CED Public Policy Watch

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1. CONSUMER PRICE INFLATION ACCELERATES

The Consumer Price Index continued to surprise on the upside in May, with a 0.6 percent one-month increase following 0.8 percent in April. The increase over the last 12 months is an eye-popping 5.0 percent. About one-third of the increase came in the prices of used cars and trucks (7.3 percent in May), which is one of the least-dangerous places to have inflation, because it does not embody new production costs which might drive (pardon the pun) other prices as well. But elsewhere in the index, price increases were widespread. Among the volatile items where a one-month jump might likely be followed by a next-month drop, food prices were up, but energy prices were flat. Therefore, the often-watched "core" index excluding food and energy was as unruly as the headline number, up 0.7 percent in May, and although it increased only 3.8 percent over the preceding 12 months, that is still the highest rate of increase in almost 30 years.

Some economists argue that prices are rising in this recovery because supply chains are frayed and broken because of the pandemic, and that once production is fully restored inflation will settle down. Economists will argue further that with such inequality in this recovery and with services interrupted for public health reasons, the affluent are spending their ample excess cash on goods, which is driving prices (like those of cars and trucks) even higher. This line of argument would conclude that the current inflation is transient and will fade. The counterargument, probably a minority view, is that the tight labor market with numerous "help wanted" signs in employer windows is driving wages higher, and that an upward wage cycle might perpetuate itself and ultimately force higher prices. The pace of inflation will help to determine whether the Federal Reserve, steering monetary policy, and the Congress and the President, controlling fiscal policy, continue to stimulate the economy or instead begin to remove some of that support.

2. WEEKLY UNEMPLOYMENT INSURANCE CLAIMS CONTINUE THEIR DOWNWARD TREND

New weekly unemployment insurance claims declined for the week ending June 5, remaining below the 400,000 mark for the second consecutive week. The headline seasonally adjusted number fell by 9,000 to 376,000 (and was unrevised for the previous week). The four-week moving average also continued its steady decline, indicating an ongoing labor market recovery. Unadjusted initial claims for Pandemic Unemployment Assistance (PUA) for self-employed and gig workers also fell for the fourth week in a row.

But overall, the total number of people receiving unemployment benefits (15.3 million), measured by continuing claims for combined state and pandemic-related federal programs, declined at its slowest rate since mid-March, amid rising concerns of labor shortages.

Twenty-five states are opting out of the federal pandemic unemployment programs that expire nationally in September. Alaska, Iowa, Mississippi, and Missouri will no longer provide pandemic-related benefits as of tomorrow, June 12. Other states will drop out of the programs throughout the remainder of June and July.

3. AN INFRASTRUCTURE DEAL?

Early this week, President Biden told Senator Shelley Moore Capito (R-WV), the lead Republican negotiator on infrastructure, that he would not continue their discussions. By all accounts, the President spoke to Senator Capito directly, and the conversation was amicable and respectful. But the President's conclusion was based on two seemingly irreconcilable differences: the Republicans would not accept any tax increases whatsoever, and limited their offer to increments of spending that the President considered inadequate. The two are linked to some degree; if a bill is to be paid for, there is only so much loose change that can be found in the sofa (such as unspent monies from prior coronavirus response legislation). However, in addition, the President's vision of "infrastructure" is notably broad, including such human investments as workforce development and child and elder care, and also unconventional physical investments such as a recharging network for electric vehicles, and that led fairly naturally to higher desired levels of spending. The Republican view of the issue has been firmly limited to asphalt and concrete, plus some newfangled fiber optic cable for broadband.

