

Arvest Economic Outlook
February 24, 2021

KC Economic Recovery from the COVID-19 Recession

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U.S. Economic Situation and Forecast

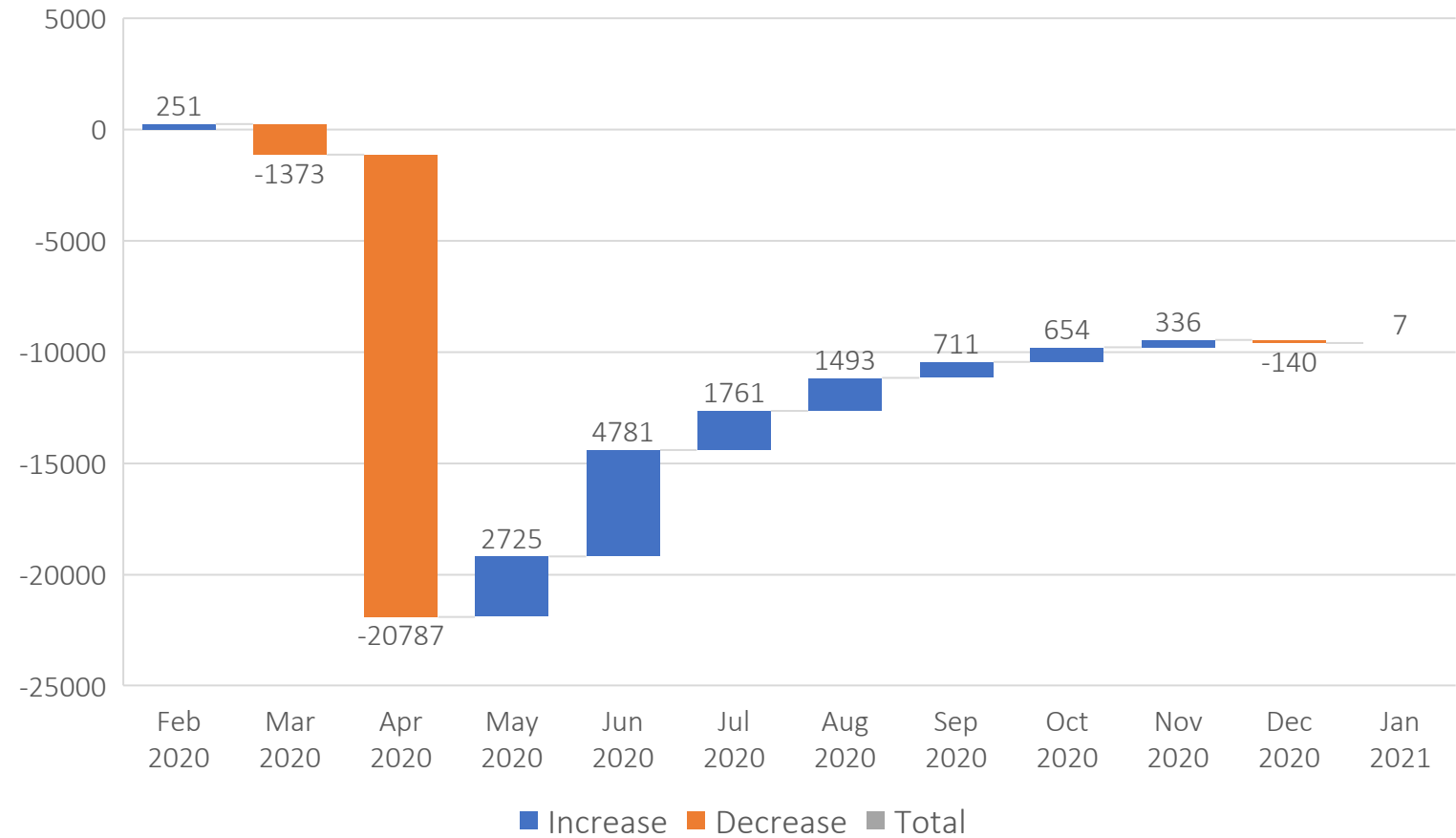


Photo by [NASA](#) on [Unsplash](#)

Nationally, non-farm payroll employment has recovered more than half (56%) of the jobs lost at the peak of the economic shutdowns that took place to combat the COVID-19 pandemic. Yet, that recovery appears to have stalled out, averaging only 70,000 jobs per month nationwide over the past 3 months.

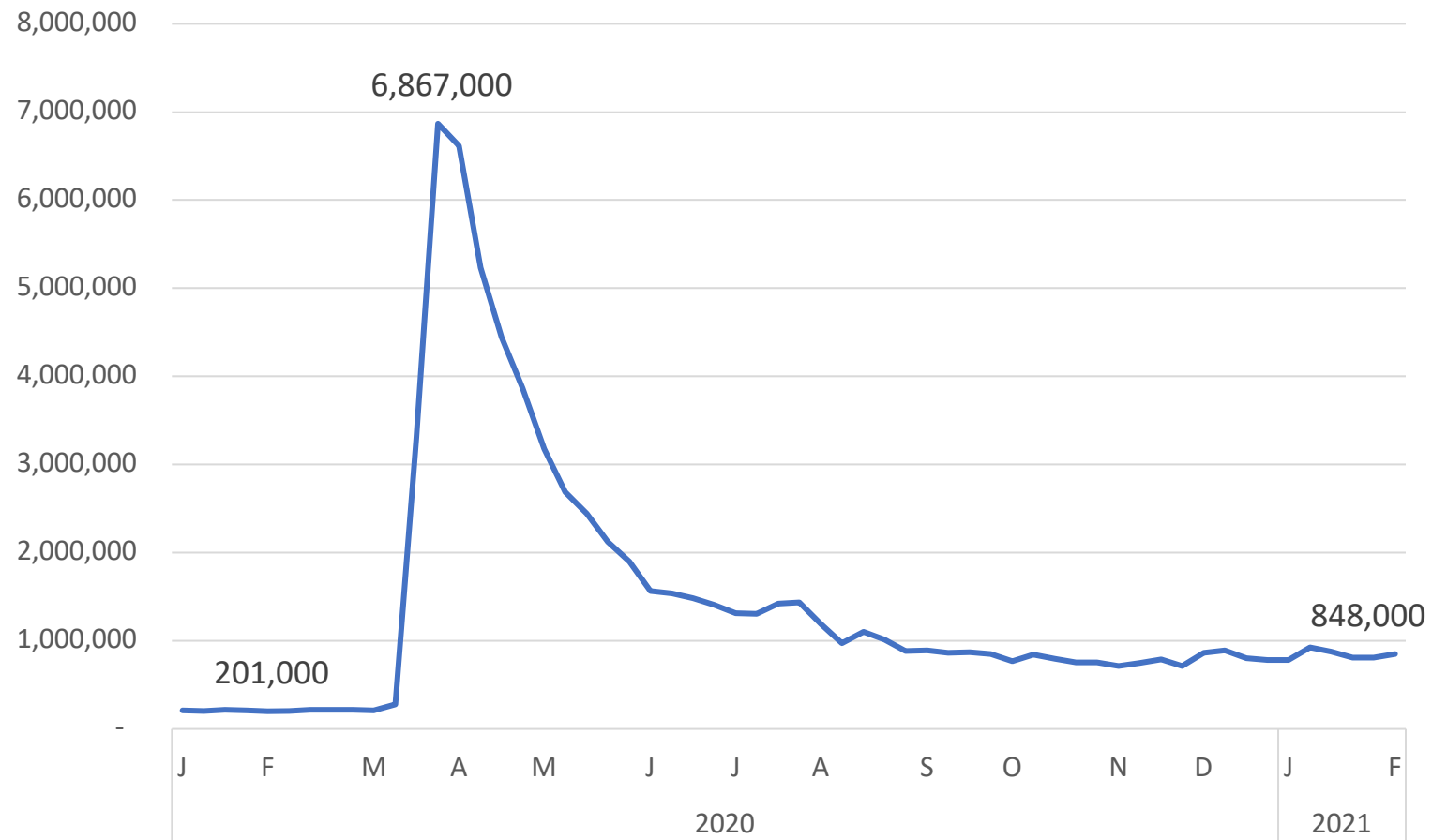
Source: BLS

U.S. Total Non-Farm Employment Monthly Change, 2020-2021



Though down 88 percent from its March 28 peak of 6.9M, at 848 thousand, initial claims are still more than 4 times their level before the pandemic began. Nearly 79 million claims have been filed since March 13 when the declaration of a national emergency and the closure of many businesses began.

U.S. Initial Unemployment Insurance Claims Weekly, Seasonally Adjusted (through Feb 13, 2021)

