

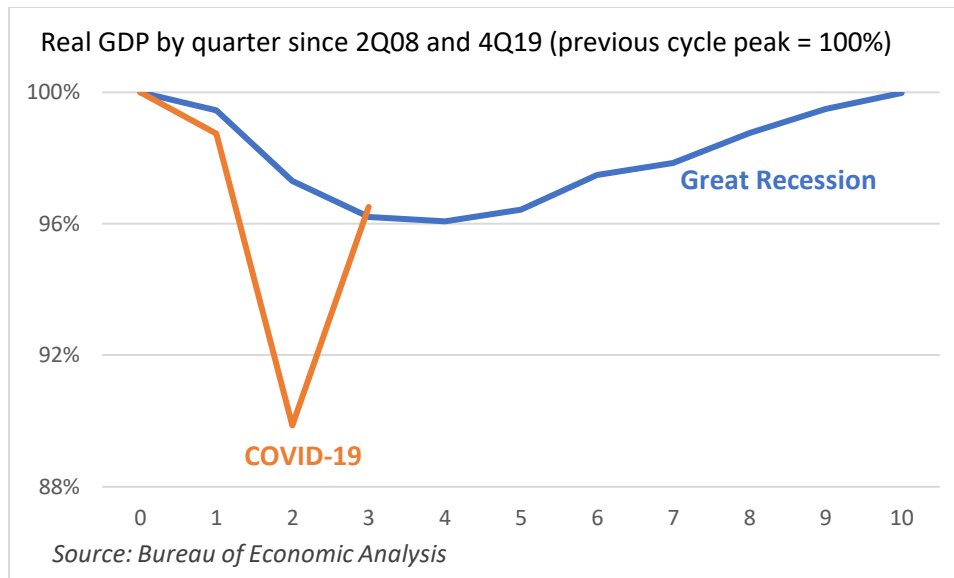
CED Public Policy Watch

10.30.2020

- 1. NUMBER OF THE WEEK: 2.9 PERCENT (LOWER GDP THAN ONE YEAR AGO)
3Q GDP ESTIMATES SHOW STRONG BUT SLOWING RECOVERY AND LARGE REMAINING HOLE**
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- 1. NUMBER OF THE WEEK: 2.9 PERCENT (LOWER GDP THAN ONE YEAR AGO)
3Q GDP ESTIMATES SHOW STRONG BUT SLOWING RECOVERY AND LARGE REMAINING HOLE**

After a historic drop in GDP in the second quarter, the US [experienced](#) equally historically fast economic growth but still faces a significant shortfall of GDP relative to where it was at the start of the year. GDP grew 7.4 percent quarter-over-quarter (a more than 33 percent annualized rate of growth), recovering not quite two-thirds of the GDP decline since the beginning of 2020—but still well short of the beginning-of-year level.



Adjusted for inflation, GDP remained down 2.9 percent compared to a year earlier. By comparison, the largest year-over-year drop in GDP during the “Great Recession” of 2008 was 3.9 percent. Because of how GDP growth is calculated, much of the growth in the economy reflected in the Q3 level results from the rebound in the economy that occurred *within the second quarter*, raising the third quarter level of GDP. The Conference Board’s economic forecasters track monthly and weekly economic indicators, and believe that growth has slowed over the third quarter.

Federal stimulus over the spring and summer was likely a significant contributor to recovery in the third quarter, including Federal expenditures and investment up 3.6 percent from a year earlier. Real disposable personal income was still up 6.4 percent from a year earlier, even though it decreased sharply from the prior quarter, probably as a result of waning federal economic recovery programs. Employee compensation has yet to fully recover.

2. WEEKLY UNEMPLOYMENT CLAIMS CONTINUE SLOW DECLINE

With just over a million combined new applications for Unemployment Insurance (UI) and the Pandemic Unemployment Assistance (PUA) program in the [week](#) ending October 24th, new applications for unemployment assistance continued its slow, seven straight weeks of decline. However, there were still more initial weekly UI claims last week (more than 730,000) than in all but four weeks of the 2008 downturn. The estimated number of Americans receiving some form of unemployment assistance in mid-October declined to just under 23 million (from nearly 30 million workers at the end of August)—though the decline may be slightly overstated due to administrative delays as some unemployed workers exhaust current program benefits and transition to additional benefits under the Pandemic Emergency Unemployment Compensation (PEUC) or Extended Benefits (EB) programs.

