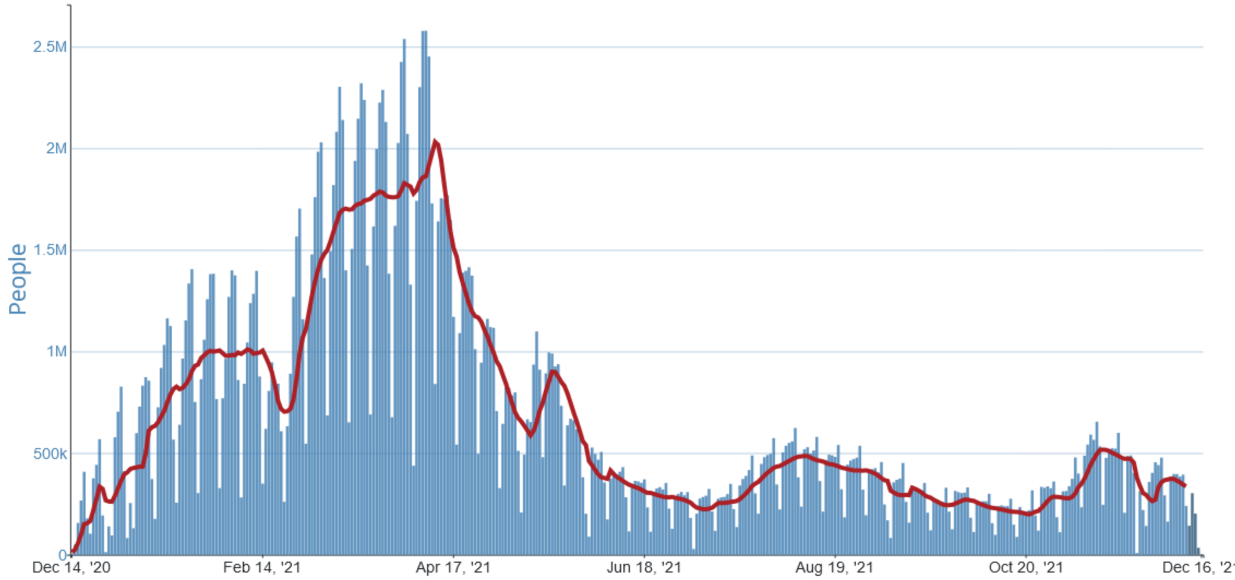
Pfizer's antiviral drug treatment [appears to be effective], including quite possibly against the Omicron variant. A weakness of the antiviral drug remains that it must be administered early in the infection to be most effective, and so early mild symptoms might not trigger a victim to seek treatment in time.

The number of vaccinations administered continues to trend up, but that remains mostly because of boosters given to people who already have been protected. First vaccinations are trending down, and continue to be too low to provide any realistic prospect of "herd immunity."

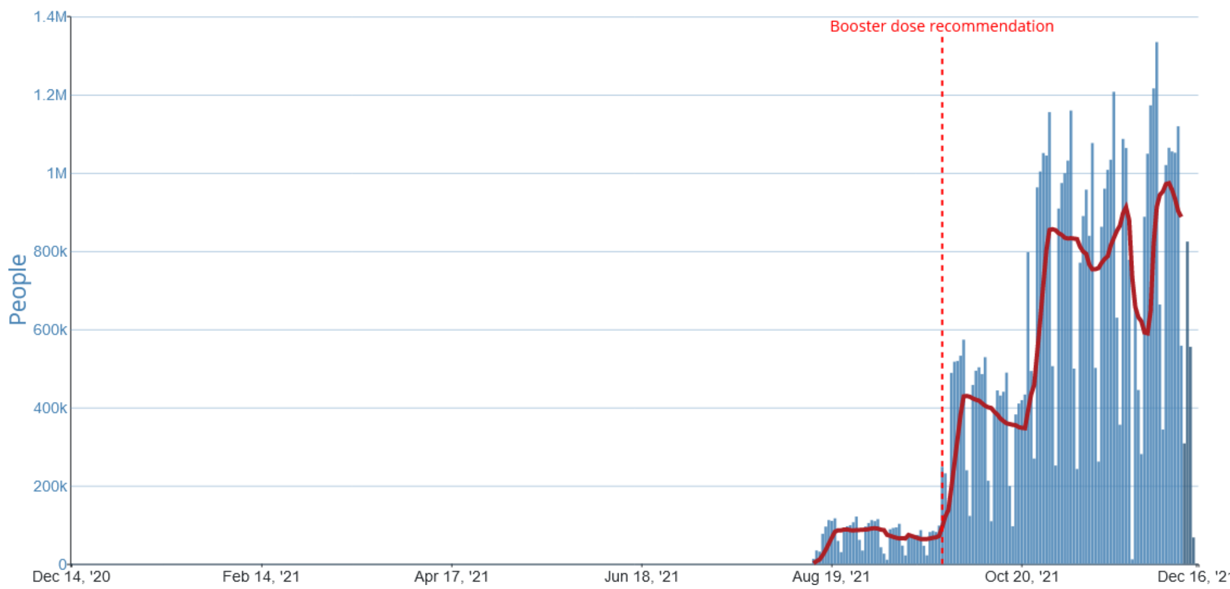
Daily Count of Total Doses Administered and Reported to CDC by Date Administered, United States



