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1. CBO'S ECONOMIC OUTLOOK FOR 2020 AND 2021

On Tuesday, the Congressional Budget Office revised its economic projections for 2020 and 2021. Absent additional legislative action, CBO expects inflation-adjusted GDP to drop 11 percent in the second quarter of 2020 before beginning a recovery in the second half of the year. Nonetheless, despite the increase in economic activity, CBO projected that GDP would be 5.6% smaller in the fourth quarter of 2020 than the same time last year. CBO expects that real GDP will remain below end-of-2019 levels beyond the end of 2021. By comparison, during the financial crisis of 2008, real GDP fell by only 4 percent over the course of a year (and took an additional two years to recover to the previous high).

On employment, CBO projects that the second quarter of 2020 will be the steepest deterioration in employment since the Great Depression, and that the US will average a roughly 16 percent unemployment rate in the third quarter of the year. When accounting for declines in the labor force, CBO expects that an average of 25 million fewer people will be employed in the second and third quarters of 2020 compared to the fourth quarter of 2019. Thereafter, CBO projects employment to improve steadily but slowly, with the unemployment rate still averaging nearly 9 percent in the fourth quarter of 2021. During the Great Recession, the unemployment rate topped out at 10 percent—and was at least 9 percent for 19 months.

CBO cited three factors that would slow down job growth—the waning of the Paycheck Protection Program in the coming months which may precipitate more layoffs and furloughs, health worries inhibiting the search for new jobs, and states' financial crunch leading to more layoffs in those sectors.

Meanwhile, the Labor Department announced that 2.4 million unemployment claims were filed last week, down from the previous numbers, but still historically high. These numbers do not include self-employed and gig workers who receive unemployment benefits through the CARES Act.

In CBO's assessment, Federal legislation and monetary policy is helping to mitigate the deterioration in economic conditions, leading to higher real GDP and employment over the next few years and especially in the second and third quarters of 2020. CBO expects that recent legislation will add $2.8 trillion to Federal deficits over the next two years but does not provide specific estimates of the legislation's economic effects.

2. POWELL AND MNUCHIN TESTIFY ON COVID-19, ECONOMY & RESPONSE

Federal Reserve Board Chairman Jerome H. Powell and Treasury Secretary Steven T. Mnuchin testified (remotely and simultaneously) before the Senate Banking Committee on Tuesday. Their joint testimony is required under the CARES Act.

Chairman Powell's testimony followed on the release of the minutes of the Fed's April meeting, and also his speech at the Peterson Institute for International Economics a week earlier. He expressed concern that crises of liquidity for many businesses could deteriorate to crises of longer-term solvency, and pointed out that while the Fed is prepared to do more, it does not have powers of taxing and spending, only of lending. He concluded that the Congress and the White House must maintain flexibility to act further as well.

In his testimony, Secretary Mnuchin agreed in general terms that the economy is suffering, and is at risk. He was inclined to proceed with reopening the economy and to observe the resulting progress before further legislative action by Congress. In a virtual event hosted by The Hill, on Thursday, Mnuchin Mr. Mnuchin said that the COVID-19 recession will likely bottom out in the second quarter and predicted a "gigantic increase" in output in the fourth quarter and while continuing to support holding off additional support, noted that there's a "strong likelihood" more will be needed. In the same virtual event, Mnuchin indicated that the unemployment provision of the CRES Act may need to be reviewed, so that UI benefits did not exceed workers' salaries before being laid off. He also indicated that if small businesses needed more support for overhead than provided for under PPP they could apply for other SBA loans.

In the Sente hearing, members asked about delays in the beginning of operation of the Fed's various lending facilities. A major factor cited by the witnesses was the unprecedented nature of the new entities. Many of the technical problems arise because of "seams" in the operations of the facilities relative to one another and to the existing programs, such as the Paycheck Protection Program SBA loans. The PPP was designed to begin operation quickly and to err on the side of inclusion, which caused some unhappiness with comparatively large businesses that were able to access it, and with some small affiliates of larger businesses that could not. Frequently noted, of course, were the many extremely small businesses that could not get the attention of banks to obtain loans.