3. AFTER REVISIONS, HISTORIC STATE FISCAL BUDGET CRUNCH IN 2021 STILL EXPECTED

Without additional Federal support, 2021 is [expected](#) to be the single largest year over year decline in total state tax revenues on record. Prior to COVID, an aggregate decline in year-over-year state revenues

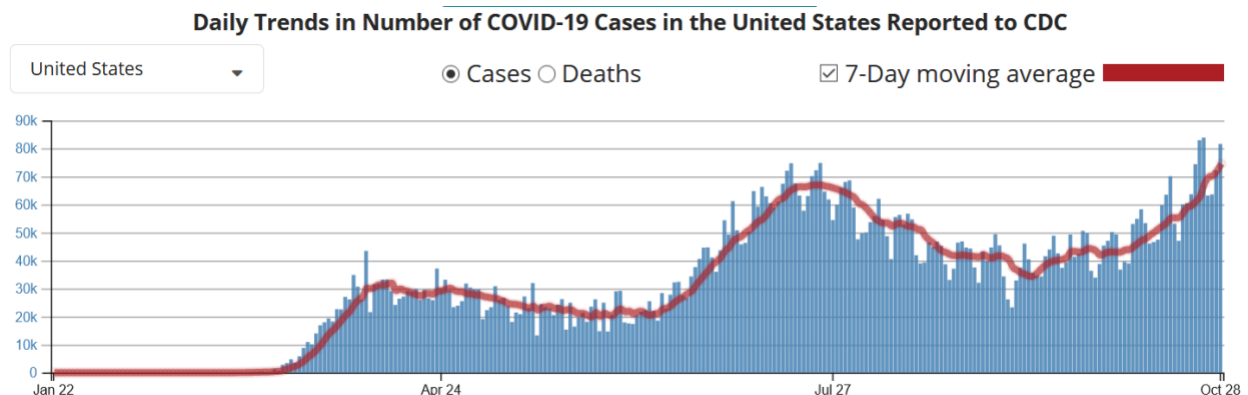
has occurred only three times since the 1950s (including in consecutive years during the Great Recession). Based on revised state forecasts, as many as 46 states could face budget shortfalls in 2021 after accounting for rainy day funds. One analysis projected that, in total, state government budget shortfalls from 2020 through 2022 could be over \$400 billion. Negotiations over whether to provide more direct or unrestricted Federal aid to state, local, and tribal governments—and at what magnitude—was a sticking point in negotiations between Democrats and Republicans in Congress over additional COVID relief.

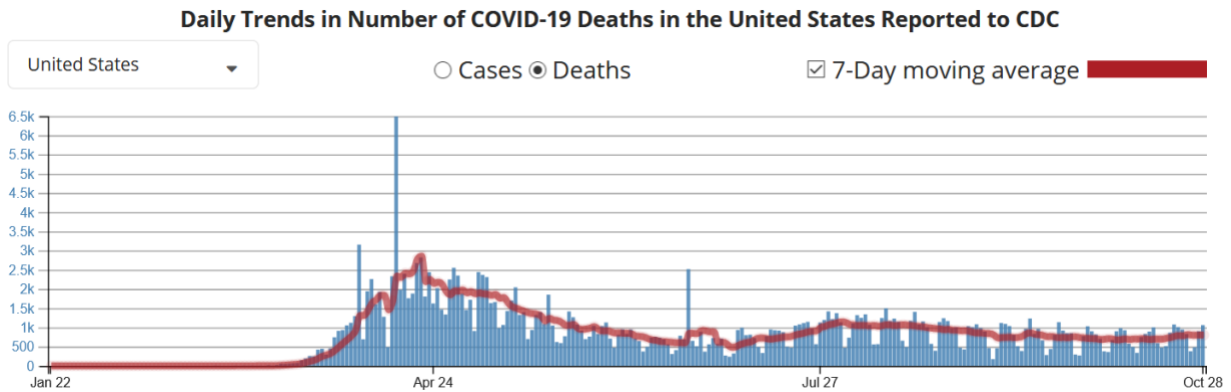
4. COVID RELIEF NEGOTIATIONS STALL OUT

After the Senate completed its Supreme Court confirmation process, it adjourned, and will meet periodically only in pro forma session. No business is expected to be transacted, and so there is no prospect for coronavirus response legislation until a lame-duck session after the election. The outlook for action in the lame duck session is unclear, and will depend on the election outcome among other factors.

5. COVID-19 CASES RISE IN A NEW WAVE; DEATHS RISE AT A SLOWER RATE

Data from the CDC reveal an alarming rise in new COVID-19 cases. Deaths have risen, but at a slower rate—noting that deaths are a lagging indicator, and may still respond to some degree to this new wave of coronavirus infections.