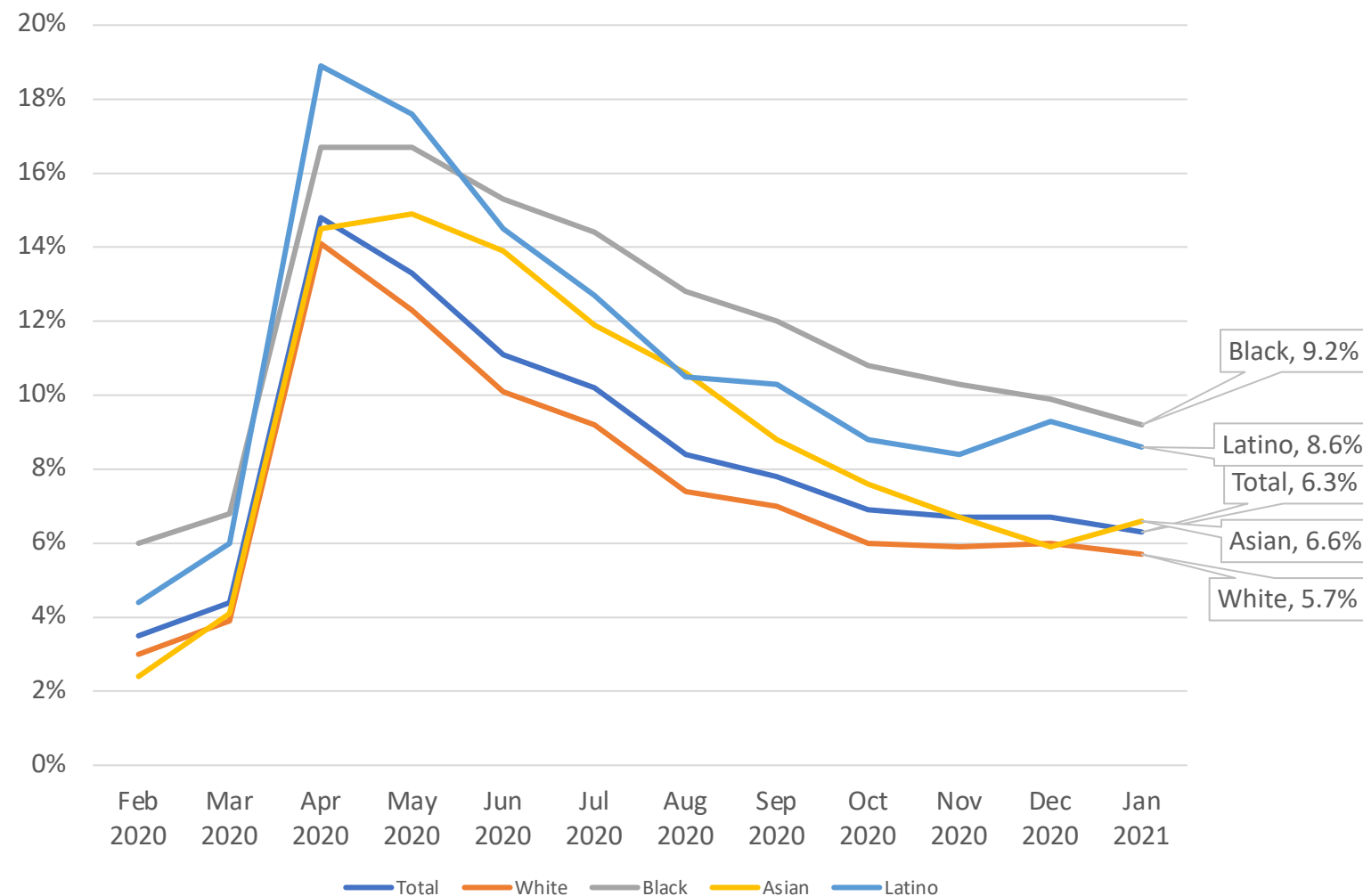


Source: FRED, U.S. Department of Labor

Latinos were hardest hit by the economic shutdown initially, then saw the quickest improvement. But this has stalled. The Black unemployment rate continues to be the highest among all racial and ethnic groups and, at 9.2%, is 1.7 times higher than that for Whites, at 5.7%.

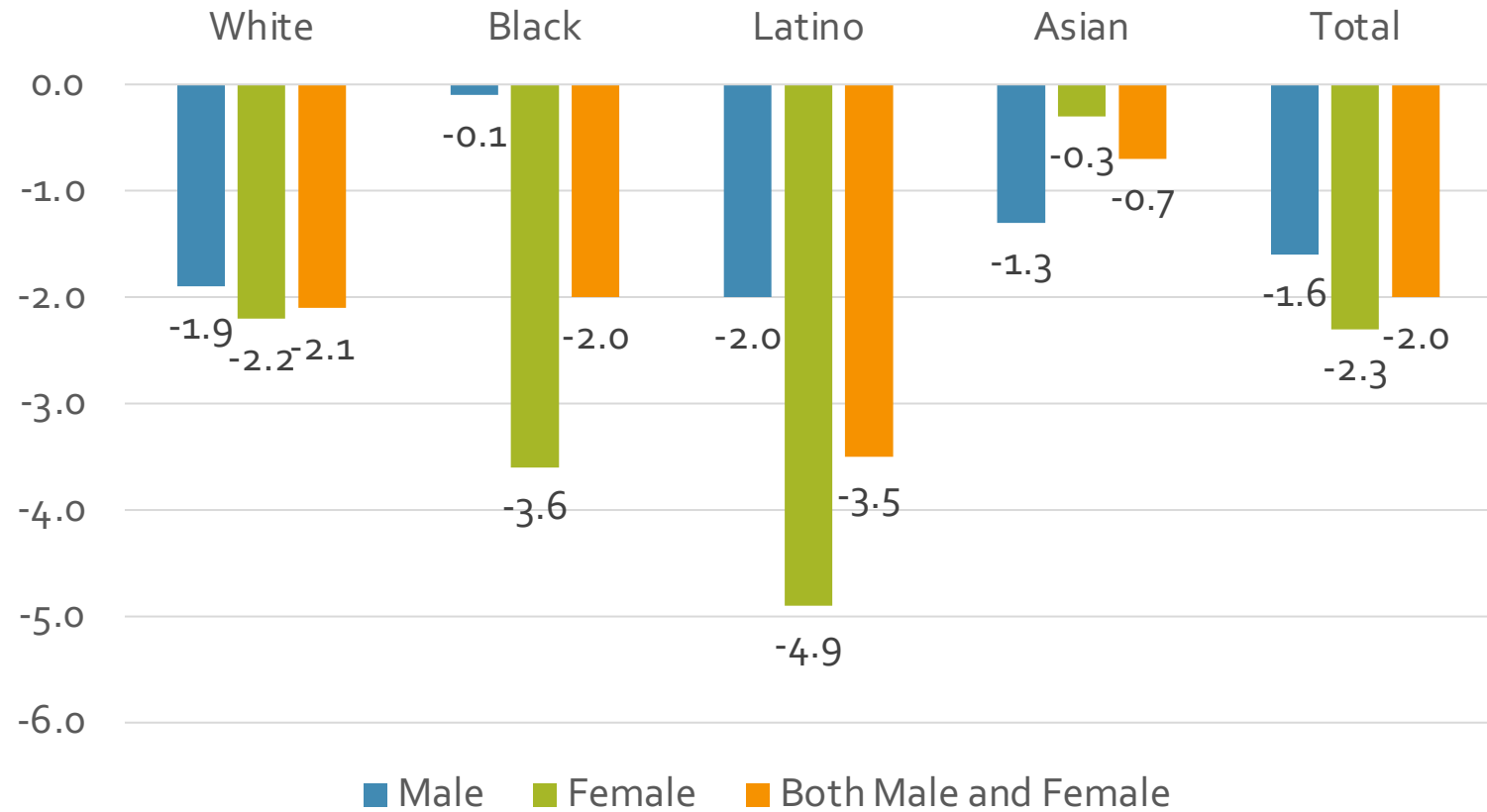
Source: BLS

U.S. Unemployment Rates by Race, Ethnicity



Labor force participation rates have dropped across demographic groups. But women of color appear to be dropping out of the labor force at higher rates than other groups, likely a result of lack of good childcare options.

Change in Labor Force Participation from Feb 2020 to Jan 2021
by Race and Gender



Moody's Analytics: Key Assumptions for Baseline Forecast

Key assumptions – February Baseline

- We assume 47.34 million COVID-19 cases, less than the 55.5 million in the January baseline. Herd immunity is still anticipated to be achieved by September.
- The next pandemic relief bill will provide tag \$1.1 trillion in stimulus, passing this quarter under budget reconciliation.
- We also expect a package around President Biden's "Build Back Better" agenda totaling less than \$1 trillion to be passed in the second half of this year.
- The Federal Reserve keeps the target range for the fed funds rate at 0% to 0.25% until the second quarter of 2023. The Fed does not taper its asset purchases until 2022.

Moody's Analytics: Key Risks for Baseline Forecast

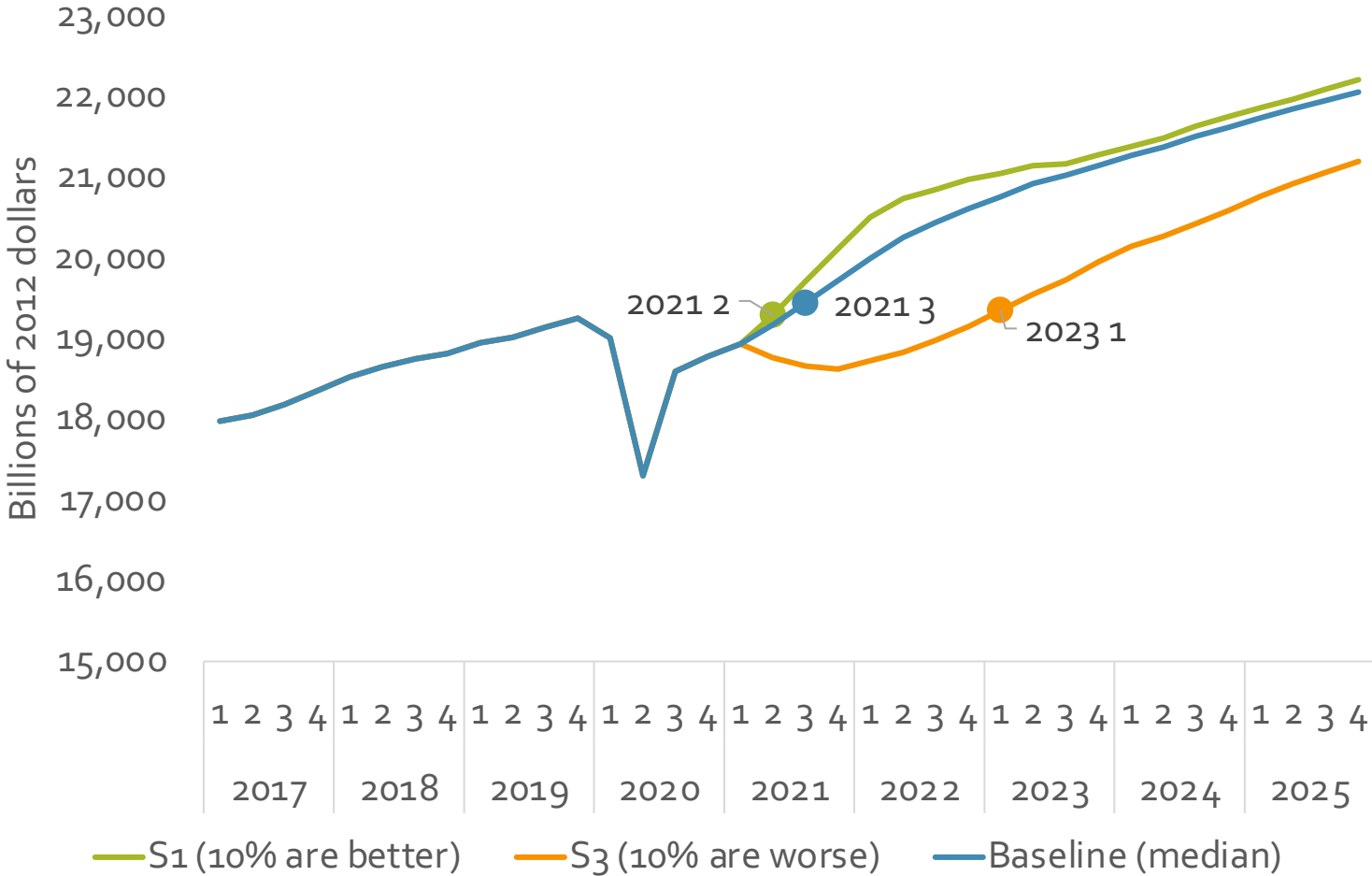
The future is uncertain, however, so we also look at alternative scenarios to put bounds on the uncertainty and allow a more clear-eyed assessment of risks.

