



# Economics Group

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## New COVID Cases May Be Topping Out

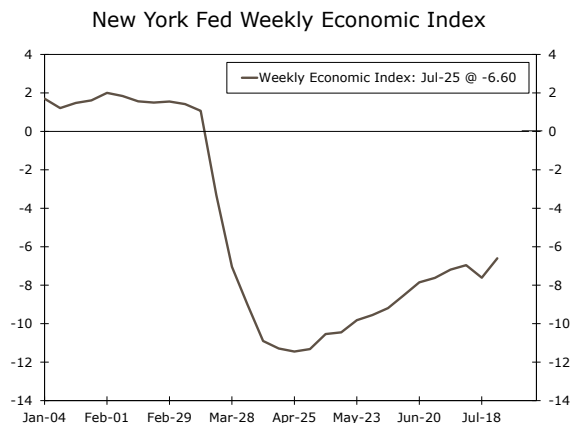
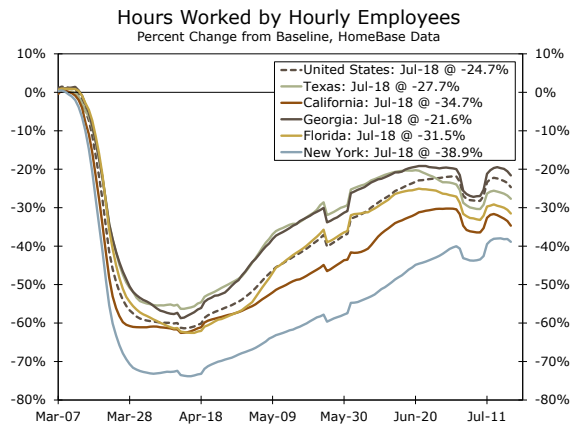
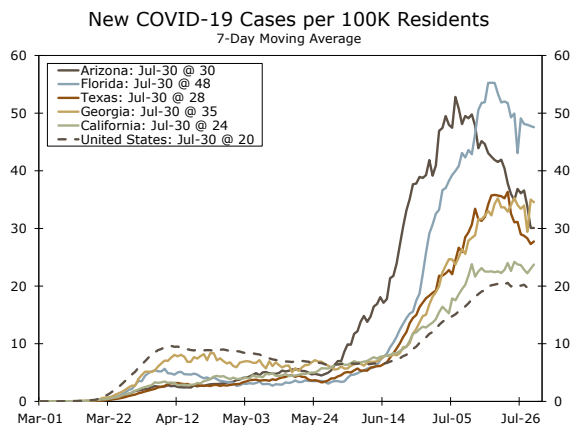
*The summer’s acceleration in COVID-19 infections, which triggered a pullback in economic engagement, appears to be topping out. Hot spots, including Arizona and Florida, have seen the growth in new cases slow.*

### The Sun Belt Surge in COVID-19 Appears to Be Topping Out

Real GDP declined at a 32.9% annual rate during the second quarter, as consumer spending and business investment plummeted. The second quarter’s drop marks the sharpest quarterly decline in real GDP on record, easily eclipsing the previous worst decline—a 10% annualized drop in the first quarter of 1958—when the country was battling the Asian Flu pandemic. Most economic data suggest the economy bottomed out in April and rebounded as businesses re-opened in May and June. The acceleration in COVID-19 infections in many Sun Belt states, including the nation’s three largest—California, Texas and Florida—slowed the improvement. The policy statement from this past week’s Federal Open Market Committee meeting emphasized that “the path of the economy will largely depend significantly upon the course of the virus,” a point Fed Chair Jerome Powell reemphasized during the question and answer period.

The Fed’s emphasis of this hard reality likely reflects some frustration about the resurgence in COVID-19 across much of the Sun Belt this summer and the subsequent pullback in economic activity, such as hours worked. The acceleration in COVID-19 shows how vulnerable the economy is and how difficult it is to make economic policy when we do not know what the virus will do next. Some observers had thought the virus would subside over the summer, just as the spread of common colds and flu generally does. The greater risk for a renewed acceleration was thought to be the fall, particularly after Thanksgiving and the run-up to the holiday season. That risk remains. But policymakers must also ponder the idea that the virus has spiked around all major holidays—so what happens after Labor Day, particularly with the startup of the school year and possible return of college and pro football?

The most recent data hint that the summer’s resurgence in COVID cases may have peaked. The seven-day moving average of new cases has fallen nearly 40% in Arizona over the past three weeks, 19% over the past two weeks in Texas and 14% in Florida over the past two weeks. California also appears to have topped out, though new case count declines have not been as consistent. The number of deaths, which lags new cases by two to three weeks, continues to trend higher. With new COVID-19 cases receding, the pullback in economic activity also appears to have leveled off. The latest data show a slight rebound in restaurant dining and improvement in most other high-frequency indicators. The New York Fed’s weekly economic index rebounded solidly in late July. Most of the regional Fed manufacturing indices also improved in July, hinting that the drivers of the recovery are shifting from the consumer to the industrial side of the economy. Sifting through all this data still does not provide a clear path for policymakers. The Fed has to worry about what might happen and, given what we still do not know about the virus today, that is a bigger unknown than they have dealt with for quite some time.



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