However, just yesterday, a bipartisan group of ten Senators (five Republicans, and five Democrats including one Independent) announced that it had reached its own deal. The President had turned to that group after breaking off from Senator Capito, although he made clear that the time available for reaching a deal was not infinite. Under that pressure, the group, which includes notably former Republican presidential candidate Mitt Romney (R-UT) and pivotal Senate figure Joe Manchin (D-WV), claimed to have reached a breakthrough. The news thus far is sketchy, but that is predictable, because infrastructure is a highly technical subject, and the members of the bipartisan group are not closely schooled in the intricacies of the subject. As one example of the potential fault lines in the structure of the deal, by news reports, the Republican side says that there are no tax increases; it just indexes the amount of the gasoline tax for inflation. That will smell like a tax increase to many other Republicans, making it unacceptable; while at the same time many Democrats have signed on to President Biden's campaign promise not to increase taxes on any household with an income less than $400,000, which a gasoline tax increase (if gas tax indexation would be so considered) surely would. Beyond that, the members of the bipartisan group acknowledge themselves that there are many details yet to be worked out, suggesting that the deal is shaky on other grounds, and that the announcement may have been rushed to head off any Democratic decision to give up on bipartisan compromise and turn irrevocably to reconciliation.

The history of such bipartisan interventions in negotiations among the principals is mixed. In December of last year, a bipartisan rump group of Senators successfully moved a stalled lame duck negotiation between the outgoing President and Congress to achieve agreement on a coronavirus response bill. But on the dark side of the ledger, an all-but-sealed agreement on deficit-reduction legislation between then-President Barack Obama and then-Speaker John Boehner was derailed by an announcement of a bipartisan group deal whose numbers made the real negotiated agreement politically untenable. Perhaps troublingly given the current circumstances, that bipartisan deal exploded the leadership negotiations over its naively crafted tax numbers, where Democrats claimed a tax increase and Republicans insisted that the revenues came from “supply-side economics.” Whether this bipartisan infrastructure agreement will turn out like the hero of 2020 or the goat of 2011 remains to be seen.