Key risks – February Baseline

- On the downside:
 - Variants of the virus cause a resurgence of COVID-19, resulting in increases in hospitalizations that cause states to shut down nonessential businesses again.
 - Further rounds of fiscal support are delayed or smaller in size than in the baseline.
- On the upside:
 - Herd immunity is achieved sooner than anticipated, as average daily vaccinations increase to 2 million.
 - The demographic tailwind is more powerful for the housing market.
 - A large savings cushion provides a bigger than expected boost to consumer spending even in the absence of additional fiscal stimulus.

As the vaccine roll-out picks up pace, the baseline and best case have become increasingly similar. In both, GDP fully recovers by mid-year, though growth accelerates after that in the best case. In the worst case, a resurging virus causes widespread shutdowns again.

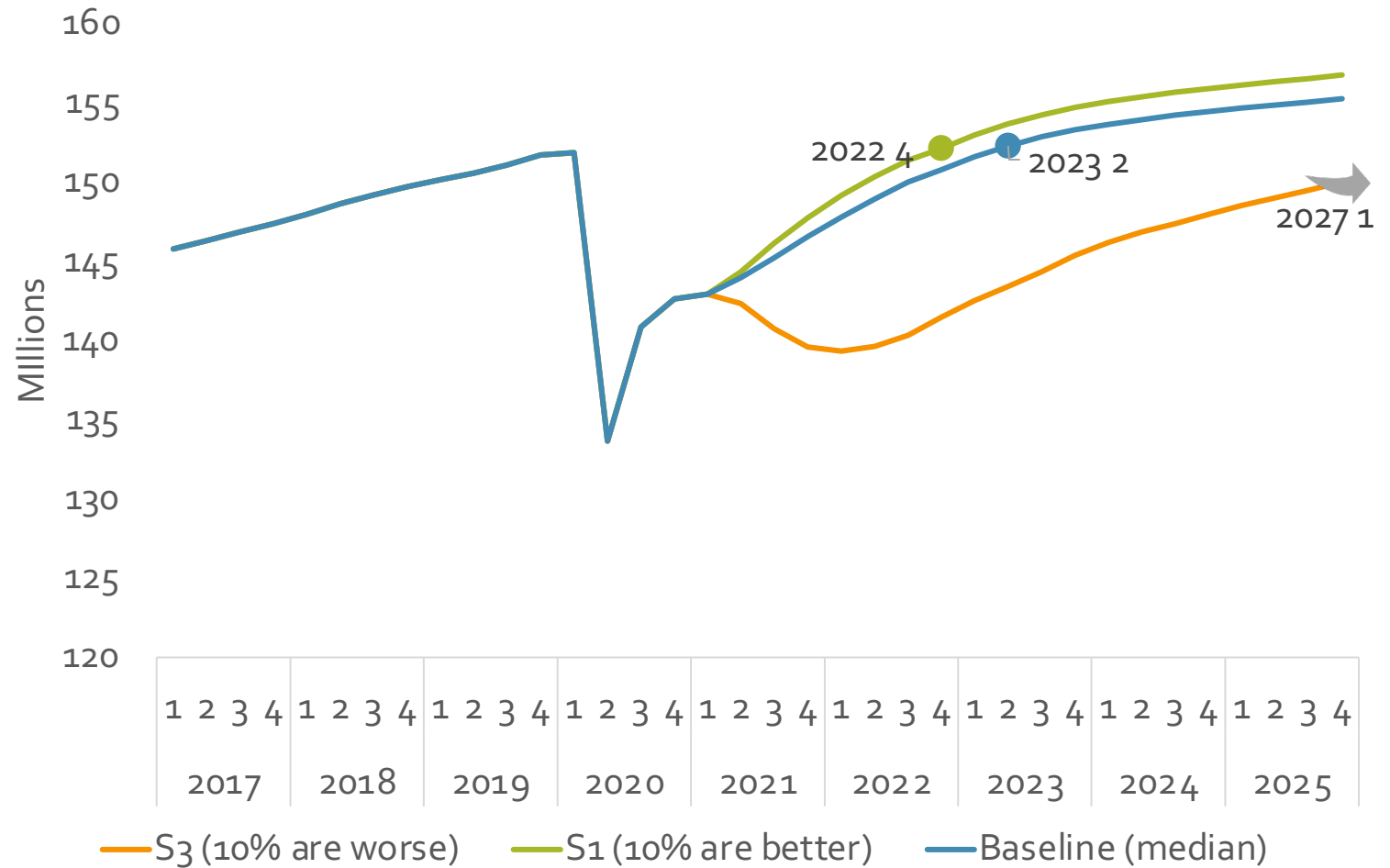
U.S. GDP: February Scenarios



Source: Moody's Analytics

The labor market shows the same pattern of growth as GDP, but it improves at a much slower pace. As a result, baseline employment doesn't return to its prior peak until 2023Q2, or nearly 2 years later than GDP.

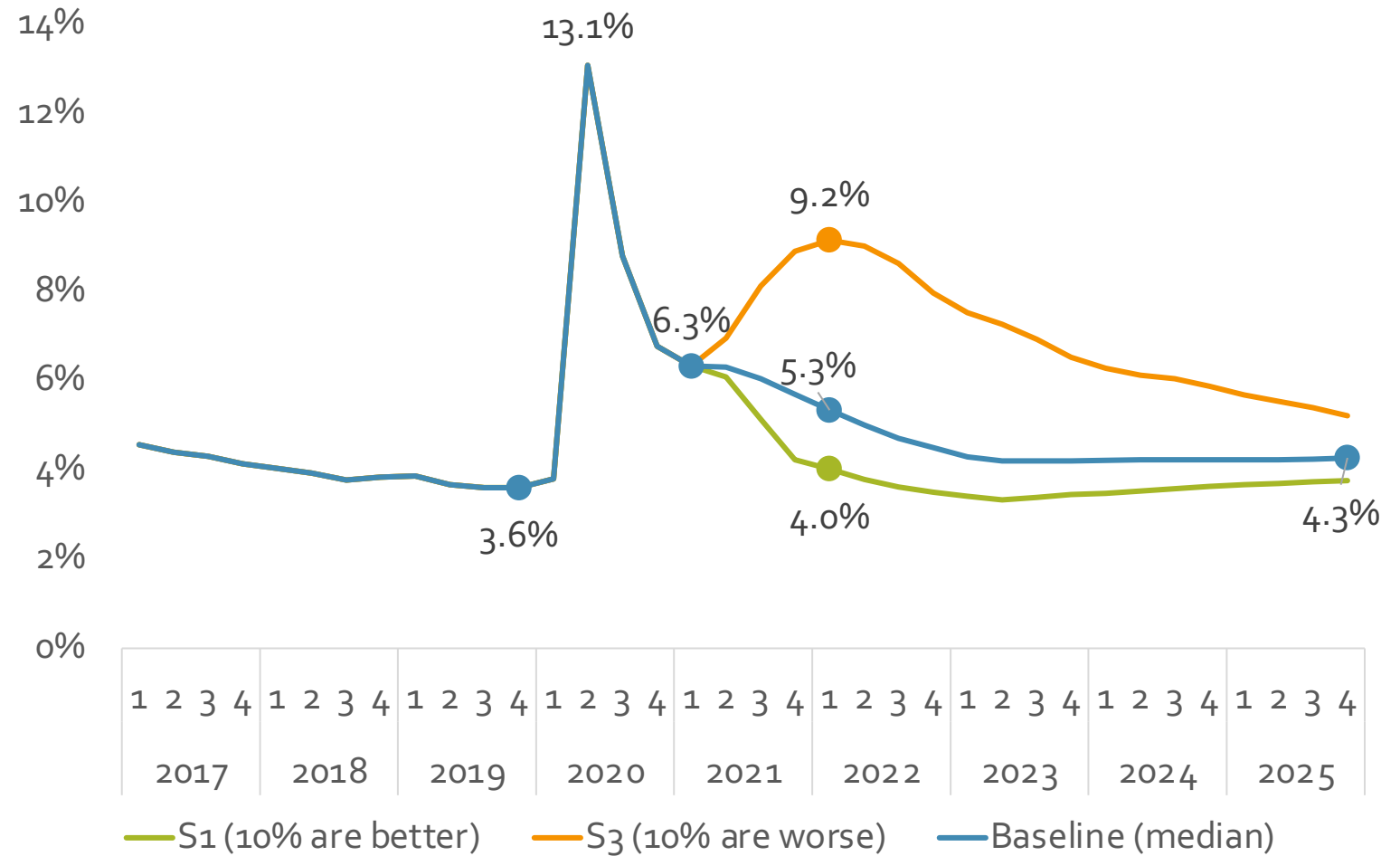
U.S. Employment: February Scenarios



Source: Moody's Analytics

The baseline forecast calls for the nation's unemployment rate to drop another percentage point over the next four quarters. This compares to a 2.3 percentage point reduction in the best case and a nearly 3 percentage point increase in the worst.