Some Senators in the hearing objected to size and employment constraints on the new Main Street lending facility, arguing that specific firms will be too large for that entity, but are too small to access the financial markets directly, and so will go without liquidity support. Likewise, Secretary Mnuchin has been confronted by the competing values of avoiding loan losses for the Treasury (which will reimburse the Federal Reserve for failed loans), on the one hand, and extending credit broadly to help businesses that would otherwise fail, on the other. Chairman Powell took criticism for supporting the junk bond market, which some Senators considered speculative and tilted toward the well-to-do, although Chairman Powell responded that businesses that were highly rated before Covid-19 had been forced to turn to the junk debt market and could otherwise be faced with insolvency and inevitably with mass layoffs. In sum, the unprecedented challenge of dealing with the current economy and the financial markets was on full display.

3. TCB LEADING ECONOMIC INDICATIOR (LEI) POINTS TO A DEEP RECESSION

The Conference Board Leading Economic Index®(LEI) for the US dropped 4.4 percent in April, following a decline of 7.4 percent in March. The decline marks the end of more than 11 years of economic expansion and clearly indicates the US economy is now in deep recession territory. This downturn differs from previous recessions—the bursting of the tech bubble in 2001 and the Great Recession of 2008–2009. This time, there were few indications of a potential downturn, but once the shock of the pandemic hit, the drop was much sharper. The underlying components of the index show spotty improvements in financial markets in April. However, the widespread damage to labor markets and industrial activity suggests the imminent reopening of some sectors won't be enough to generate a fast rebound for the economy at large.

4. CDC GUIDANCE ISSUED

The Centers for Disease Control last Sunday supplemented its series of one-page reopening guidance pages with a more-detailed 60-page road map for states, schools (at all levels), childcare programs, mass transit, and other businesses and workplaces. The CDC has provided detailed guidance in past episodes of public health uncertainty, and its advice has been relied upon. While no specific guidance was issued for religious institutions, it has been reported that CDC may be releasing that shortly.

5. STATES REOPENING CONTINUES

Reopening

Most states are now operating without active statewide stay-at-home orders, though many still have significant restrictions on specified activities or regions based on risk or public health conditions. As of May 20, only thirteen states (including DC) had statewide stay at home orders still in place. Sixteen states were strictly restricting restaurants to take-out/delivery options, though most of the states allowing dine-in options were still imposing restrictions such as limiting restaurant capacity or allowing outdoor dining only. One analysis found that more than half of the states have started to reopen their economies "in some meaningful way."

COVID-19 spread

Nationwide, the seven-day average of deaths has continued to decline while the number of new cases has, at least temporarily, flattened after a period of decline. The seven-day average of new cases was at roughly 23,000 per day on May 20. Despite an increase in testing that is likely increasing the number of new cases being identified, seven-day averages of new cases have noticeably declined in 18 states over the past two weeks. However, several states have seen their level of new cases reach new highs over the past week, including Alabama, Maine, Minnesota, North Carolina, and North Dakota. While many experts have expressed concern over states opening too quickly while COVID-19 continues to spread, there are few clear indications that re-opening has been a key deciding factor in differences in new cases identified between states.

New York +

Seven of New York's ten regions have met the state's guidelines to begin reopening. NYC and Long Island have each met four aspects of Governor Cuomo's seven benchmarks. New York City, for example, still needs to have more hospital and intensive care beds available if there is a resurgence. NYC Mayor De Blasio announced that New York City is on track to begin a phased reopening between June 1 and June 15, which would allow for construction, manufacturing, and retail businesses with curbside pickup to reopen. Additionally, New York announced that it would begin to allow religious gatherings of no more than 10 people, as well as drive-in and parking lot services beginning Thursday, May 21st. The state has also issued executive orders requiring the wearing of masks in public, including when taking public or private transportation.

New Jersey and Connecticut also continued with their phased reopening plans. Beaches in the New York state, CT and New Jersey will be open for the Memorial Day weekend with an array of social distancing requirements. NYC beaches will remain closed.

Meanwhile DC Mayor Muriel Bowser announced that Washington, DC could possibly begin reopening next Friday if the downward trend in COVID-29 cases continues.

