

## U.S. Municipal Bond Market

# Inherent Conflict in Returning to Normal

### Summary

- Yesterday, the Congressional Budget Office published fresh numbers that forecast the U.S. economy might not recover for another decade without additional federal aid or stimulus.
- Some state, regional, and local economies were reopening and others were on the way to begin to reopen. That process could now be delayed because of inherent conflict and recent social unrest.
- Without earning passenger trust, it will be much more difficult to get places like New York City up and running – it is not an overstatement to highlight that mass transportation providers are the backbone to a normally functioning financial landscape and without those providers operating near peak capacity, normalcy could be considered further off rather than closer.
- Unfortunately, the increasing levels of social unrest across the country reallocated efforts and scarce resources away from the former focus of getting state, regional, and local economies back to some semblance of normalcy.

### Return to Normal

Opinions differ about how long it is likely to take the economy to return to normal. A recent survey found that not even half (44%) of those who responded expect the economy to recover in one to two years. Another 11% surveyed see the recovery occurring in less than a year and another 11% see it taking five or more years.<sup>1</sup>

Yesterday, the Congressional Budget Office published fresh numbers that forecast the U.S. economy might not recover for another decade without additional federal aid or stimulus.<sup>2</sup> Meanwhile in recent weeks, state and local governments have been trying to concentrate on facilitating a safe revival that allows state, regional, and local economies to reignite while also prioritizing health concerns.

In May, different areas of the country took different approaches to opening or reopening their economies, now that the COVID-19 curve has been flattened. Georgia and Texas, for example, was ahead of much of the country, while more densely populated urban areas are likely to continue to take a little more time. Although New York City (NYC) was on its way to beginning to reopen by the start of June, their reopening process, as well as other areas, could now be delayed because of inherent conflicts and recent social unrest.

### CDC Guidance Potentially Conflicts with Transportation Providers

An inherent conflict resides in the reopening of more urban areas, especially areas where mass transportation is not just heavily utilized but is often a necessity. That inherent conflict was recognized in comments made by the chairman of the New York Metropolitan Transportation Authority (MTA) in response to [Centers for Disease Control and Prevention \(CDC\) guidance published last week](#). The CDC wrote that alternative methods of transportation should be provided to commuters who use public transportation or ride sharing. Again, we should reiterate the importance of reopening occurring in a safe and orderly manner. However, this guidance could make it more difficult for certain areas to reopen effectively and efficiently.

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MTA Chairman and CEO Patrick Foye disagreed with the CDC guidance. In response, Foye stated, “The CDC’s latest guidance marks yet another confounding recommendation from the nation’s top health authority.”<sup>3</sup>

MTA activity is down significantly compared to 2019. Ridership declined 93% on the subways, 95% on the Metro-North Railroad, and 97% on the Long Island Rail Road. Activity at MTA bridges and tunnels are down by an estimated 62%. The MTA is forecasting combined losses in fare and toll revenues of between \$4.7 and \$5.9 billion in 2020.<sup>4</sup> We are beginning to see some ridership return, but nowhere close to pre-pandemic levels yet.<sup>5</sup>

At this point, it is difficult to quantify the direct impact CDC’s guidance could have on transportation and mass transit authorities, but it is unlikely to be taken as an endorsement. Meanwhile, providers are likely to continue trying to provide assurance to riders that the trains, subway cars, and buses are as prepared as can be to carry passengers.<sup>6</sup> Without earning passenger trust it will be much more difficult to get places like NYC up and running – it is not an overstatement to highlight that mass transportation providers are the backbone to a normally functioning financial landscape and without those providers operating near peak capacity, normalcy could be considered further off rather than closer.

### President Trump’s June 1 Statement

During a press statement made just before a 7 p.m. EDT Washington, D.C. curfew, President Donald Trump reviewed events from recent evenings, then criticized state and local governments for not taking the necessary precautionary and protective steps. “But in recent days, our nation has been gripped by professional anarchists, violent mobs, arsonists, looters, criminals, rioters, Antifa, and others. A number of state and local governments have failed to take necessary action to safeguard their residents,” said President Trump.<sup>7</sup> “If a city or a state refuses to take the actions that are necessary to defend the life and property of their residents, then I will deploy the United States military and quickly solve the problem for them,” the President continued.<sup>8</sup>

These public statements were made just hours after President Trump participated on a conference call with U.S. governors.<sup>9</sup> The exchanges between the President and governors on the conference call did little to diffuse differences of opinion.<sup>10</sup> Meanwhile, the National Guard has been helping state and local governments with COVID-19 testing measures nationwide, but are also now being called on to help manage the social unrest. So far, at least 17,000 National Guard troops have been mobilized in 23 states and Washington, D.C. in response to the social unrest that has been occurring nightly for the better part of at least the last week. “The hardest mission we do is responding in times of civil unrest,” Air Force Gen. Joseph Lengyel, chief of the National Guard Bureau, said in a statement.<sup>11</sup>

The recurring violent demonstrations and government reaction is an evolving situation to be sure. Unfortunately, the increasing levels of social unrest across the country reallocated efforts and scarce resources away from the former focus of getting state, regional, and local economies back to some semblance of normalcy. At the end of last week, we reported NYC planned to begin the reopening process by June 8. What that timeline looks like now is even more tentative. This heightened uncertainty about the reopening process is likely also elevated in other areas that were in the midst of or planning reopening. Virus-related safety and health concerns are likely to begin to heighten, especially if the lack of social distancing in recent days causes COVID-19 cases to escalate. This could be another obstacle to the reopening process.

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<sup>1</sup> Brockman, Katy; [This is how long Americans think it will take the economy to recover from COVID-19](#); the Motley Fool; Mat 15, 2020 cites the data from a Country Financial survey.

<sup>2</sup> [Comparison of CBO's May 2020 Interim Projections of Gross Domestic Product and Its January 2020 Baseline Projections](#); CBO; June 1, 2020.

<sup>3</sup> Meyer, David; [MTA 'confounded' by CDC push for people to avoid mass transit](#); New York Post; May 29, 2020.

<sup>4</sup> [MTA Annual Disclosure Statement Supplement](#); MSRB's EMMA web-site and MTA investor portal; May 1, 2020; page 2.

<sup>5</sup> Guse, Clayton; [NYC subway ridership hits highest point since March as New Yorkers adjust to coronavirus pandemic](#); NY Daily News; May 20, 2020.

<sup>6</sup> Smith, Greg B.; [NYC Subway Anti-Germ Spray's COVID-19 Impact Unclear](#); TheCity; May 27, 2020.

<sup>7</sup> Trump, Donald; [Statement by the President](#); White House Briefings; June 1, 2020.

<sup>8</sup> Ibid.

<sup>9</sup> There is a recording of President Trump's initial comments from the conference call President Trump had yesterday with U.S. governors yesterday here: Rogers, Katie; Jonathan Martin and Maggie Haberman; [As Trump Calls Protestors 'Terrorists,' Tear Gas Clears a Path for His Walk to a Church](#); The New York Times; June 1, 2020. The recording can be accessed in the graphic at the top of the article.

<sup>10</sup> Garrison, Joey; ['Nowhere to be found': Governors blast Trump after he tells them they are 'weak' on phone call](#); USA Today; June 1, 2020.

<sup>11</sup> Soucy, Jon; [Guard Members in 23 states, D.C. called up in response to civil unrest](#); National Guard Bureau; May 31, 2020.

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