KC Economic Recovery from the COVID-19 Recession

Frank Lenk

Director of Research Services

Mid-America Regional Council

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U.S. Economic Situation and Forecast

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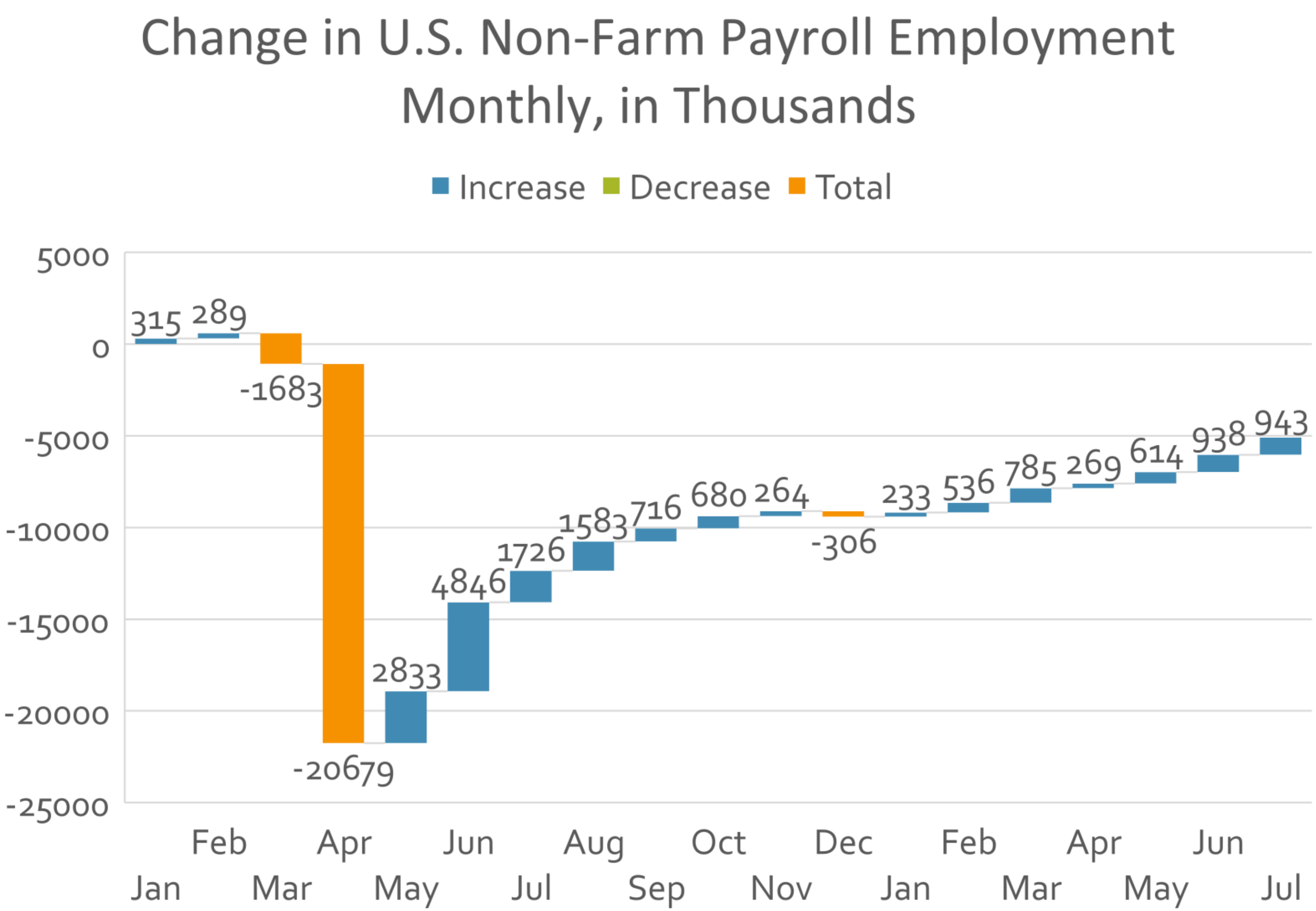