6. CONGRESSIONAL UPDATE: PPP, JOB TRAINING, NEXT RELIEF PACAKGE

Paycheck Protection Program alterations

While, there appeared to be bipartisan support for extending the period of time to 16 weeks in which businesses are allowed to spend loan funds received through the PPP program while qualifying for loan forgiveness, the Senate recessed on Friday failing to agree to a deal. Earlier in the week, Secretary Mnuchin and Senator Rubio expressed confidence that the period would be extended beyond the current eight weeks.

Bipartisan job training legislation introduced

A bipartisan group of Senators and House members proposed a new program to support job training efforts by unemployed workers. The proposal would provide an up to $4,000 fully-refundable tax credit to cover job training, education, or apprenticeship expenses of workers who become unemployed as a result of the COVID-19 pandemic. The proposal could be a part of a Senate relief bill. Read Lori Murray's op-ed in The Hill on using the COVID-19 relief bills to support training unemployed and furloughed workers.

Further COVID-19 relief legislation

After Federal Reserve Chair Powell and Treasury Secretary Mnuchin's testimony, a handful of Republican senators have called for additional aid over the next six weeks. The public push for additional aid is viewed as a potential split in the Republican caucus from the stated position of the White House and

Senate Majority Leader, who planned to wait and see the impact of previously enacted aid before taking further action. The House passed a large relief bill along partisan lines last week. The Chamber of Commerce announced that it expects an additional relief bill to pass Congress before July 4th.

7. MODERNA VACCINE TESTS ARE FAVORABLE THUS FAR. USG ANNOUNCES $1.2 BILLION DEAL WITH ASTRAZENECA

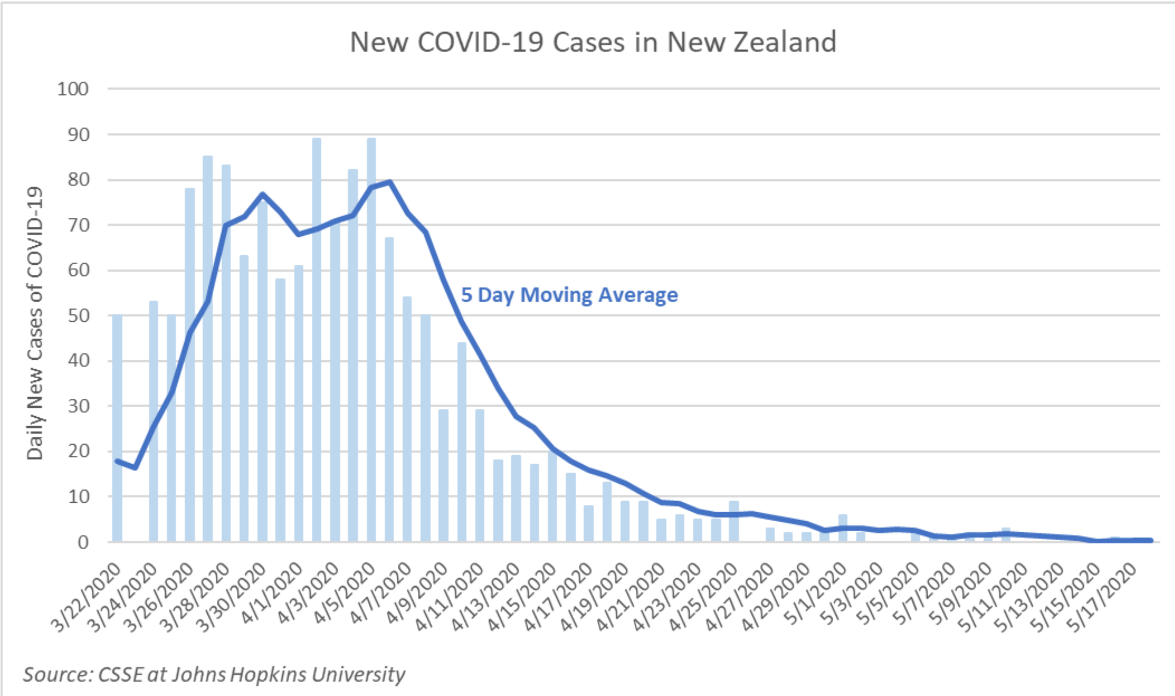
The new vaccine produced by Moderna has achieved favorable results in its first-round safety tests. In a very small sample of patients, the vaccine produced only limited adverse reactions in the highest dosages. Furthermore, the levels of antibodies generated by the vaccine in the very few cases that could thus far be analyzed equaled or exceeded those in patients who had recovered from the virus. Two rounds of efficacy tests must follow, and favorable outcomes are by no means guaranteed.