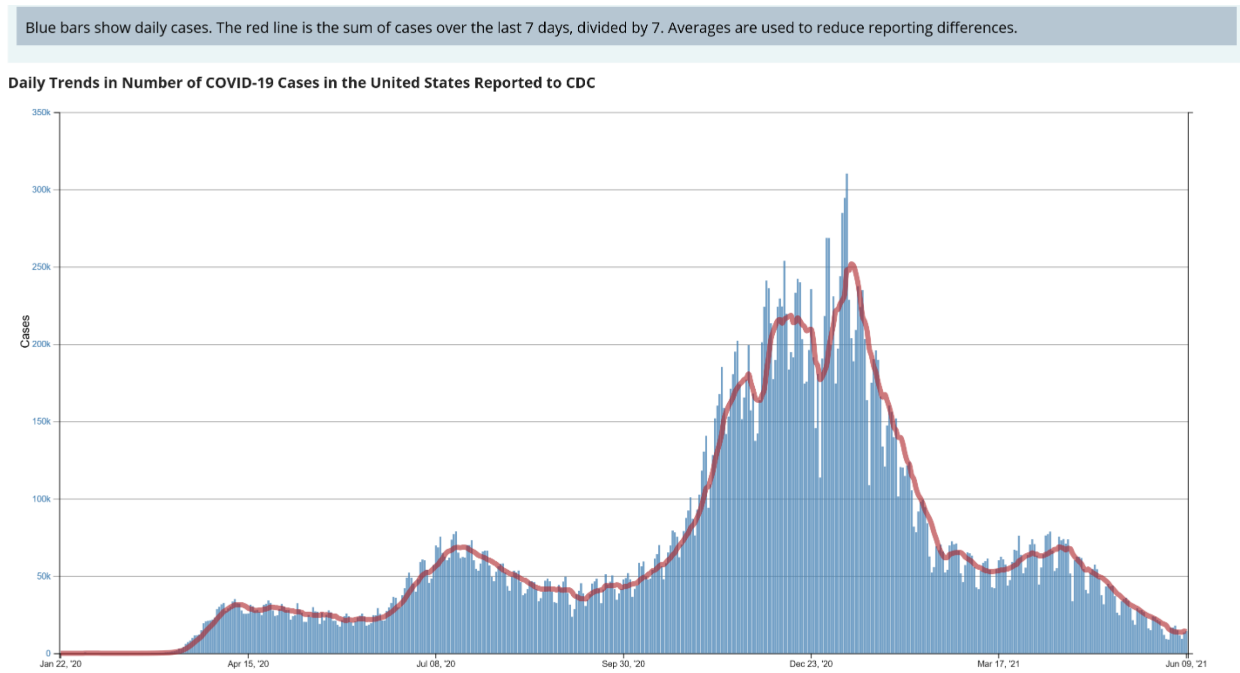
4. SENATE PASSES TECHNOLOGY BILL

On Tuesday, the Senate agreed to a bill, the “US Innovation and Competition Act,” to address the recent unsatisfying performance of the United States in technology fields. The bill passed by a healthy bipartisan margin, 68-32, after being stalled before the Memorial Day because of procedural maneuverings by the opposed minority that could not be sustained without the time limit before the looming recess deadline. The bill provides more money for research and for some technology enterprises in the private sector semiconductor manufacturing, creates some regional technology hubs to aid business, and includes some provisions to restrict inroads of Chinese digital applications in the United States. Part of the controversy arose over which federal agencies, the National Science Foundation or the Department of Energy’s national laboratories, should manage the allocation of research funding. Other disputes came from differing views over how much money should be spent, and whether the manufacturing support would constitute “picking winners” and intervening in the market economy rather than advancing science and technology.

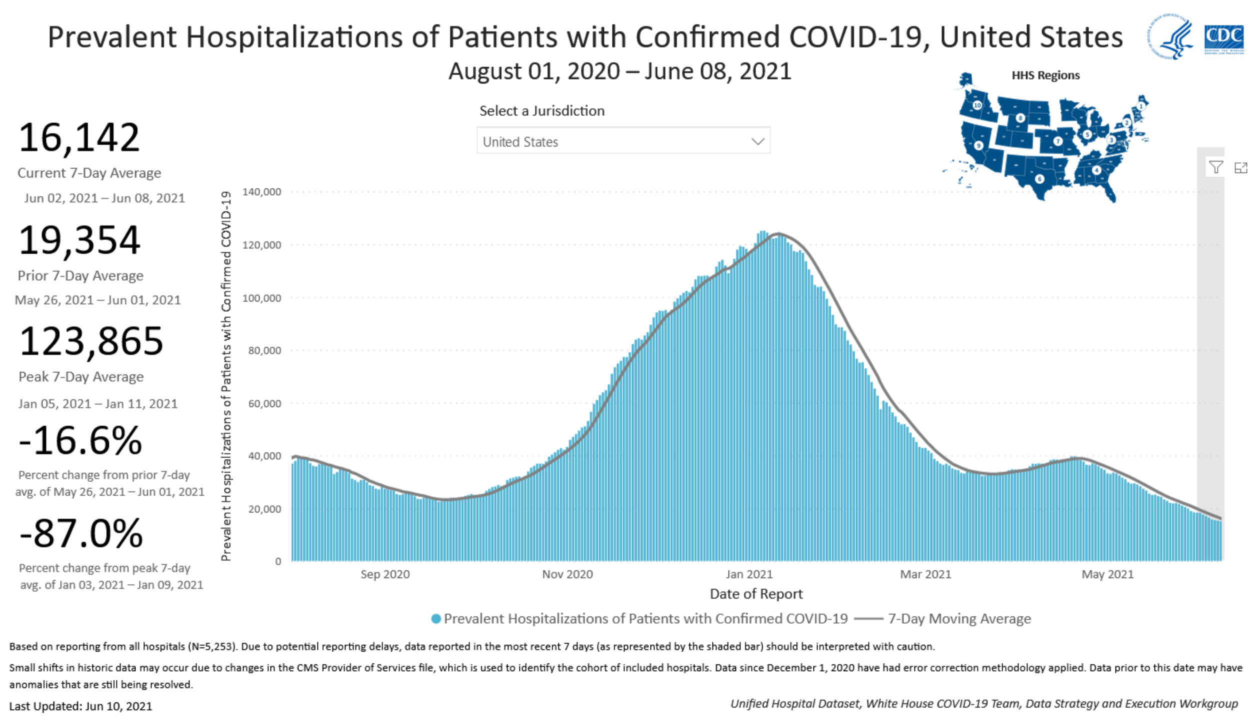
The Senate acted first on this legislation; there are similar bills still in the Committee process in the House, but the Senate bill is only the first step. Furthermore, this is an authorization bill, not an appropriations bill, and so the sums specified in the Senate bill will still need to be funded by further legislation even after House action on a companion to this bill.

