CED Public Policy Watch

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1. NUMBERS OF THE WEEK: 6.3 PERCENT—THE UNEMPLOYMENT RATE FOR JANUARY—AND 49,000—NEW JOBS

The monthly Employment Situation Report showed a drop in unemployment, to 6.3 percent (from 6.7). This is of course a fairly large numerical decline by historical standards; but we are in a historical time, and so this number must be viewed in context. As a broad rule of thumb, the unemployment rate and other figures from the survey of households are somewhat nosier and less reliable month-to-month than are the data from the survey of employers. In this instance, a comparatively large drop in the number of unemployed (about 600,000), and an increase in the number of employed persons (about 200,000), coincided with a surprising drop in the labor force (about 400,000)—and in the population (almost 400,000). We must look to future months of data to assess these movements.

Meanwhile, the number of jobs reported by employers grew by a disappointingly small 49,000. In a labor market with about nine million fewer payroll jobs than one year ago, and of course with a growing potential labor force, 49,000 new jobs in one month will not buy you very much.

Chart 1. Unemployment rate, seasonally adjusted, January 2019 – January 2021

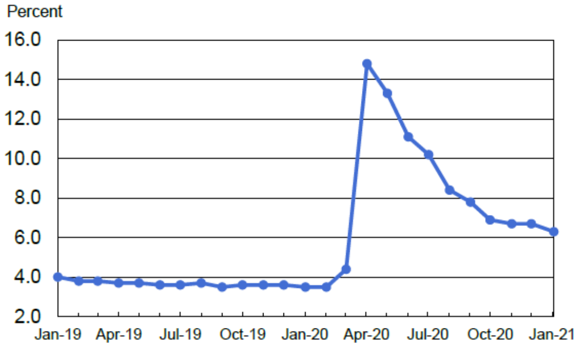
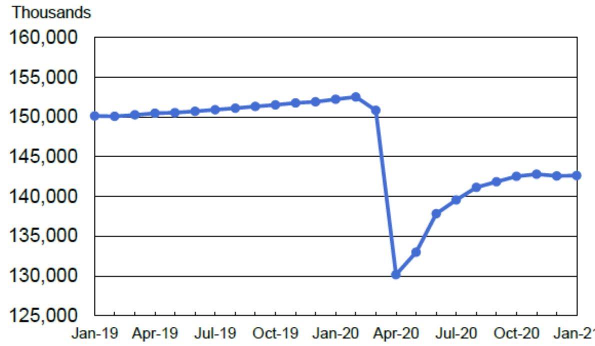


Chart 2. Nonfarm payroll employment, seasonally adjusted, January 2019 – January 2021



Understanding the normal margin for error in one month of data, these numbers do not tell us much one way or the other. But in particular, the eye-catching drop in the unemployment rate is no reason to declare victory.

2. WEEKLY UNEMPLOYMENT INSURANCE CLAIMS DECLINE, SLOWLY

In the week ending January 30, new claims for unemployment insurance benefits by almost 79,000 (not seasonally adjusted, total of all programs—a decline of about 6 percent). Better down than up, but the number of new claims remains almost four times that of one year ago, before the pandemic fully broke. With such a high level of unemployment, this level of new layoffs foretells a long, hard slog back to a vibrant, fully employed economy. It also suggests that the pandemic's damage to existing businesses continues, which again steepens the climb back toward what we considered a normal labor market; it will take time for businesses to re-form and to re-create the opportunities for the many workers, especially those in the service industries of hospitality, travel and entertainment, who will clog the lines of people seeking jobs when it again is fully safe for people to congregate again.