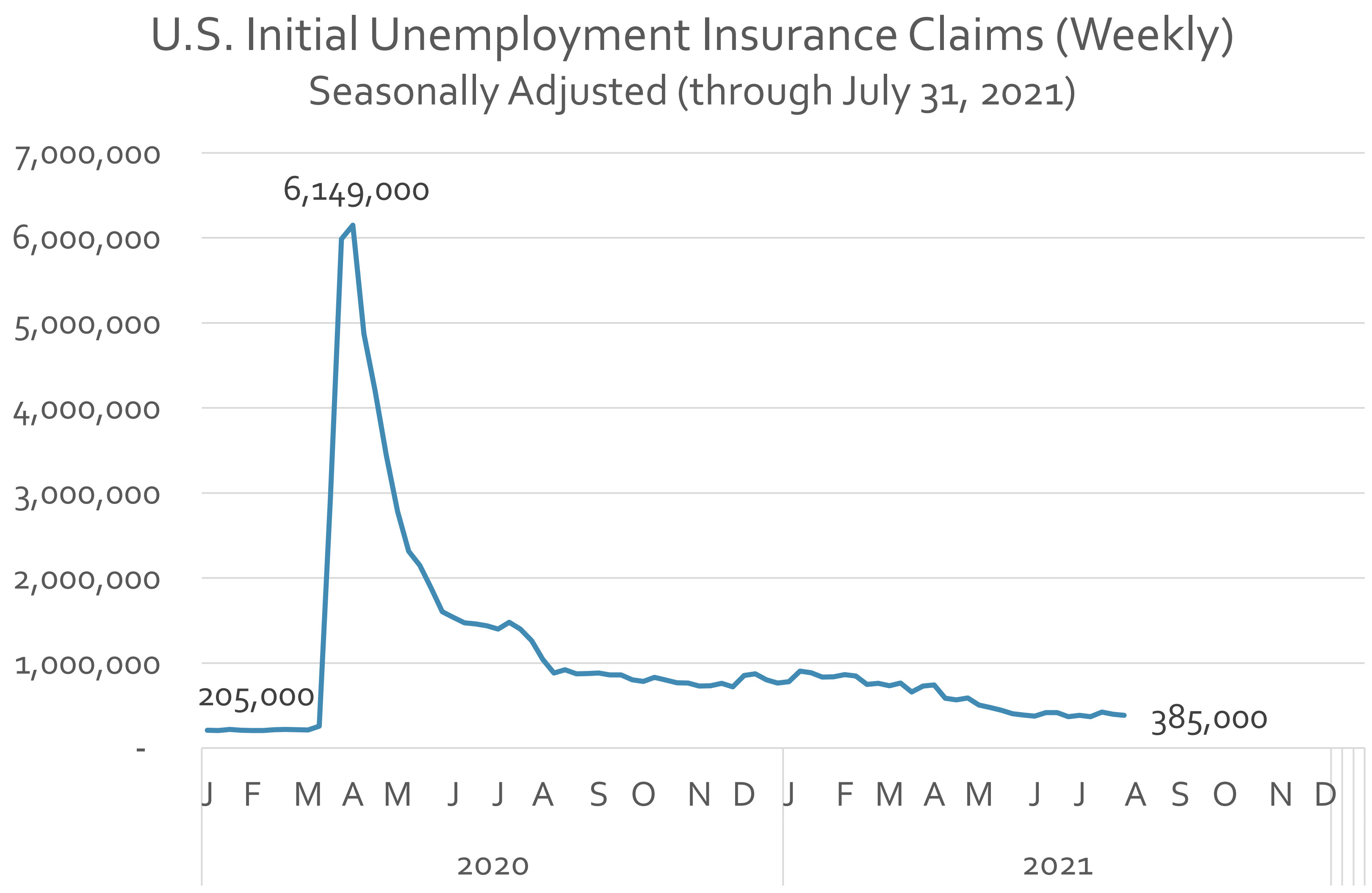
U.S. non-farm payroll employment has clawed back 75% of the jobs lost during the recession. After stalling out at the end of last year, job growth has since to accelerated, though not without some fits and starts. Employment is still 5.7 million below its pre-pandemic peak.