5. PANDEMIC NEWS

It is so tempting to overinterpret just a few days of data in a noisy series, but the last week of COVID-19 figures just begs for speculation. The case count was plunging in late May, and on June 1 it hit only 8,862, which was the lowest figure since the very first days of the pandemic in March of 2020. The count had fallen virtually by half in just four days. But then the numbers popped back up, and the seven-day moving average of cases has been stuck in the 13,000-14,000 range since June 2. The virus will not give up. Progress in slowing its spread appears to be highly dependent upon the progress in administering vaccinations, and that front of the war is becoming painfully difficult (see below).



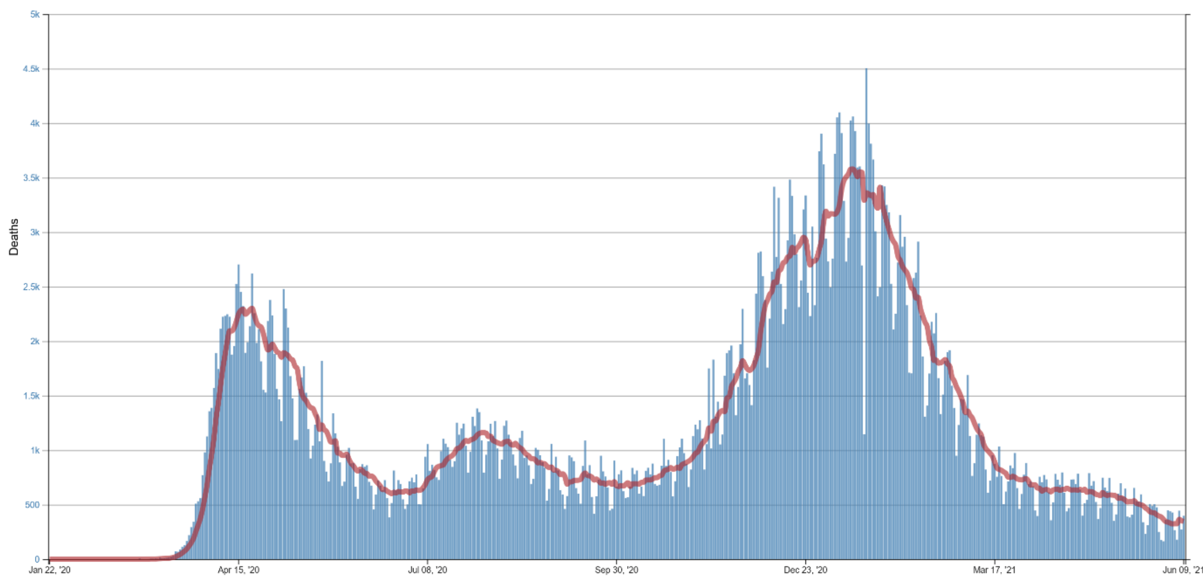
Fortunately, the number of hospitalizations continues to decline.



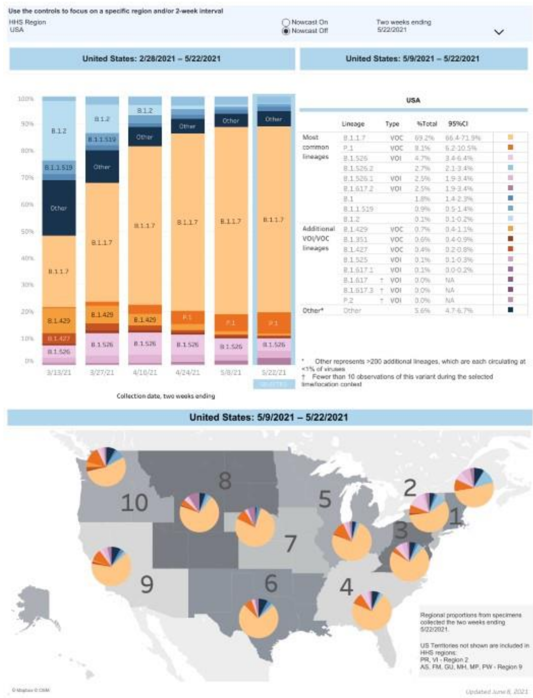
However, the number of COVID-19 deaths is tracking the caseload, and showing unwelcome growth in the last one-week-plus. The numbers are still much lower than since the first days of the pandemic, but they remain too high to declare victory.