3. CONGRESSIONAL BUDGET OFFICE FORECAST BEARS GOOD NEWS, BAD NEWS

In a normally sleepy annual ritual that is electrically charged in today's environment, the Congressional Budget Office (CBO) revealed its new economic outlook. CBO expects that the GDP will reach its pre-pandemic level by mid-year, and because this baseline forecast by law and custom assumes no change in economic policy, the press reaction emphasized that this is projected to occur with no further stimulus legislation. The forecast goes on to find that the GDP will reach its potential by early 2025, even though inflation-adjusted growth of almost 4 percent this year will recede to the low 2 percent range. Re-attaining pre-pandemic GDP is again better than not, but it is by no means reaching the economic finish line, because the population will have grown 18 months' worth by the middle of less year, and so last year's income will have more mouths to feed.

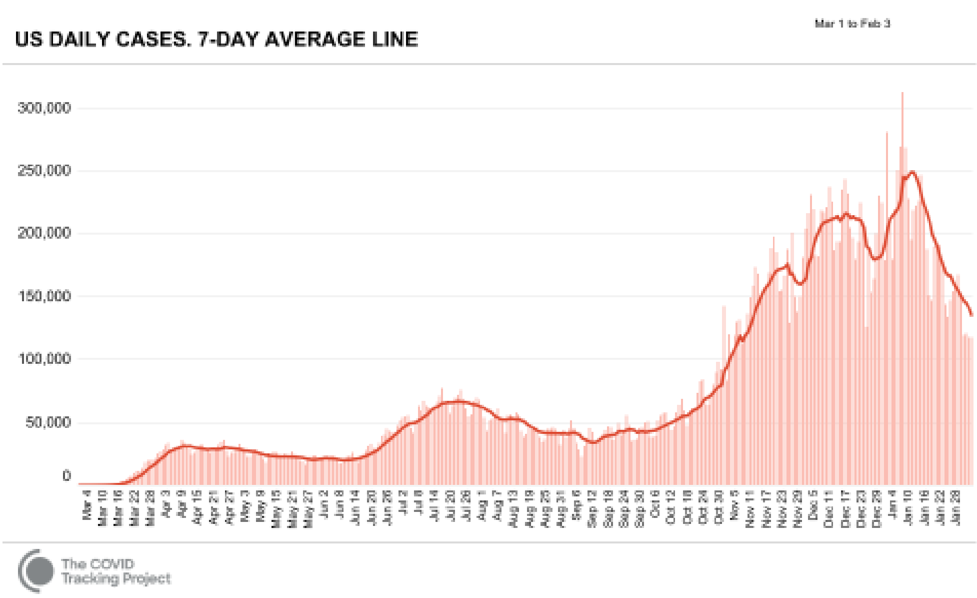
And it will have more potential workers to employ. CBO does not expect the economy to reach the pre-pandemic unemployment rate in this decade, although it does see close to 4 percent by the middle years. The upper-3 percent unemployment rates pre-pandemic were record lows, not certain to be repeated. But the point of these numbers is that comparatively low-paid service workers will suffer even while the economy in total seems better off because of high levels of production (GDP)—which is to say that on the current path, inequality will be a nagging problem.

Which takes us back to the stimulus legislation. Some have argued that with the economy regaining its prior peak GDP in the middle of this year, no further stimulus is necessary. That it an arguable proposition. The other side of the argument would be that (1) this economic outlook bears considerable risk, especially if the pandemic surges again (read on); and (2) there is enormous pain among low-wage workers and households, including food insecurity and the risk of eviction or foreclosure, along with continuing unemployment.