6. COVID-19 TREATMENT

Deaths from COVID-19 have risen as infections have increased, but at a slower rate. In other words, the probability of mortality for each COVID-19 case has been declining. One hypothesis has been that people with vulnerabilities—the elderly and others with health conditions—have become more cautious, and that younger persons have increasingly contracted the virus and, as expected have fared better. However, although a new [study](#) suggests that this is partly true, health care practitioners are learning how better to care for the infected. Anecdotally, that includes new therapies (remdesivir and steroids), more caution with the use of ventilators, and earlier diagnosis and hospitalization. A cautionary note is that the overwhelmed hospitals in the early days of the pandemic needed to call upon practitioners who were retired or were giving treatment outside of their areas of specialization; the current rise in cases could stress the health care system in similar ways, and therefore potentially reduce the quality of care, to the same possible effect of higher mortality than would otherwise occur.

7. VACCINE NEWS

The pauses in the United States on the Phase 3 vaccine trials in progress for the AstraZeneca/Oxford and Johnson & Johnson have been [lifted](#). The AstraZeneca pause had already been lifted in other countries, but the Food and Drug Administration had continued it here while awaiting further information. Personal information on trial volunteers is typically closely held in the interests of privacy.

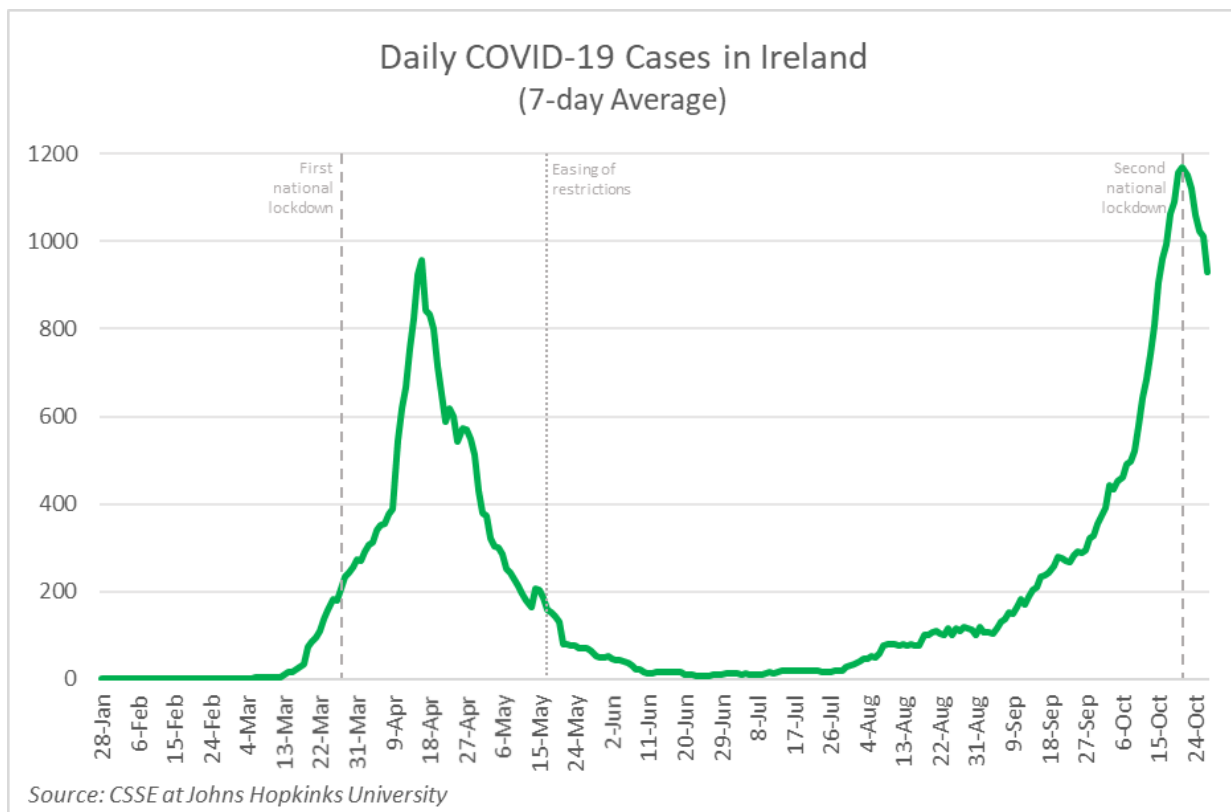
Pfizer has [revealed](#) that it does not yet have conclusive information on the efficacy of its vaccine from its Phase 3 trial. Pfizer CEO Dr. Albert Bourla had expressed hope that there could be results in October, which would have required a minimum number of infections among the trial volunteers. Bourla's statement was taken as an indication that the necessary number of infections has not occurred. The safety condition for the trial requires two months of observation of at least half of the trial subjects, and that condition will not be met until the third week of November.