Blue bars show daily deaths. The red line is the sum of deaths over the last 7 days divided by 7. Averages are used to reduce reporting differences.

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



Again, this small bounceback may be a function of the limits of the nation's vaccination program, which we discuss below. However, it may also be a product of a growth of troubling new variants. There is an international dimension to this issue (see our International Focus feature below). The B.1.1.7 variant (first identified in the United Kingdom) has become clearly prevalent in the United States, but new and potentially dangerous variants (in terms of both transmissibility and lethality), including P.1 (first identified in Brazil), B.1.617 (first identified in India) and its offshoot B.1.617.2 (first identified in Vietnam) are growing as well. And although it is still early, and genomic tracing remains weak, the new variants may be gaining footholds in parts of the country where vaccination lags.



	Lineage		Type	%Total	95%CI
Most common lineages	B.1.1.7		VOC	69.2%	66.4-71.9%
	P.1		VOC	8.1%	6.2-10.5%
	B.1.526		VOI	4.7%	3.4-6.4%
	B.1.526.2			2.7%	2.1-3.4%
	B.1.526.1		VOI	2.5%	1.9-3.4%
	B.1.617.2		VOI	2.5%	1.9-3.4%
	B.1			1.8%	1.4-2.3%
	B.1.1.519			0.9%	0.5-1.4%
	B.1.2			0.1%	0.1-0.2%
Additional VOI/VOC lineages	B.1.429		VOC	0.7%	0.4-1.1%
	B.1.351		VOC	0.6%	0.4-0.9%
	B.1.427		VOC	0.4%	0.2-0.8%
	B.1.525		VOI	0.1%	0.1-0.3%
	B.1.617.1		VOI	0.1%	0.0-0.2%
	B.1.617	†	VOI	0.0%	NA
	B.1.617.3	†	VOI	0.0%	NA
	P.2	†	VOI	0.0%	NA
Other*	Other			5.6%	4.7-6.7%