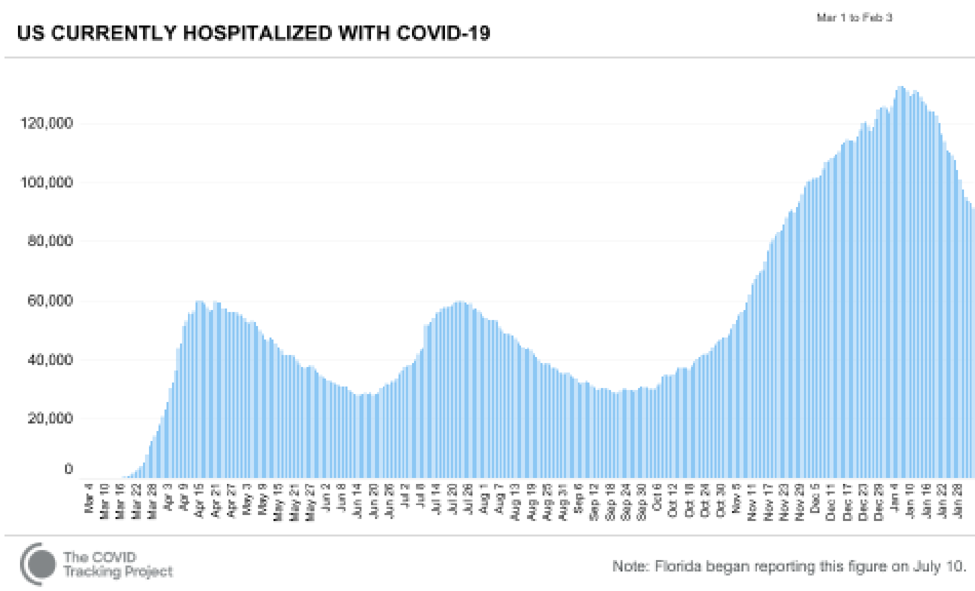
For more on the stimulus debate: Read Lawrence Summers Washington Post op-ed this week:
Opinion: *[The Biden stimulus is admirably ambitious. But it brings some big risks, too.]*

4. CORONAVIRUS NEWS

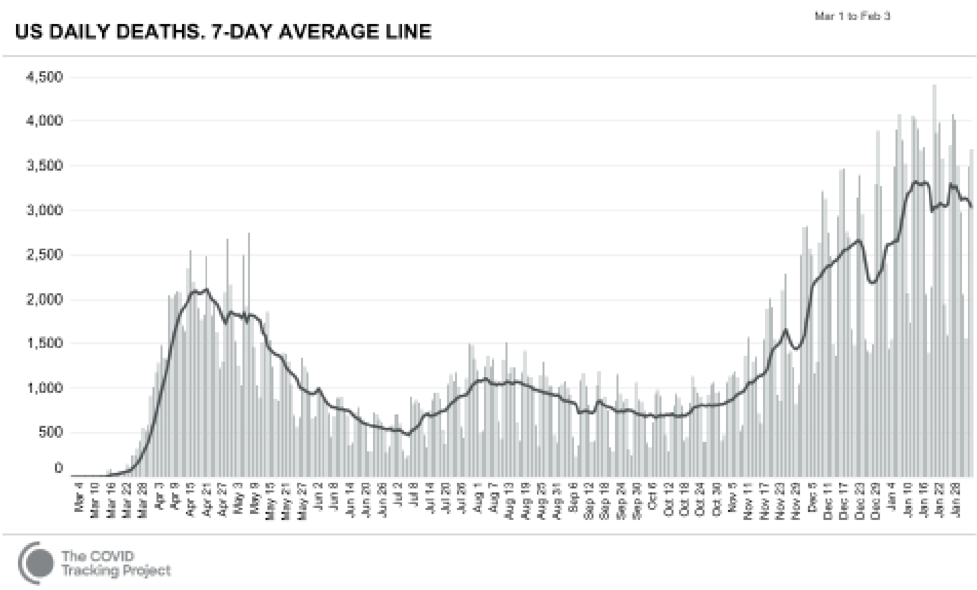
Identified coronavirus cases in the United States continue to recede from their peak of early last month, which is of course good news, although they remain well above the 100,000 level in the surge of last summer.



And while the seven-day moving average of cases has fallen by almost one-half, the number of hospitalizations, a lagging indicator, has fallen by about one-third. It is now slightly below the 100,000 national level that was feared to indicate a breaking point for any local hospitals that bore a disproportionate share of the burden. But again, the level of hospitalizations remains half again as high as the peak of last summer.