The Moderna news at the beginning of the week was eclipsed by the announcement that the US government, as part of its "operation Warp Speed" on vaccines, agreed to give AstraZeneca, whose vaccine is being developed by Oxford University, up to $1.2 billion to support a 30,000 person trial to begin this summer and ramp-up manufacturing capacity to produce at least 300 million doses.

These plus other vaccines being developed by Pfizer, Johnson & Johnson, Sanofi, (which the US has supported) and others have instilled optimism that an effective vaccine can ultimately be found. However, trials will take time, especially to allow the identification of the most effective vaccines for people with different personal characteristics. Manufacturing also will be time consuming, especially on the scale called for in this pandemic. Existing vaccine programs inoculate the cohort of new births each year; in this novel coronavirus pandemic, the entire population of the earth will be in need of a vaccine. Allocating the early production will be a moral, as well as a logistical, challenge.

8. SPOTLIGHT ON REOPENING: NEW ZEALAND

New Zealand mandated a strict lockdown, starting in mid-March, for a little more than five weeks – a decision that the government authorized when the country had only about a hundred cases of the COVID-19 virus and no recorded deaths. Prior to the lockdown, it was projected that New Zealand was on a trajectory similar to Italy's. While testing for the infection was initially restricted to people with travel histories and obvious symptoms, the country subsequently stepped up the testing process rapidly. New Zealand's health authorities began relaxing testing criteria, planning for required resources, and assembling the workforce needed to conduct, and process, significantly more tests. In addition, booths were set up in supermarket parking lots for random testing. According to the Ministry of Health, as of May 18, about 233,843 people (which is more than 4 percent of the country's population) have been tested, and the country's labs have reported that they still have excess testing capacity. So far, New Zealand has recorded only twenty-one deaths due to the virus (all of them people over 60 years of age), and at most only a couple of cases are being detected each day – all traced to known clusters.



At the end of April, after about forty-five days of stringent lockdown measures, New Zealand began to gradually ease the restrictions. Prime Minister Jacinda Ardern cautioned that the country was "not out of the woods," as she announced the country's move from Alert Level 4 to Level 3, allowing businesses to open (provided they could operate in a "noncontact" way), and sending about a million people back to work, leading to about 75% of the economy starting to operate again. In mid-May, the country moved further from Level 3 to Level 2, and restaurants, gyms, shopping malls and movie theaters began reopening – but with strict social distancing still in place. Most of the country's schools reopened beginning from the third week of May, but it was announced that bars would stay closed a while longer – a choice driven in part due to reports of a surge in coronavirus cases linked to nightclubs in South Korea. While international travel is not yet permitted, New Zealand and its neighbor Australia are discussing the concept of a "travel bubble" that would allow residents of the two countries to travel freely between them.

Describing the country's advance to Alert Level 2 as moving to a "safer new normal," New Zealand's Prime Minister emphasized that there were still active cases in the country, but added that the country had obtained control of the virus, and that New Zealand was "now in a position where we can ease those controls and open up our economy." The chief executive of the Ministry of Health, Ashley Bloomfield, also stressed that New Zealand had to remain "even more vigilant" to achieve its goal of eliminating the virus – defining elimination as "not a point in time" or zero cases, but rather as a sustainable reduction of infections to a small, easily containable number. The country recently rolled out a new app, "NZ COVID Tracer", to help people keep track of their movements by letting users scan QR codes at the places they visit. This "digital diary" also registers users' contact information so that the National Close Contact Service (the country's COVID-19 tracing team) can contact them if required.

New Zealand recently announced a stimulus package of $50 billion NZD to help reduce unemployment levels (to prior coronavirus levels in no more than two years) and save jobs. The country's finance minister called the spending (equating to about 17% of the economy) "the most significant financial commitment in modern history," while highlighting economic challenges the country would face as lockdown measures started being lifted. Under this plan, the fund is to be used for spending on training and apprenticeships, public housing and infrastructure, job creation, and tourism, among others.