U.S. Unemployment Rate: February Scenarios



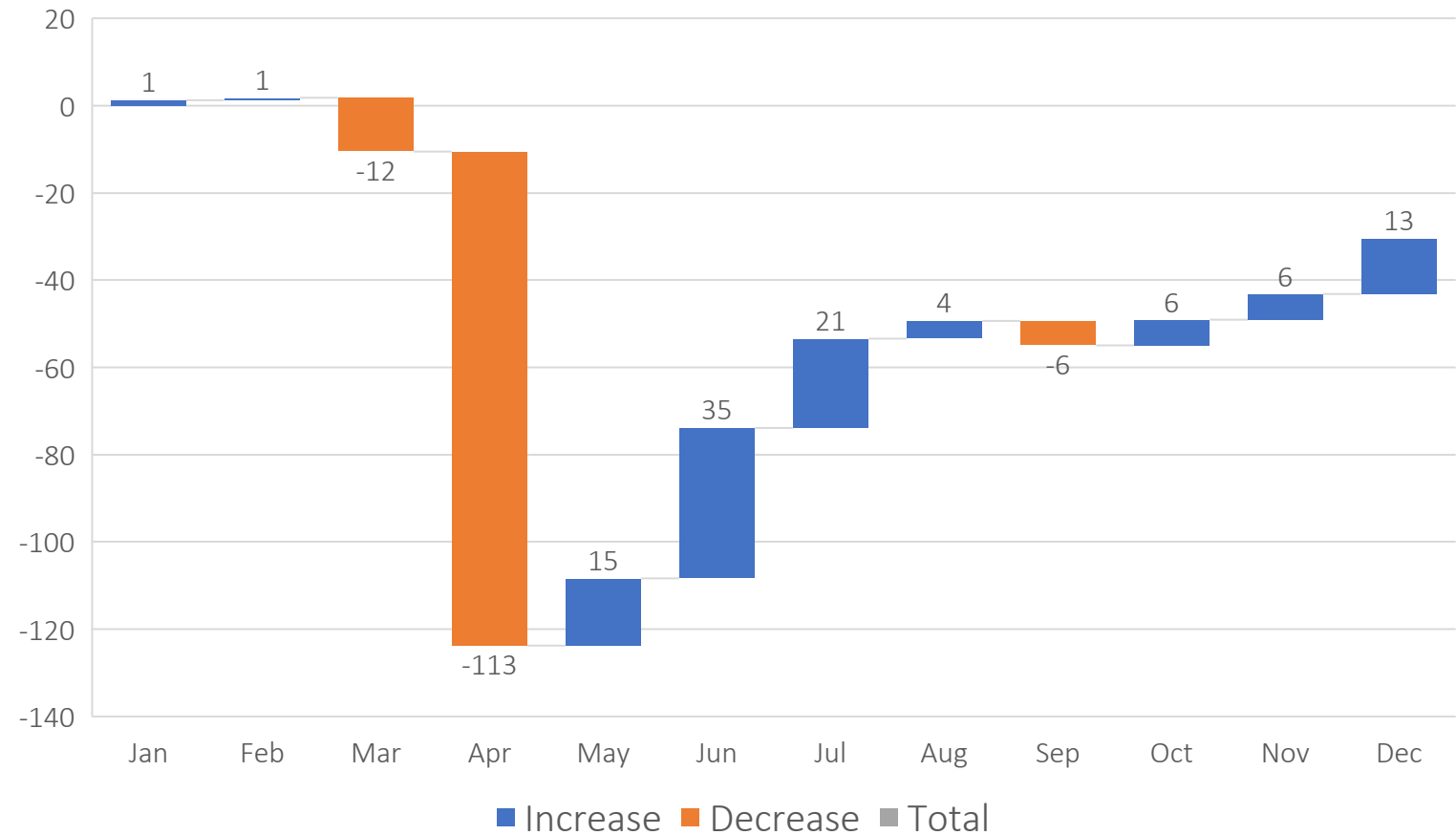
KC Economy – Current Situation



Photo by [Jake Fagan](#) on [Unsplash](#)

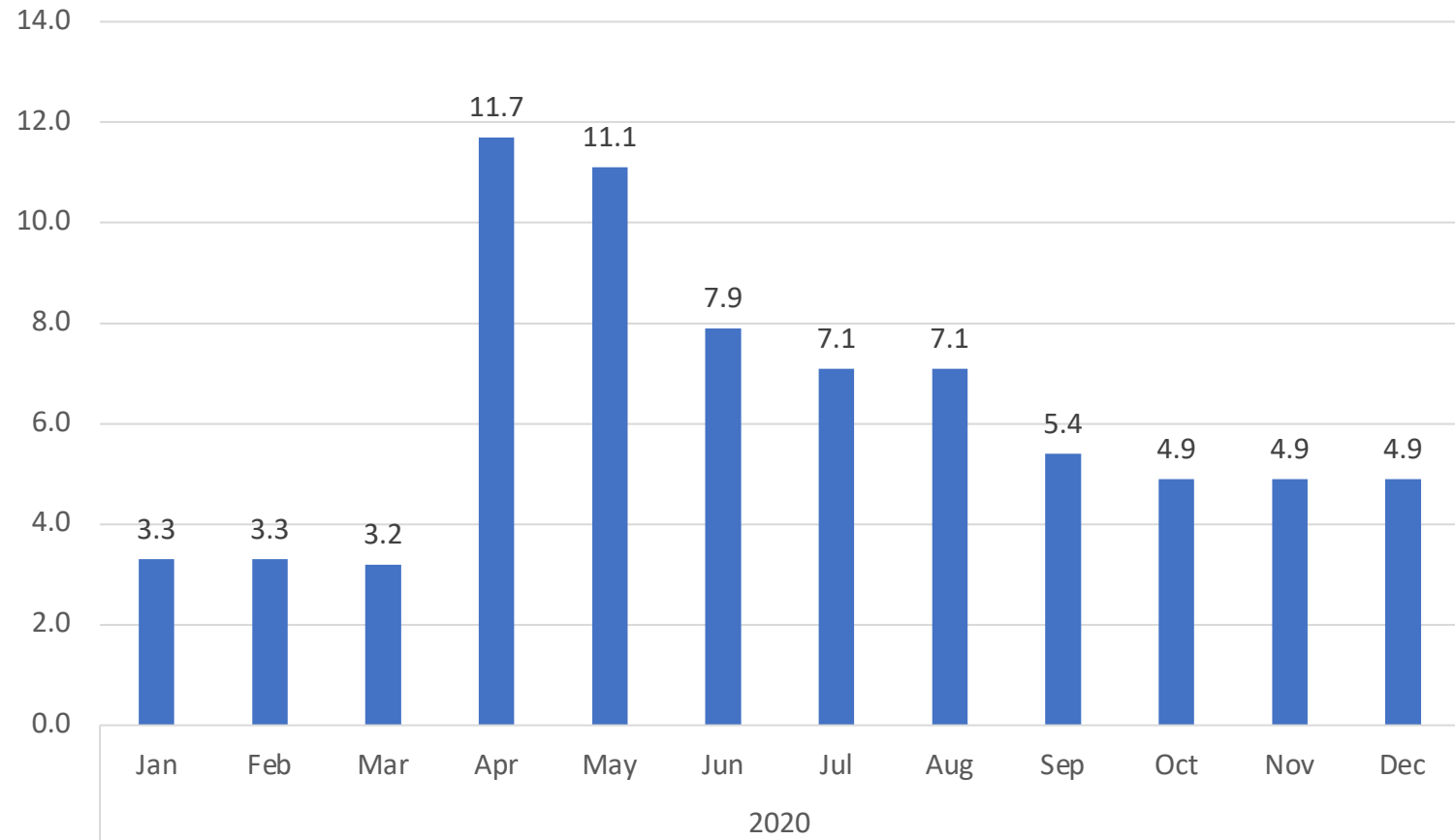
Like the nation, the economic recovery proceeded swiftly here at first, but then slowed significantly. KC has recently outperformed the nation, though, recovering about 3/4 of the jobs initially lost.

KC Total Non-Farm Payroll Employment Monthly Change During 2020



Correspondingly, as of December 2020, KC's unemployment rate is 1.4 percentage points below the nation's. Again, though, progress has slowed considerably in recent months and remains 1.7 percentage points above pre-recession levels.

KC Unemployment Rate, 2020 Monthly, Seasonally Adjusted



Despite increasing consumer confidence as the pace of vaccinations increases and COVID-19 cases decrease, this has not yet resulted in sustained increases in consumer spending in the KC area, which is still down about 27% from pre-pandemic levels. Expectations are that continued progress against the virus and passage of another Pandemic Relief Package will allow the economy to turn the corner.

Percent Change in All Consumer Spending*

In **Kansas City**, as of **January 31 2021**, total spending by all consumers **decreased** by **27.2%** compared to January 2020.



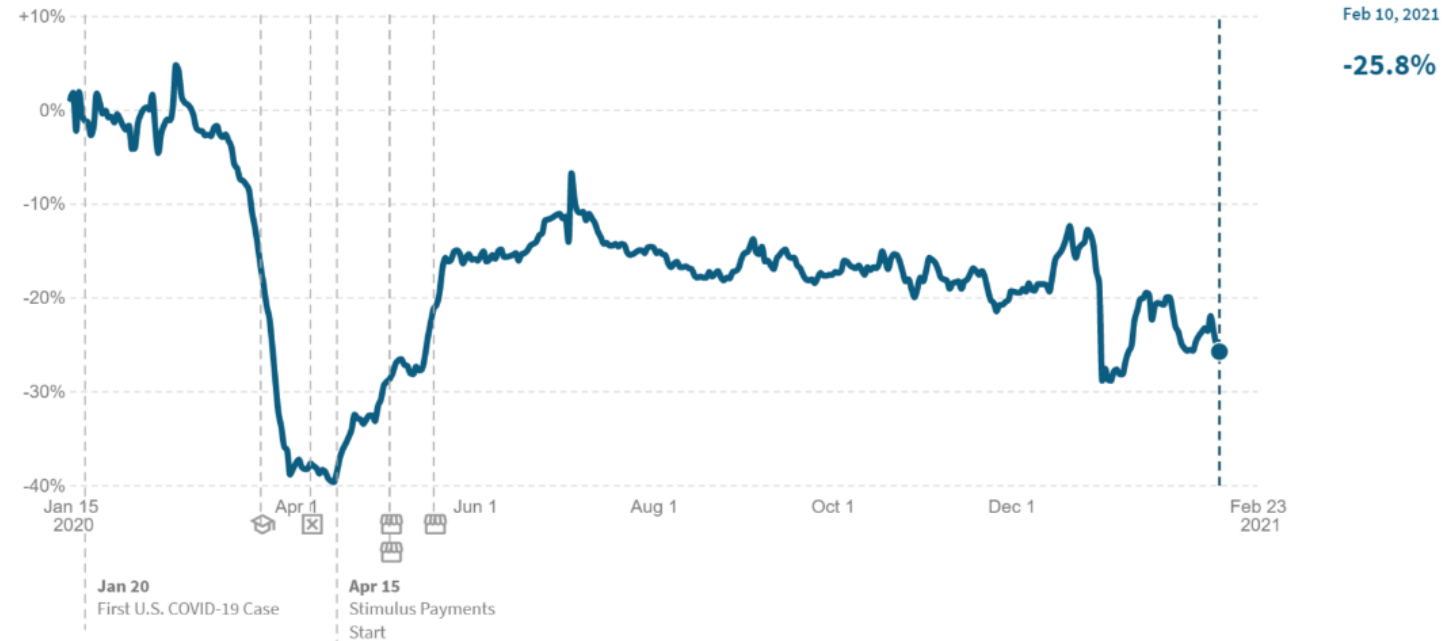
*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

last updated: February 19, 2021 next update expected: February 24, 2021

The number of small businesses open in the KC area continues to decline due to the ongoing challenges from pandemic restrictions and visible shifts by consumers in their demand for local goods and services. The number of businesses open is down about 26% compared to pre-pandemic levels.

Percent Change in Number of Small Businesses Open*

In **Kansas City**, as of **February 10 2021**, the number of small businesses open **decreased** by **25.8%** compared to January 2020.