And while hospitalizations are down by one-third, current daily deaths (a further lagging indicator) are down by at most one-sixth. Experts cannot say whether this is merely the lags in the individual infection process working their way through the data, or whether something else is at work, for example the roll-out of the vaccines or the growing prevalence of coronavirus mutations.



5. CORONAVIRUS VACCINE AND MUTATION NEWS

From our discussion of last week, you know that the public health community is bracing itself against the impact of three new coronavirus mutations, which are known as the United Kingdom, South Africa, and Brazil variations (B.1.1.7, B.1.351, and P.1 respectively, understanding that each could have sprung up in any country—just as the "Spanish flu" of 1918, we now know, did not originate in Spain). Almost by definition those variations will be more readily transmissible, else they would not spread and become dominant in some locations (now including Florida and California) as they apparently have. It is feared that they may also be more virulent (less so with B.1.1.7) and also more resistant to vaccines—the latter fear being fanned by lesser efficacy findings for vaccine trials in South Africa than elsewhere. And there are rising concerns that the new variants may even be able to infect persons who have already contracted the initial virus, and might expect that they therefore have immunity.

Vaccine inequity remains a concern. Actual data on vaccination among separate racial and ethnic groups are collected by fewer than 30 states. But a new survey reports that Black Americans are underrepresented among those who have been vaccinated, and disproportionately report misgivings about the safety of the vaccine.

There is some hopeful news. The AstraZeneca-University of Oxford vaccine was tentatively found to reduce transmission (in addition to contraction) of the disease, and to be effective with longer intervals between first and second doses (which allows greater flexibility in administration of inoculations). Novavax's efficacy and manufacturing problems are reported to have been solved, raising the likely availability of vaccine doses in the first half of this year. And the Russian Sputnik V vaccine appears to have a surprisingly high 91.6 percent efficacy.

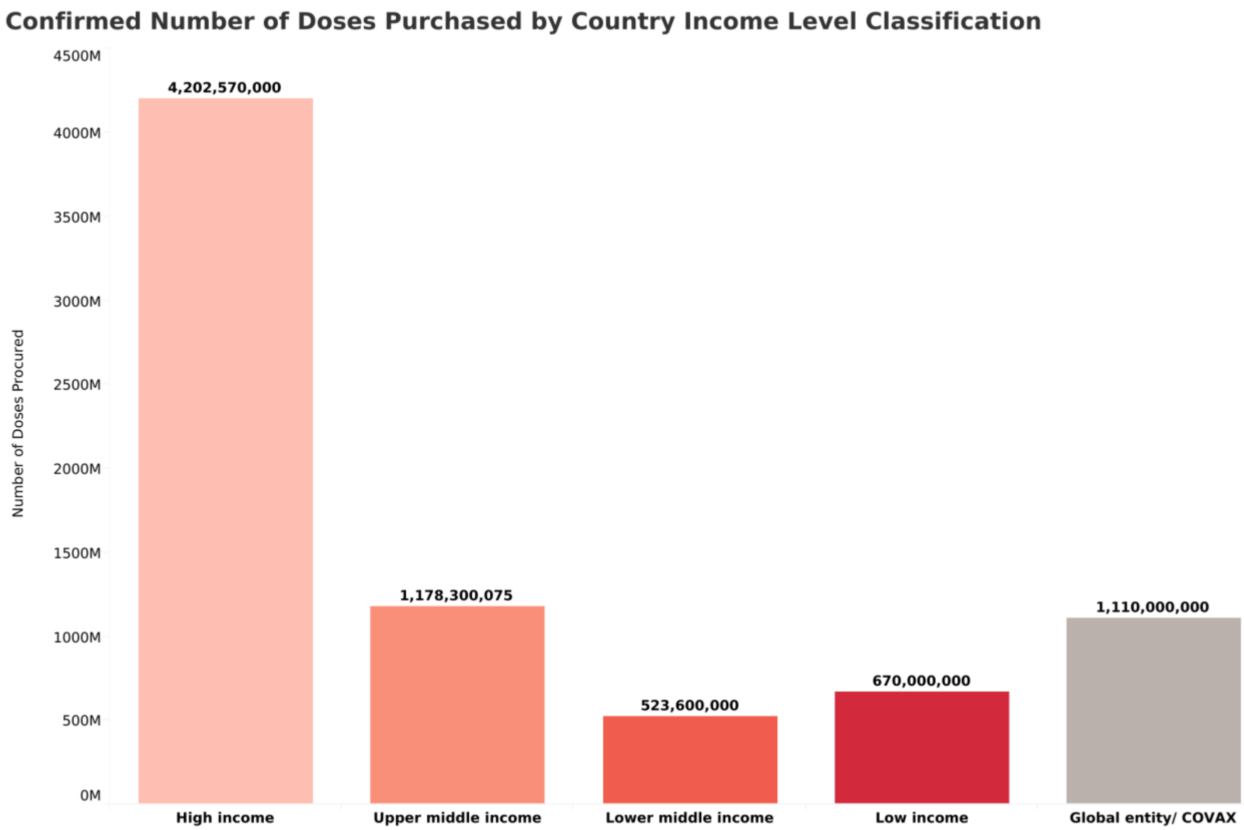
The federal government has contracted to buy 8.5 million fast at-home coronavirus tests from an Australian company. The tests will be available later this year. And twelve Canadian companies have banded together to share knowledge about rapid antigen testing of their employees in the workplace, and how to transmit the information to their government to aid in the tracking and ultimately the eradication of COVID-19.