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



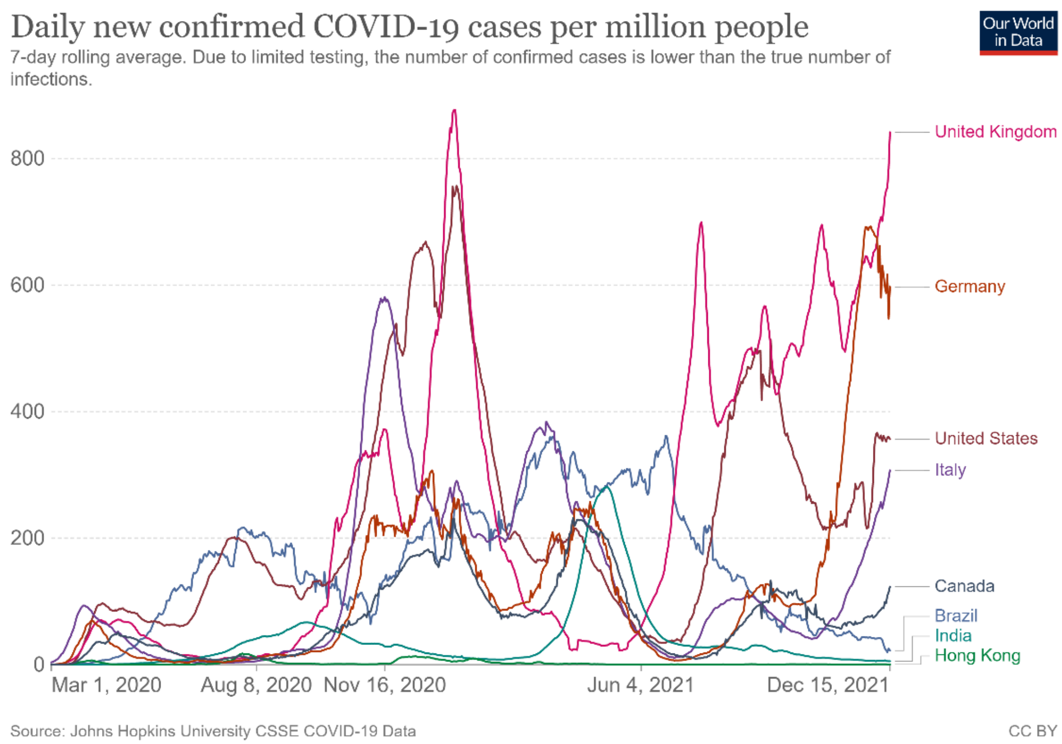
Daily Count of Fully Vaccinated People Receiving a Booster Dose Reported to CDC by Date Administered, United States



Although the reporting of data lags somewhat, the best information continues to indicate that vaccinated persons continue significantly less likely to either contract COVID or to die from it. [Deeper analysis presented by the Kaiser Family Foundation]() finds that fully vaccinated persons who have been hospitalized for COVID are disproportionately older or suffering from co-morbidities than unvaccinated hospitalized persons. The authors interpret this finding as an indication that vaccination is even more protective, all else equal, than the raw data would suggest.