*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.

last updated: **February 19, 2021** next update expected: **February 26, 2021**

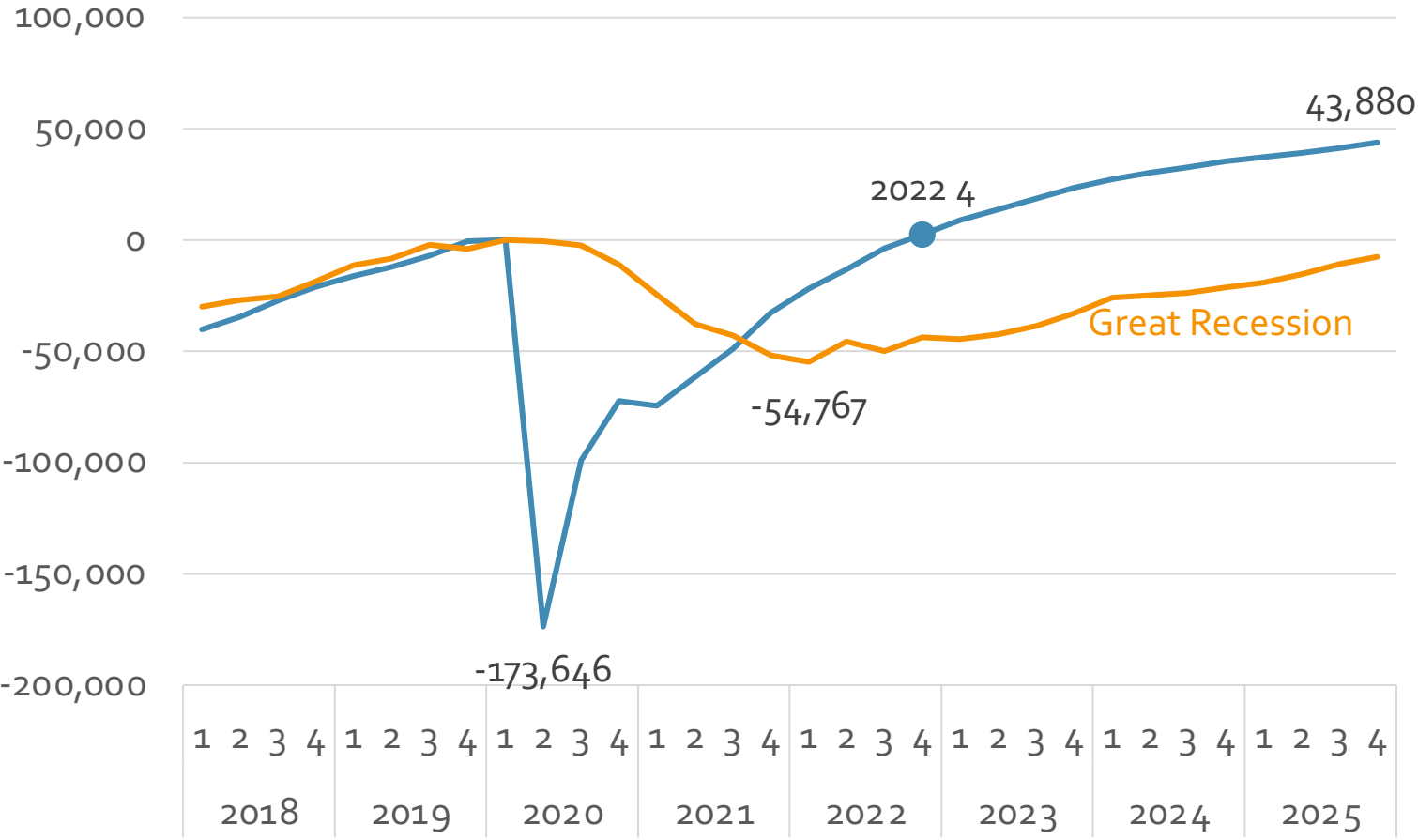
KC Economy – Forecast



Photo by [Jake Fagan](#) on [Unsplash](#)

While much deeper job losses occurred than during the Great Recession, the recovery time for this pandemic-induced recession is expected to be more than twice as fast, thanks largely to the more aggressive federal policy response. As a result, regional employment recovers to pre-pandemic levels by 4Q 2022.

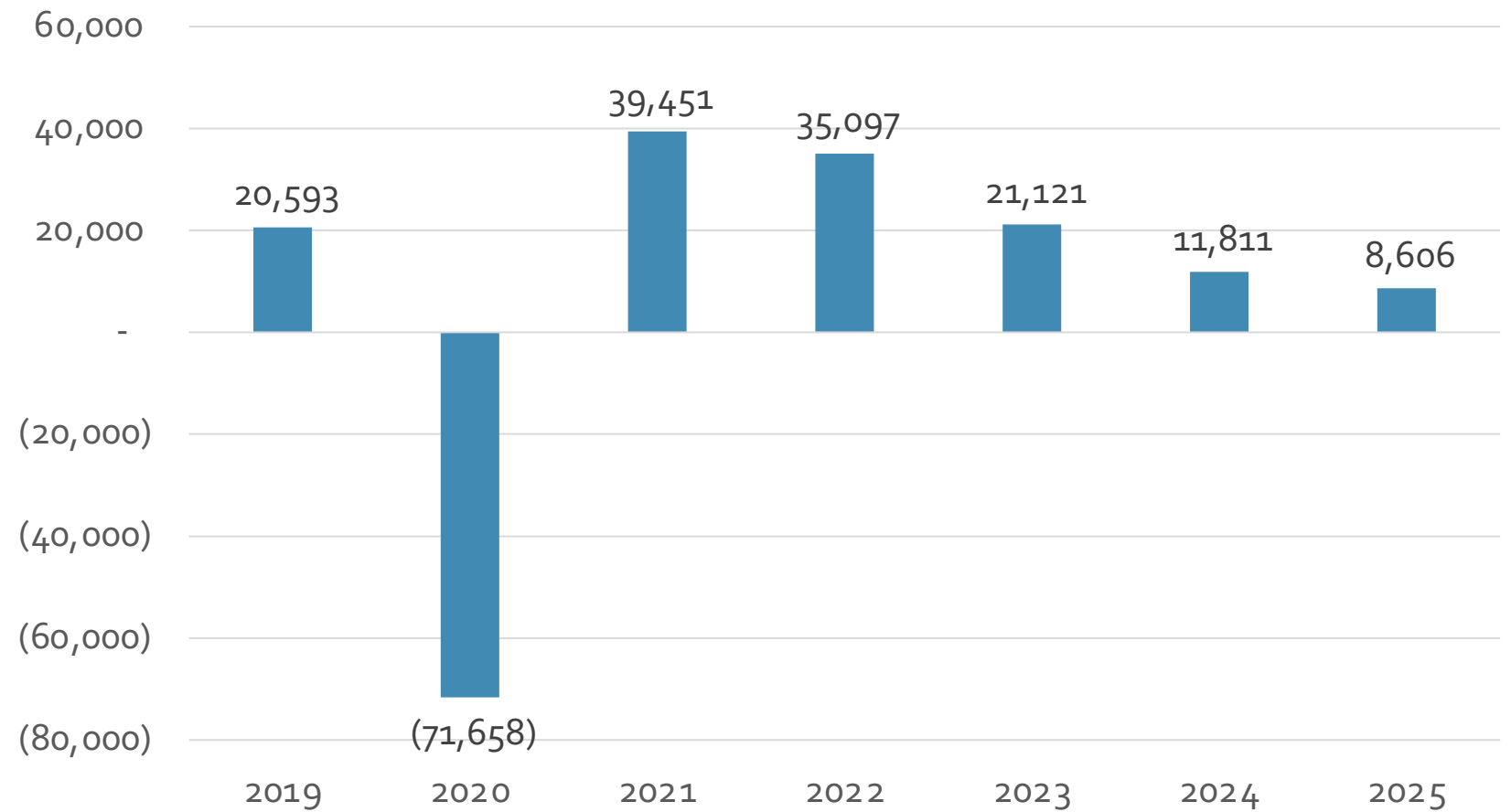
KC Total Employment, February Baseline
Change Since 2020 Q1 (Quarterly)



Source: MARC, using REMI model and Moody's national forecast

Viewed on a fourth-quarter to fourth-quarter basis, the region is expected to have lost 72,000 jobs in 2020, after having grown by 21,000 the year before. It takes into the third year of above average growth to make up for this loss, after which employment growth slows down dramatically once the excess labor force capacity is absorbed.

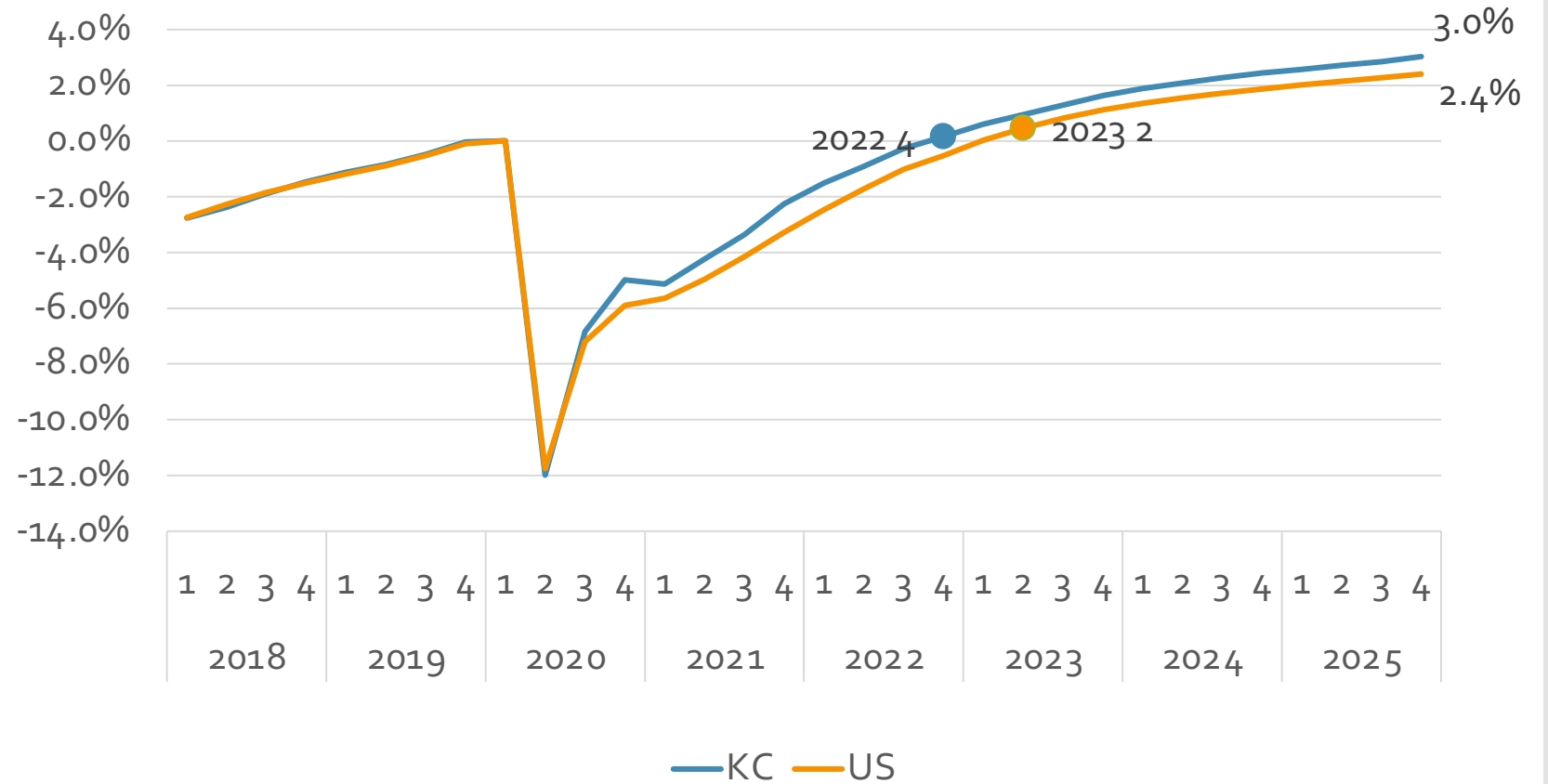
KC Total Employment Forecast, February Baseline 4Q to 4Q Change