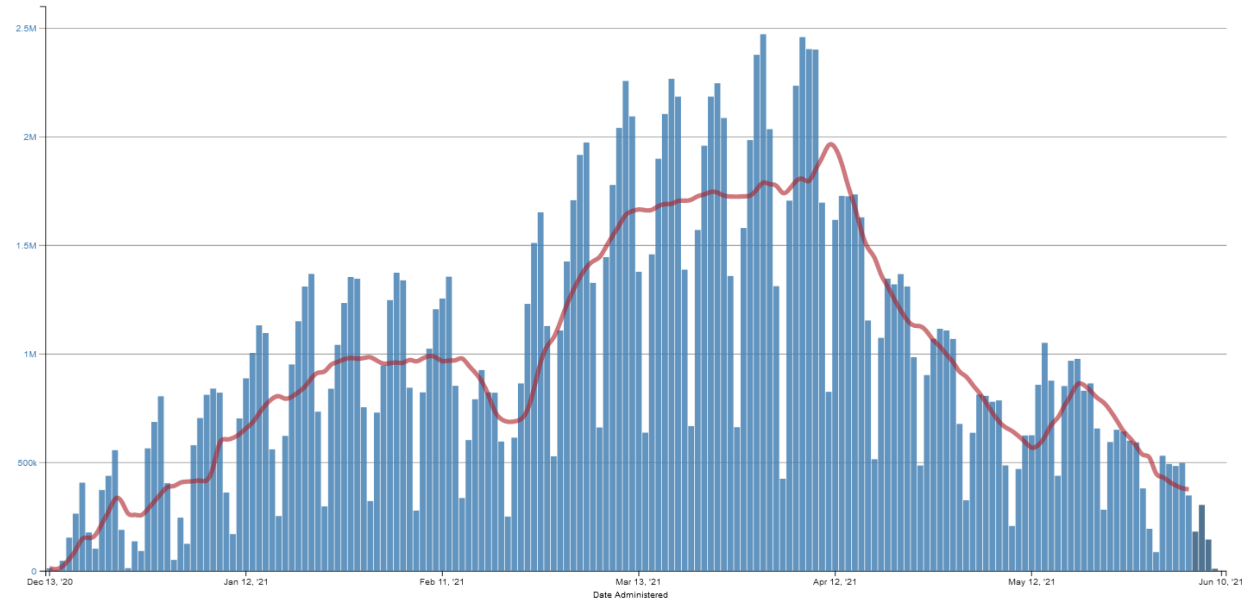
6. VACCINE NEWS

The nation has fallen off track to reach the President's goal of 70 percent of the adult population to have received at least one shot by the July 4 holiday. The number of daily new vaccinations has clearly stalled, the tricks and incentives to induce people to show up for shots appear to have run their course, and the nation is pressing on the 20+/- percent irreducible minimum of vaccine-resistant citizens.

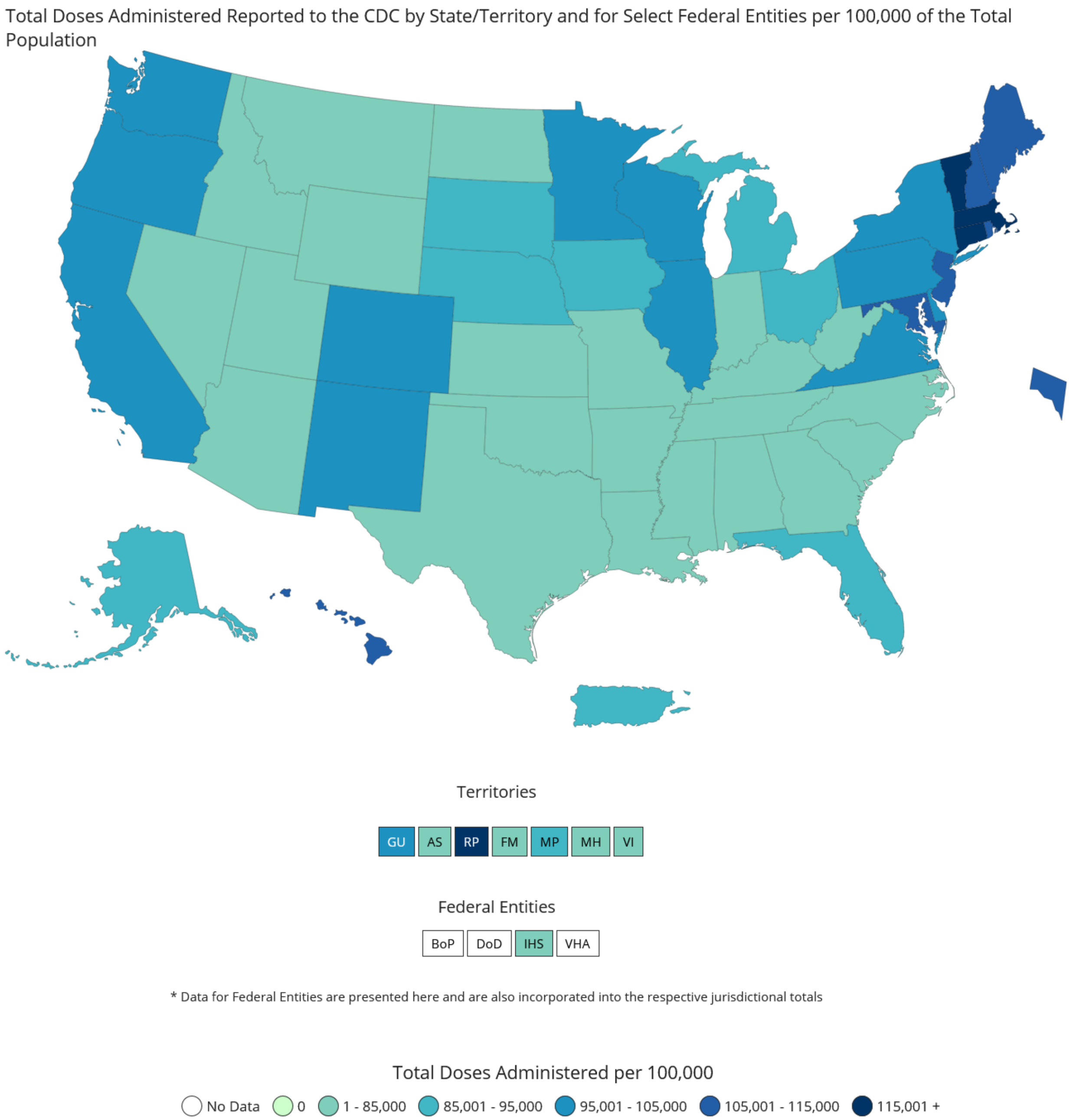
Bars shown in the darker blue shade represent the most recent five days of reporting where the number of vaccine administrations might be impacted the most due to delays in reporting. All reported numbers might change over time as historical data are reported to the CDC.