Favorable news on the prospects for a successful vaccine came from a [study](#) that indicates that enduring immunity to the coronavirus is possible. Although recovery (including from artificially induced infections, such as from a vaccine) from some diseases (like measles) yields long-lasting immunity, recovery from others (like the common cold, which is caused by a coronavirus) does not. There are different forms of immunity, and some studies have raised questions about the continuation of some forms; the new study

from researchers at the Icahn School of Medicine at Mount Sinai Hospital found continuation immunity from plasma cells in bone marrow that reacts relatively slowly but is effective.

8. FOCUS ON REOPENING: IRELAND

The Republic of Ireland [confirmed](#) its first case of the coronavirus on 29 February 2020, and well within a month, saw it [spread](#) to all counties. As of 27 October, Ireland has [reported](#) a total of 59,434 COVID-19 cases and 1,896 related deaths. [Data](#) from Ireland's Health Protection Surveillance Centre (HPSC) show that, as of 25 October, there are 6,291 clusters of confirmed cases in the country with 29 percent community transmission; and about 10,241 healthcare workers who tested positive for the virus (Ireland has faced one of the [highest](#) rates of healthcare worker infections in Europe). Nationwide stay-at-home orders were [issued](#) during the first wave of the pandemic in the Spring, with restrictions beginning to ease towards the end of May. However, due to the current [increasing](#) number of cases in Europe, Ireland has initiated a [second](#) nationwide lockdown for a period of six weeks to curb the rise of infections, becoming the first European country to do so.



During the first wave of the pandemic, Ireland instituted various measures to help combat the spread of the virus. The Department of Health set up the National Public Health Emergency Team ([NPHET](#)) at the beginning of the pandemic to monitor the spread of the virus. On 17 March, the Health Service Executive (HSE) launched a “Be on call for Ireland” recruitment [campaign](#) to help bolster the country's healthcare workforce. The government [closed](#) all educational and cultural institutions and childcare facilities, and also [cancelled](#) large public gatherings on 12 March, and [announced](#) further measures on 24 March – leading to the closure of nonessential businesses, facilities and amenities. Shortly thereafter,

on 27 March, a stay-at-home order was [issued](#) banning all non-essential travel and contact, which was then [extended](#) until 18 May. The lockdown had a huge [impact](#) on economic growth in Ireland, and set off a severe [recession](#) with an unparalleled increase in [unemployment](#), and [damaged](#) almost all sectors. In response, Ireland set up a COVID-19 Pandemic Unemployment Payment ([PUP](#)), a weekly payment of €350 to those who have lost jobs due to the pandemic, and an Employment Wage Subsidy Scheme ([EWSS](#)) to provide aid to businesses impacted by the pandemic. These are a part of a comprehensive €24.5 billion fiscal package (including a €7.4 billion stimulus package in July, the largest single economic stimulus in the history of Ireland) [announced](#) by Irish authorities, to be rolled out over 2020 and 2021.

With the NPHET reporting that the pandemic curve had [flattened](#) and that the daily cases and deaths were on a decline, Ireland began a gradual [reopening plan](#) in five phases. However, progress was made only up to phase four due to a [resurgence](#) in the community transmission of COVID-19. After initially announcing a series of measures for some targeted [counties](#) in August, the government eventually established a national framework categorizing regions into [five levels](#), depending on the status of the spread of the virus (the lower the level, the lesser are the social restrictions). On 5 October, the NPHET recommended that Ireland be placed under (the highest) Level 5 restrictions – which the government rejected, instead moving every county in Ireland to a [Level 3](#). However, after [recording](#) the highest number of daily confirmed cases since the start of the pandemic soon after, the government, on 19 October, decided to move the nation to [Level 5](#) restrictions for a period of six weeks – which implies a ban on nonessential indoor or outdoor social/family gatherings, traveling restrictions within 5 km, and the closure of gyms, cultural attractions, dine-in restaurants and pubs, nonessential businesses, etc. It was confirmed that schools and childcare centers will remain open. Deputy Prime Minister Leo Varadkar [said](#) that the country expects 150,000 people to lose their jobs in the coming days, adding that, “*We’re making a preemptive strike against the virus, acting before it’s too late... Our objective is to change the structure of the virus to flatten the curve again to get it under control.*”