Source: MARC, using REMI model and Moody's national forecast

Under the baseline forecast, KC employment grows slightly faster than the U.S., about 0.6 percentage points by the end of the forecast period. This leads to KC recovering its pre-recession peak employment about a half a year sooner than the U.S.

KC vs. U.S. Total Employment, February Baseline
Percent Change Since 2020 Q1

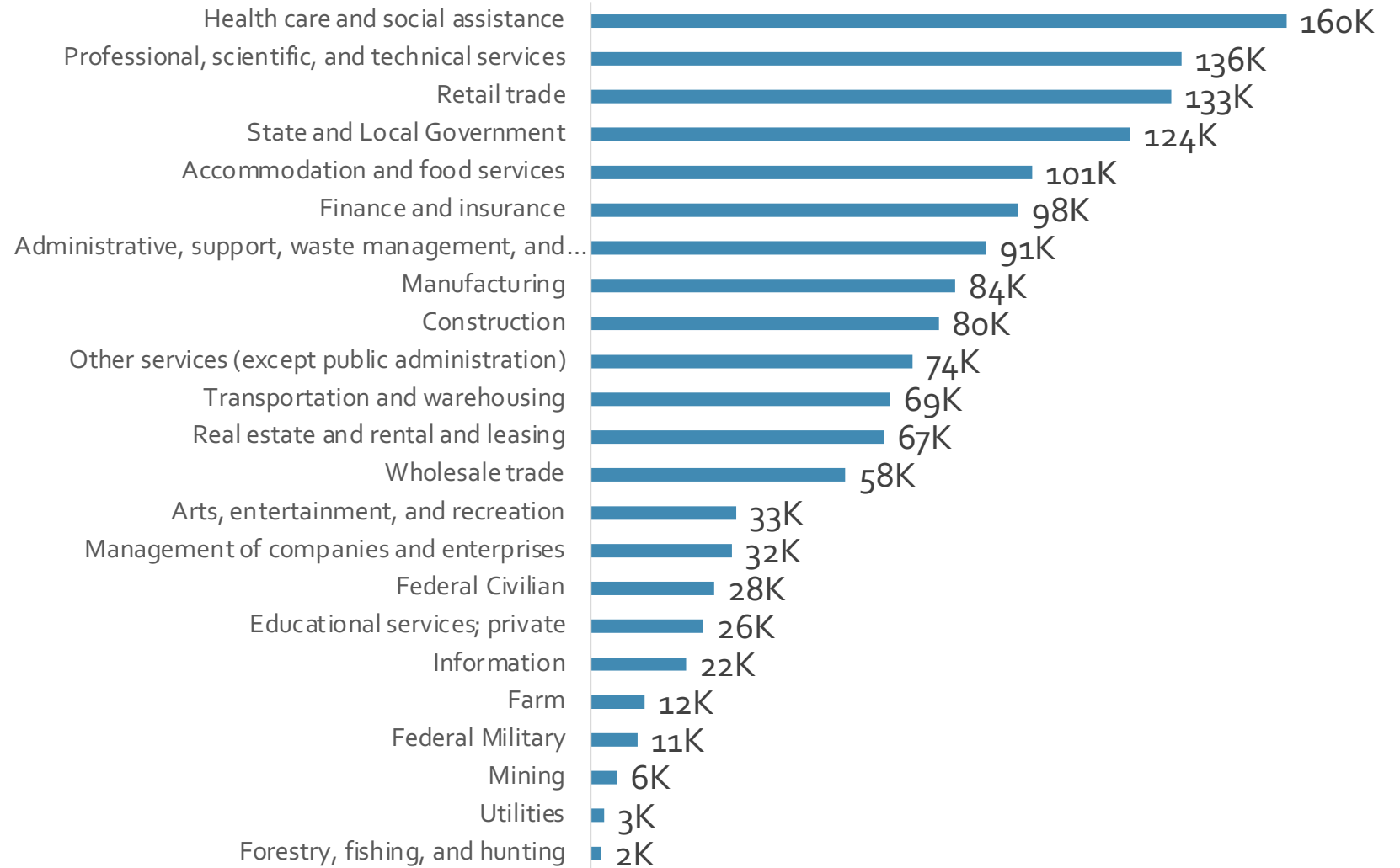


Source: MARC, using REMI model and Moody's national forecast

KC has a diverse economy whose industry structure tends to mirror that of the nation. Health care and Professional Services lead the way. This data, which is what is used in our model, includes the self employed and puts schools into Local Government, making it the 4th largest employer.

KC Employment by Industry, 2020 Q1

(Includes the Self-Employed, Public Education is Included in Government)

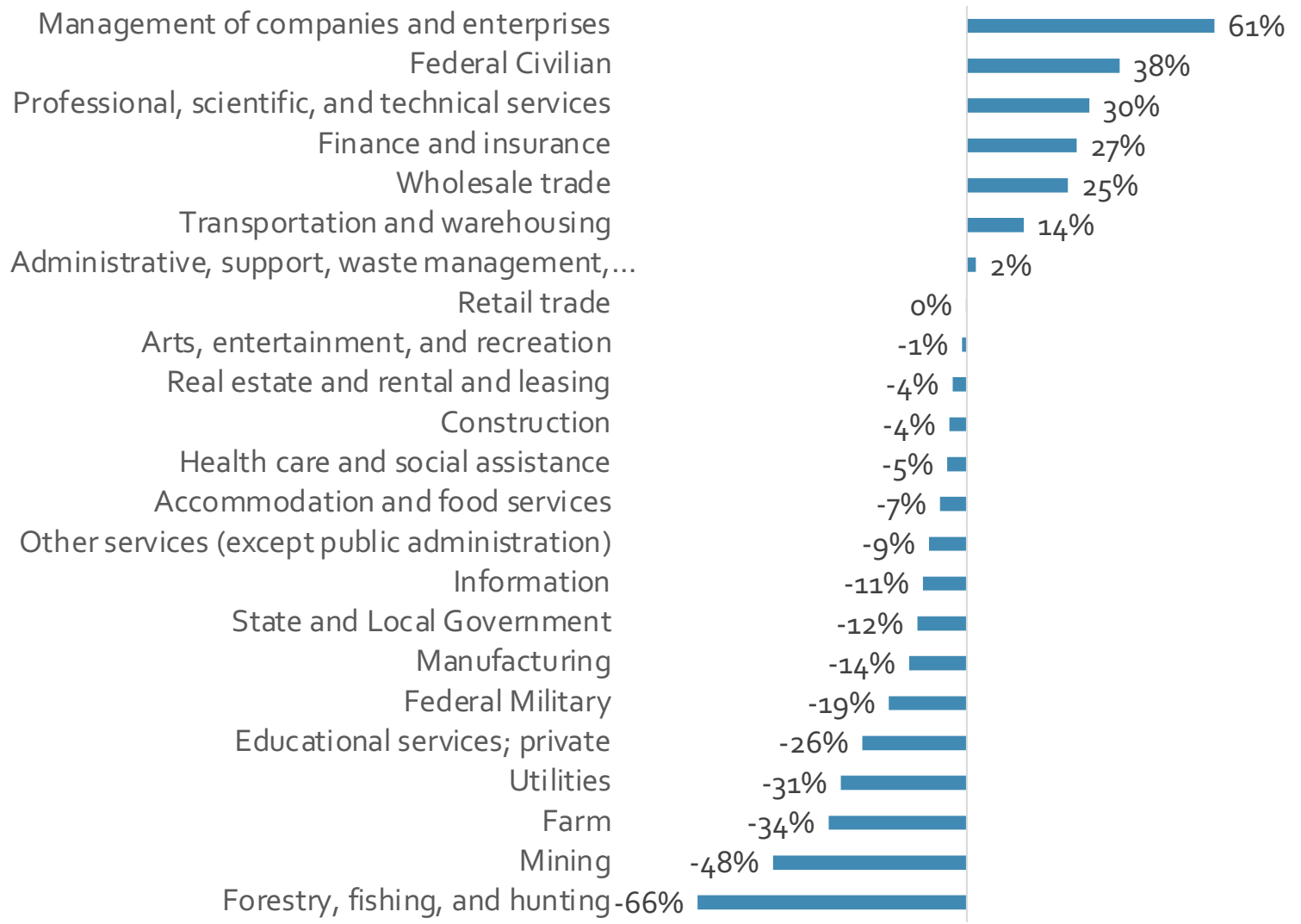


Source: REMI, based on BEA definition of employment

Regions grow by serving the larger U.S. and international economies. The industries in which we specialize are those where we have a comparative advantage and have been able to do a better job selling to the rest of the world.

KC Industry Employment Specializations

Share of KC Employment Relative to Share of U.S.