How Do I Find a COVID-19 Vaccine?

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



All illness is local, and sadly, vaccination in the United States remains highly variable across the country. It would be one thing if the nation fell just shy of the 70 percent vaccination goal uniformly across the nation. But instead, vaccination is heavily concentrated in the urban areas, and is much deficient in the rural regions.

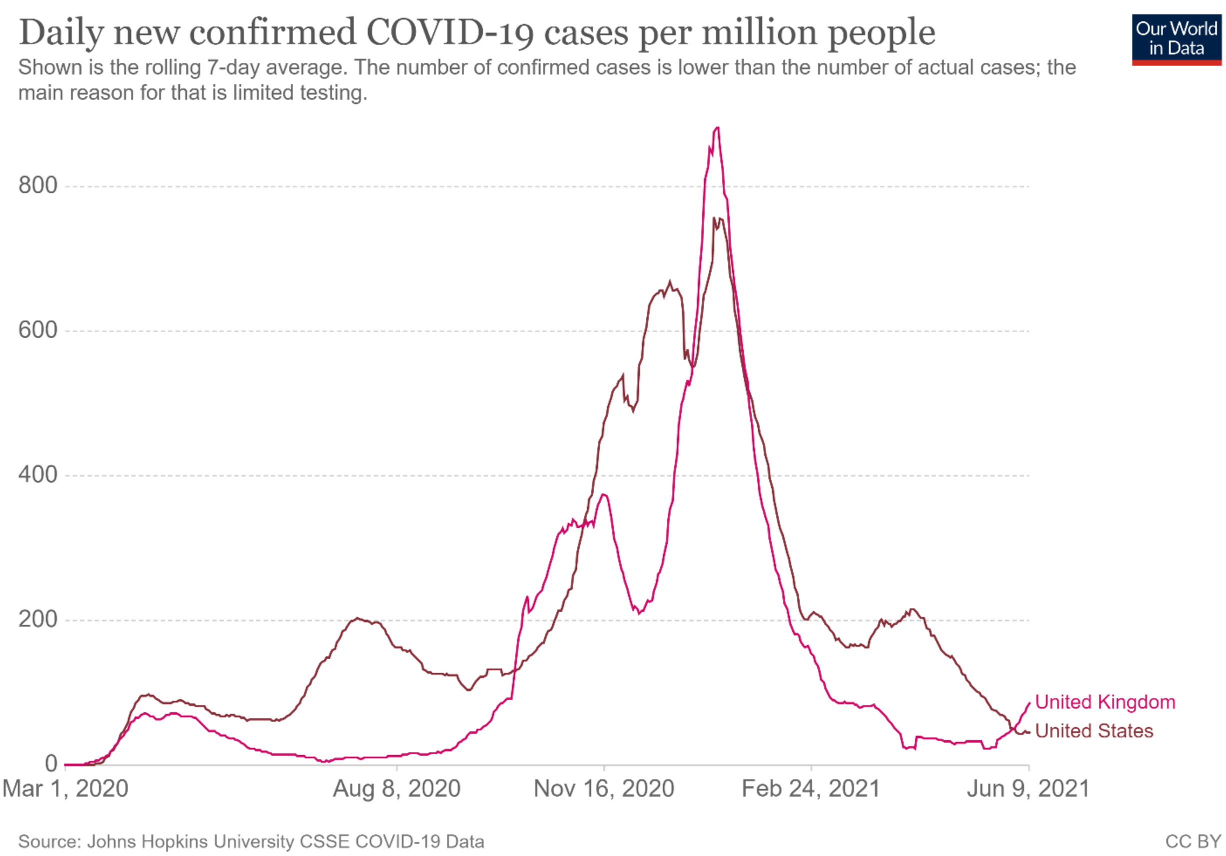


It is good news that vaccines are approaching approval for children, having already achieved emergency use for very young adults. Even if young people are highly unlikely (but not totally unlikely) to become seriously ill, if they can contract the virus without symptoms and then spread it to others, vaccinating them can slow the pandemic. However, this is of much less value if the children of vaccine-opposed adults in rural areas are themselves vaccine-opposed (or are forbidden by their parents to be inoculated). In this likely circumstance, extending vaccination to children will only make the highly safe parts of the country even more highly safe, and will leave the highly vulnerable parts of the country to their fate. Meanwhile, the virus will continue to circulate in rural areas, with the lurking potential for vaccine-resistant variants to appear.

On the global front, the President has announced US donations of 500 million doses of the Pfizer vaccine to developing countries. Russia and China have already been donating many doses of their inferior vaccines to desperate countries, at least in part to curry diplomatic favor. But the secondary benefit of such efforts, after saving lives directly, is to tamp down the virus to forestall the development of even worse variants. And the risk and the challenge are vast; less than 5 percent of the African population, for example, has received even a single shot, and the donations being made now will barely make a dent in that shortfall.

7. SPOTLIGHT ON REOPENING: THE UNITED KINGDOM AND THE "DELTA" VARIANT