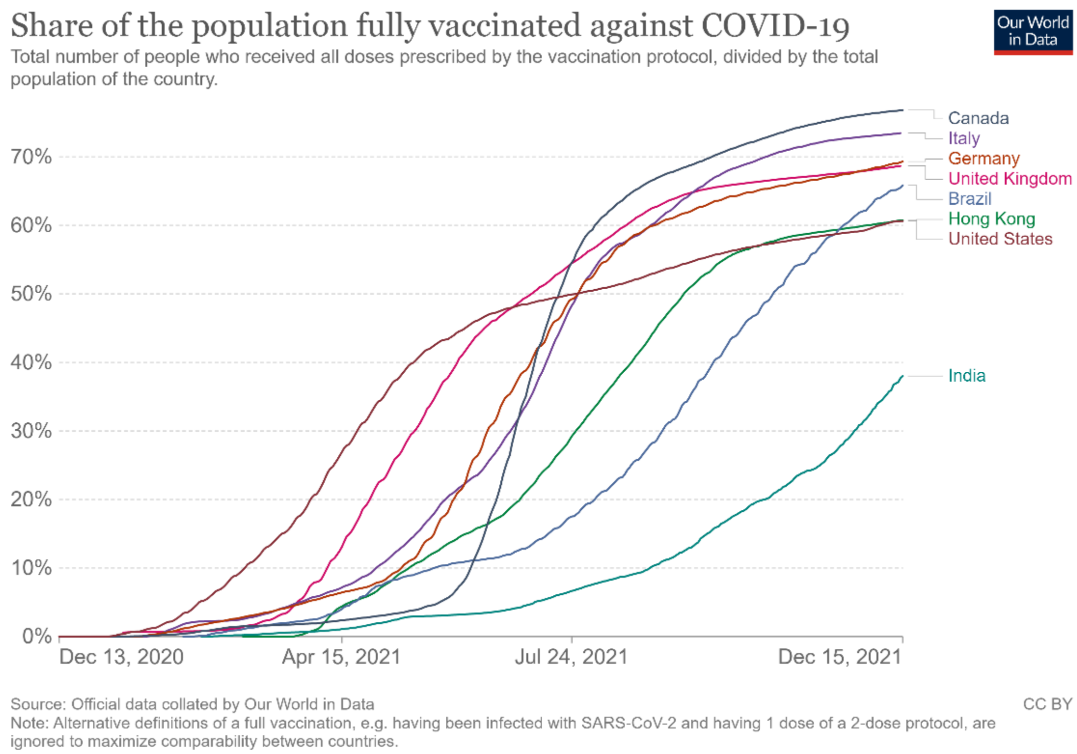
6. SPOTLIGHT ON REOPENING—HONG KONG: RESTRICTIONS ON US AND UK TRAVELERS

Just before the holidays, Hong Kong has clamped down – even further – on its international travelers. Hong Kong residents with plans to visit family and friends in the US and the UK are cancelling their flights as the government intensifies what were already considered some of the strictest travel curbs in the world. The new policy, which took effect Monday, requires travelers returning from the US and the UK to spend a week of quarantine in a spartan isolation camp followed by another two weeks in a hotel room paid for out of their own pockets. The UK joined the US as the only two non-African countries on the highest-risk countries list after the UK confirmed its first Omicron-related death on Monday. The US found its place on the list after Hong Kong authorities located a single traveler infected with Omicron who had flown in from Los Angeles.



Hong Kong's zero-COVID strategy is in line with that of mainland China, requiring highly strict contact tracing, quarantine measures, and travel restrictions. On Thursday, organizers of a prominent international tech conference announced that amid the travel uncertainties, they are postponing a Hong Kong event that was to take place in March 2022. In Hong Kong, all public events have been postponed, and all international travelers, no matter the status of the virus of their country, are required to quarantine in government-approved hotels on their own dime. Pilots are not exempted from Hong Kong's quarantine measures, meaning they spend an exceptionally large portion of their days either working or in quarantine. A pilot with Cathay Pacific, Hong Kong's flagship carrier, noted that he has spent almost 150 days in isolation this year alone. Due to being marked as a close contact with someone who tested positive, he was sent to Penny's Bay, a quarantine isolation center criticized for its living conditions. The pilot noted that being in Penny's Bay was like being in "solitary confinement" in a cramped room that "got zero sun." The families of positive cases and close contacts, including children and pregnant women, have also been required to stay at the facility.

For months, business leaders have urged Hong Kong to loosen its quarantine measures out of fear that the city would lose its international talent and appeal as an international financial hub. Only travelers from mainland China are exempt from the highly stringent quarantine measures. However, those travelling from Hong Kong into most provinces of mainland China are required to quarantine for three weeks. Hong Kong has had near-zero locally transmitted cases in recent months.



Two vaccines are available in Hong Kong: China's Sinovac and Pfizer-BioNTech. A new study examining the blood of people who received either of the two vaccines revealed that Sinovac and Pfizer are both much less effective against the Omicron variant. The scientists from the University of Hong Kong, who investigated the blood samples of 25 individuals vaccinated with Sinovac, found that none of the samples produced sufficient antibodies to prevent the virus variant from invading cells. It is not yet clear whether a third dose of Sinovac would improve antibody response. The study also included 25 blood samples of individuals vaccinated with Pfizer and found that less than one-quarter of the subjects produced antibody levels capable of neutralizing Omicron. The researchers urged the Hong Kong public to get a third dose of vaccine as soon as possible, although they did not specify what kind.