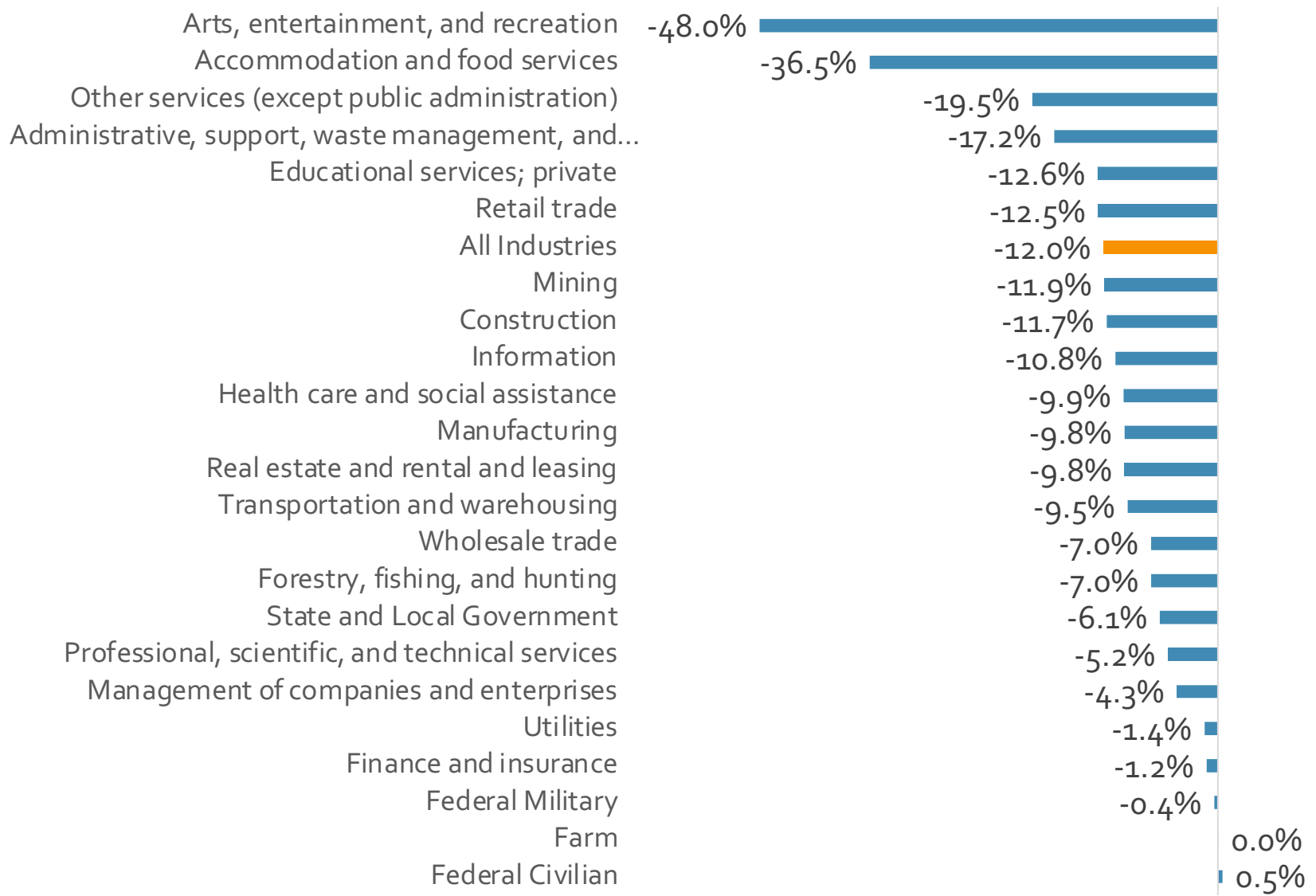


Source: REMI, based on BEA definition of employment

Overall, the KC economy lost 12 percent of its jobs in the downturn, with Arts and Entertainment and Accommodation and Food hit hardest. On the other hand, some of our specializations – Finance and Insurance, Management of Companies, Professional Services – proved relatively resilient.

Depth of Downturn by Industry, February Baseline

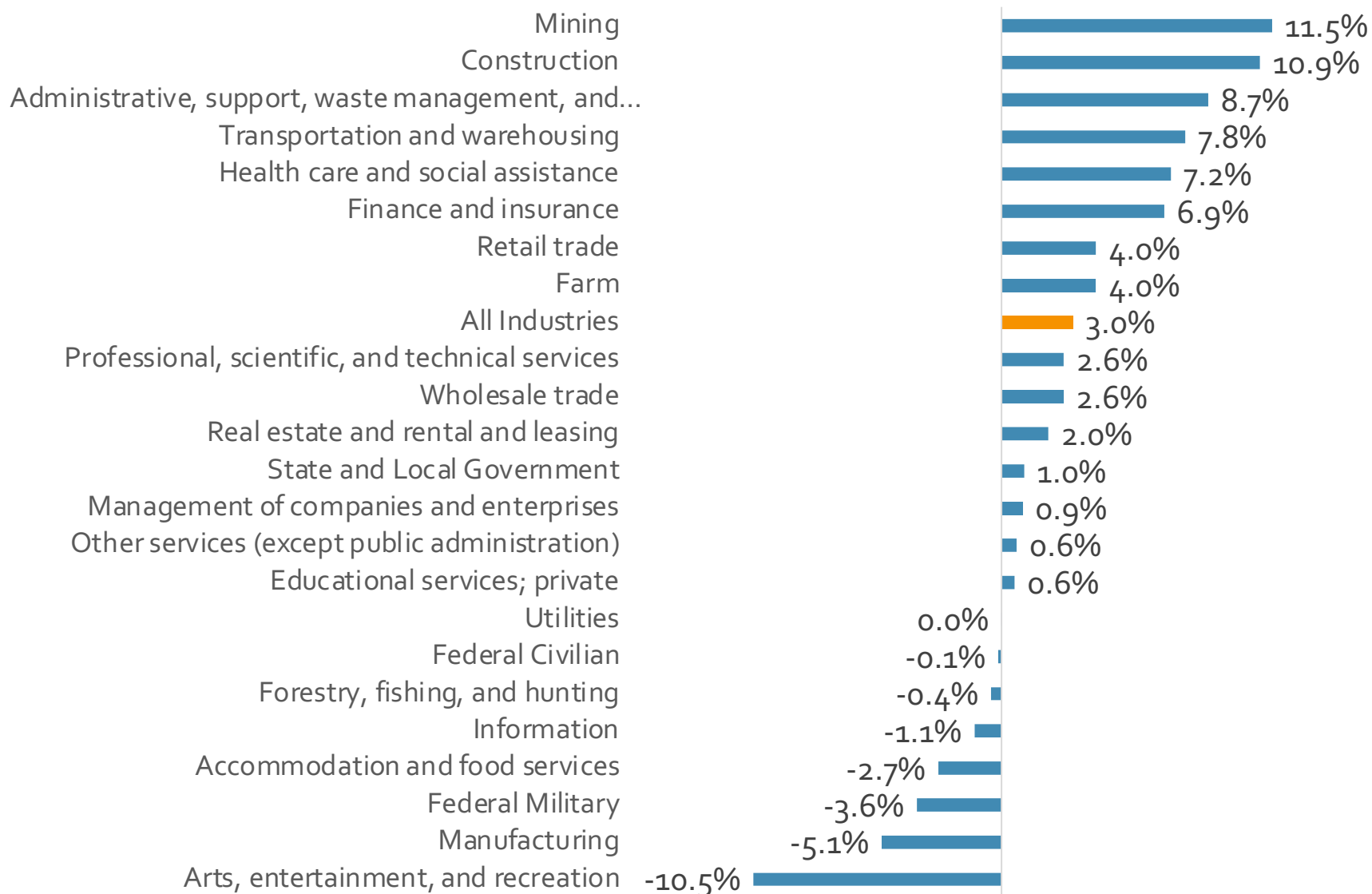
Percent change in employment from 2020 Q1 to 2020 Q2



Source: MARC, using REMI model and Moody's national forecast

Strength of Recovery by Industry, February Baseline

Percent change from 2020 Q1 to 2025 Q4

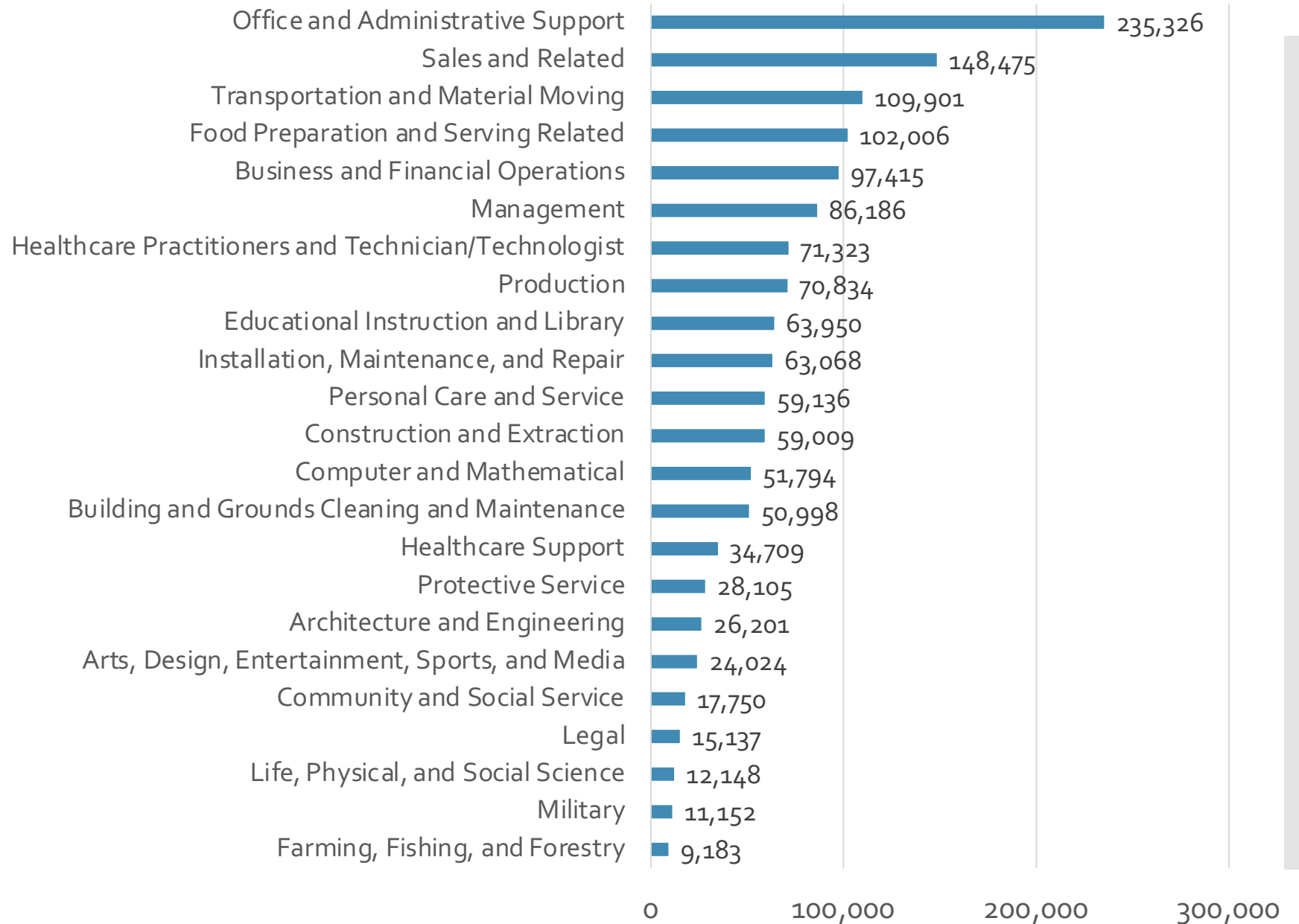


Some of our specializations also do better than average on the upswing – Finance and Insurance, Transportation and Warehousing. Construction, Administrative Support, and Health Care also rebound strongly. Retail is now expected to expand faster than average. But Arts and Entertainment, Manufacturing, Information and Accommodation and Food don't return to pre-recession levels by the end of 2025.