6. SPOTLIGHT ON REOPENING: VACCINES IN RICH VERSUS POOR COUNTRIES

On the first day of the Biden administration, Dr. Fauci announced that the US would join the World Health Organization's COVAX program, which aims to provide equitable access to COVID-19 vaccines to countries across the globe. In particular, the COVAX facility targets 92 middle- and lower-income countries that cannot afford to inoculate their populations, an outcome that would unnecessarily lengthen the global health crisis.

However, the COVAX program's success, which depends on rich nations signing up to help subsidize access to vaccines for the world's poor, has largely been derailed by vaccine nationalism. Rather than join a coalition that pools funds and jointly negotiates contracts with vaccine manufacturers on behalf of all member states (using the group's purchasing power to ensure supplies at lower prices), many advanced economies have negotiated procurement deals unilaterally, buying up supplies, and in many cases over-contracting quantities that exceed their population needs.

The outcome is that, while advanced economies like the US and the UK now celebrate more persons vaccinated against COVID-19 than those that have been infected, emerging markets are falling behind in the race to vaccinate against a mutating virus. As of January 30, 2021, high-income nations have purchased 4.2 billion doses compared to 1.2 billion doses ordered among lower-middle and low-income countries (see chart). As a result, it could take years to vaccinate certain regions of the world, which would undermine global efforts to end the pandemic.



An equitable vaccine rollout would not only be beneficial for global health, but it would also ensure a complete and more even global economic recovery. According to The Conference Board, emerging markets, especially in regions such as East Asia and Sub-Saharan Africa (excluding South Africa) that more effectively managed the virus, are expected to recover at a faster pace than advanced economies, especially Western Europe. Yet the inability to pay for vaccines and logistical hurdles in transportation and refrigeration of vaccines pose a real challenge to emerging markets.

Further, if greater access to vaccines improves economic conditions more quickly in advanced economies than in emerging markets, advanced economies may more quickly normalize their fiscal policies or begin to raise interest rates above the zero-bound. As a result, uneven vaccine distribution could threaten investment flows to emerging markets at a time of growing financial need to address widening fiscal deficits.

Ultimately, the speed of both the global health and economic recovery is dependent on an equitable global distribution of vaccines across rich and poor countries.

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