While the United States concerns itself with the leveling off of the decline in new COVID-19 cases, the UK is experiencing a dramatic rise. The UK led the US in its rapid drop in new cases since the start of its speedy vaccine rollout, but has recently passed the US in the rate of new cases for the first time since the start of the year. As of June 9, the UK has seen 38,679 new cases in the past week – up 14.5 percent from the previous seven days. Hospitalizations remain manageable as there are currently under 1,000 individuals hospitalized with the virus, far below a peak of almost 40,000 in January. But the UK government is expected to decide over the next few days whether to delay "Freedom Day," the highly anticipated June 21 lifting of restrictions.



The main cause for this uptick in UK cases appears to be the highly infectious variant known as Delta, or B.1.617.2, whose root (B.1.617) was first detected in India, and which may have arisen subsequently in

Vietnam. The Delta variant is believed to be 40 percent to 50 percent more transmissible than the variant first discovered in the UK known as B.1.1.7, or Alpha, which is already more transmissible than the original virus strain. Some estimates have even put the Delta variant at 60 percent more transmissible. Sharon Peacock, executive director and chair of the Covid-19 Genomics UK consortium, noted that previously 98 percent of cases in the UK were due to the Alpha variant, but the Delta variant now constitutes about 75 percent of cases.

Currently available vaccines are effective against the Delta variant but are less effective, especially after only a single dose. A study from Public Health England found that the Pfizer-BioNTech vaccine was 88% effective against the Delta variant two weeks after the second dose, compared to 93% effectiveness against the Alpha variant. Two doses of the AstraZeneca vaccine were 60% effective against the Delta variant compared to 66% against the Alpha variant. As for a single dose, both vaccines were 33% effective against Delta three weeks after the first dose compared to 50% effectiveness against the Alpha variant. Health leaders are urging citizens to receive a second dose, after the UK had prioritized first doses and may have felt some complacency after apparent success with that strategy. So far, 77% of UK adults have received at least one dose of the vaccine, with 54% having received both. The country is opening up vaccination to the under 30s age group next week.