Source: MARC, using REMI model and Moody's national forecast

To gain a better understanding of not just which industries are hurting, but who is hurting, we convert the industry forecasts to occupations. Looking at the occupation distribution heading into the recession, we note that many of the largest occupations are relatively poorly paid.

Total Employment by Major Occupation 2020 Q1

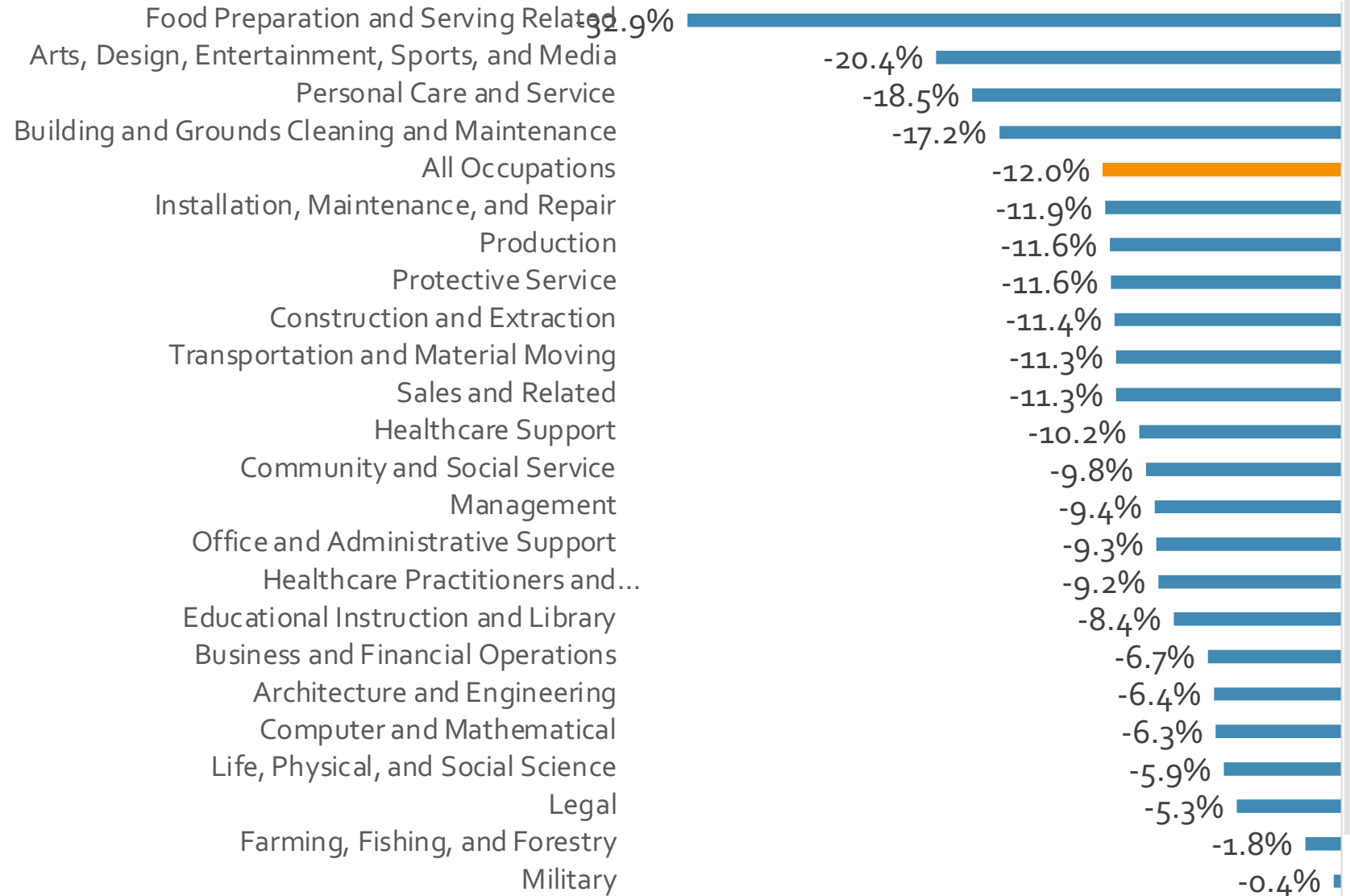


Source: MARC, using REMI model

It is the lowest paid occupations that were especially hard hit, starting with Food Preparation, Arts and Design, Personal Care and Building Maintenance. Many higher paid occupations – Legal, STEM, Business – while they declined, did so at half the average rate for the region.

Depth of Decline by Occupation, February Baseline

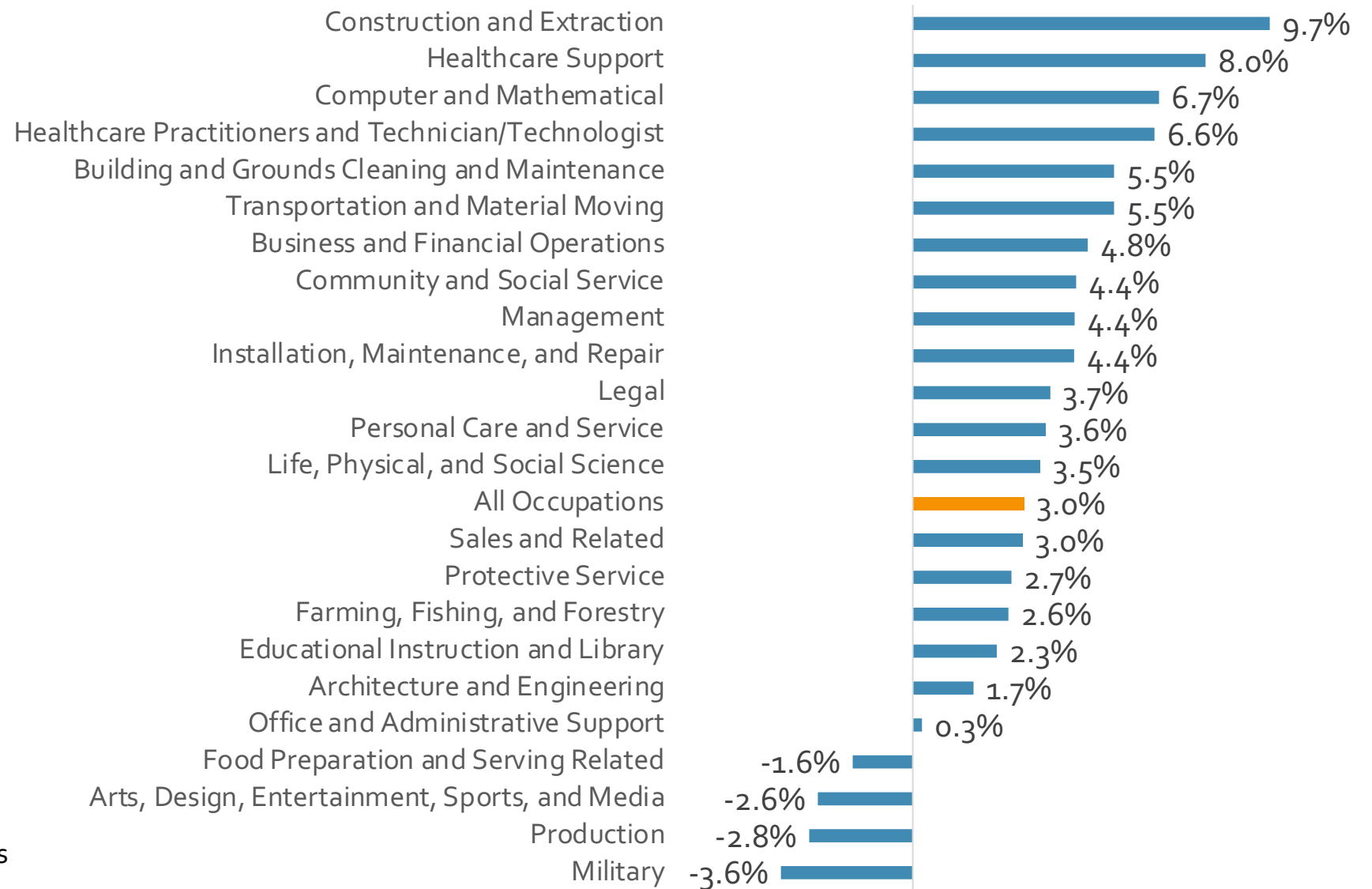
Percent Change 2020 Q1 to 2020 Q2



Source: MARC, using REMI model and Moody's national forecast

Construction occupations bounce back the strongest as the economy recovers, followed by Health Care, Computer, Building Maintenance, Transportation and Material Moving. This is a broader mix of high and low-wage occupations than in prior forecasts. Food Prep, Production, and Arts remain depressed through the projection period, however.

Strength of Recovery by Occupation, February Baseline Percent Change 2020 Q2 to 2025 Q4



Source: MARC, using REMI model and Moody's national forecast

Summary

- Given the depth of the recession, the recovery has exceeded expectations
- But the recovery remains bifurcated with those who can work remotely doing much better than those who can't
- The economy is just now getting to the point where a rising tide might begin to lift all boats. Having paused, growth should accelerate through the rest of the year.
- But disparities will remain without intentional action to increase opportunities and reduce barriers to the education and skills needed to obtain well-paying jobs.

Growth is one thing. Growth that aligns with our values is another.



PILLARS OF PROSPERITY

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