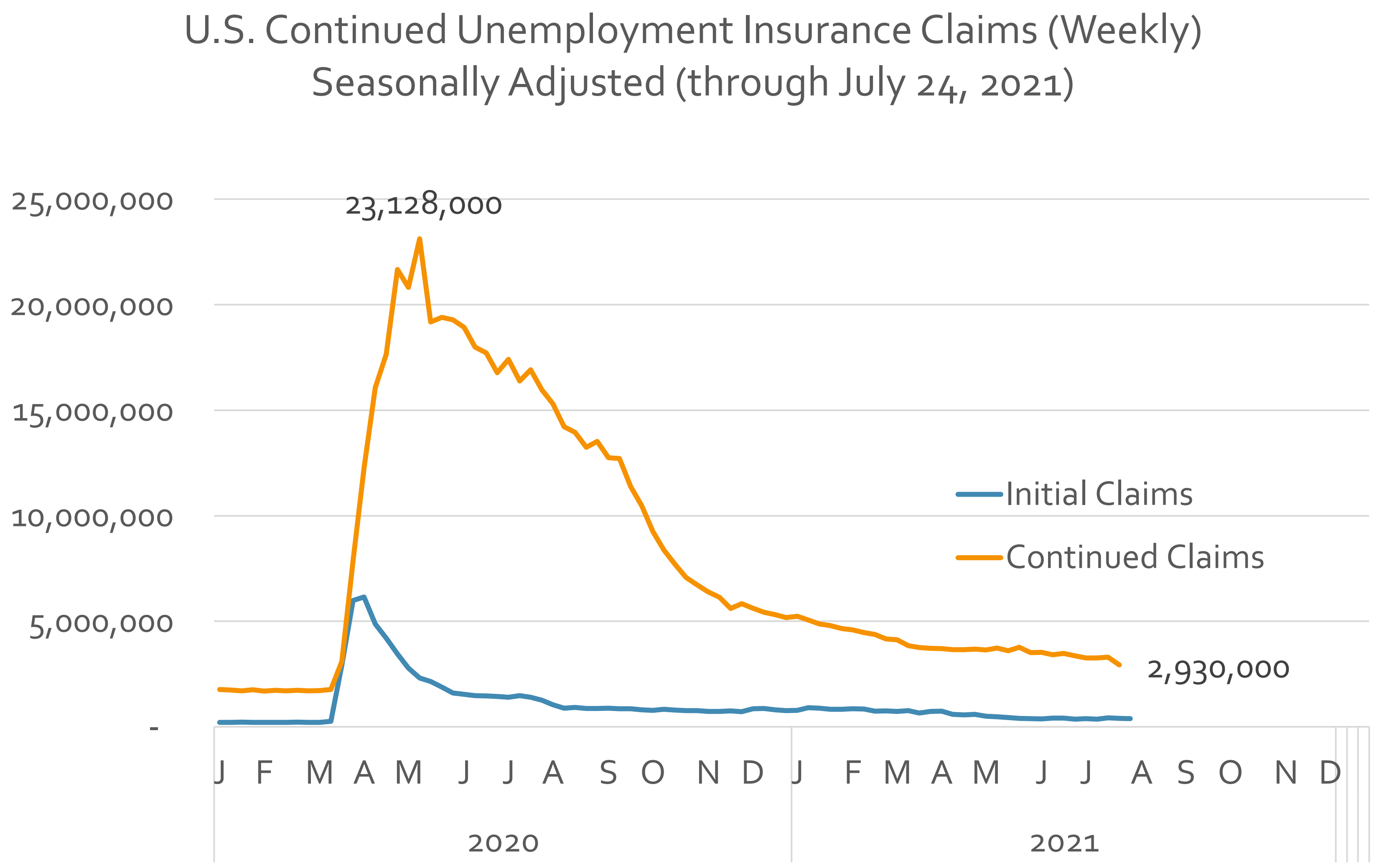
Source: BLS

Initial unemployment claims appear to have stabilized after trending downward. At 385,000, the current level is still nearly than double the pre-pandemic level.

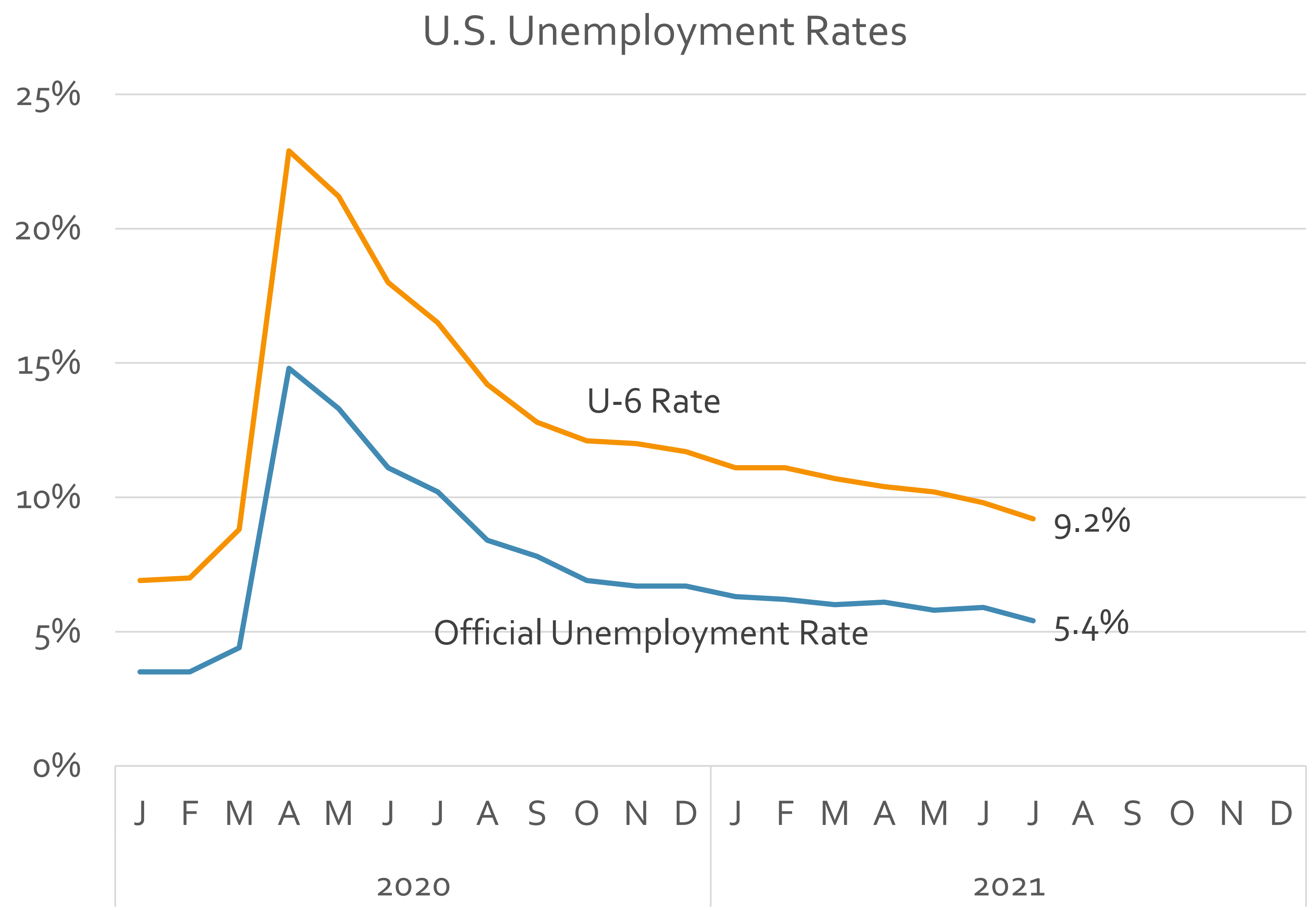


Source: FRED, U.S. Department of Labor

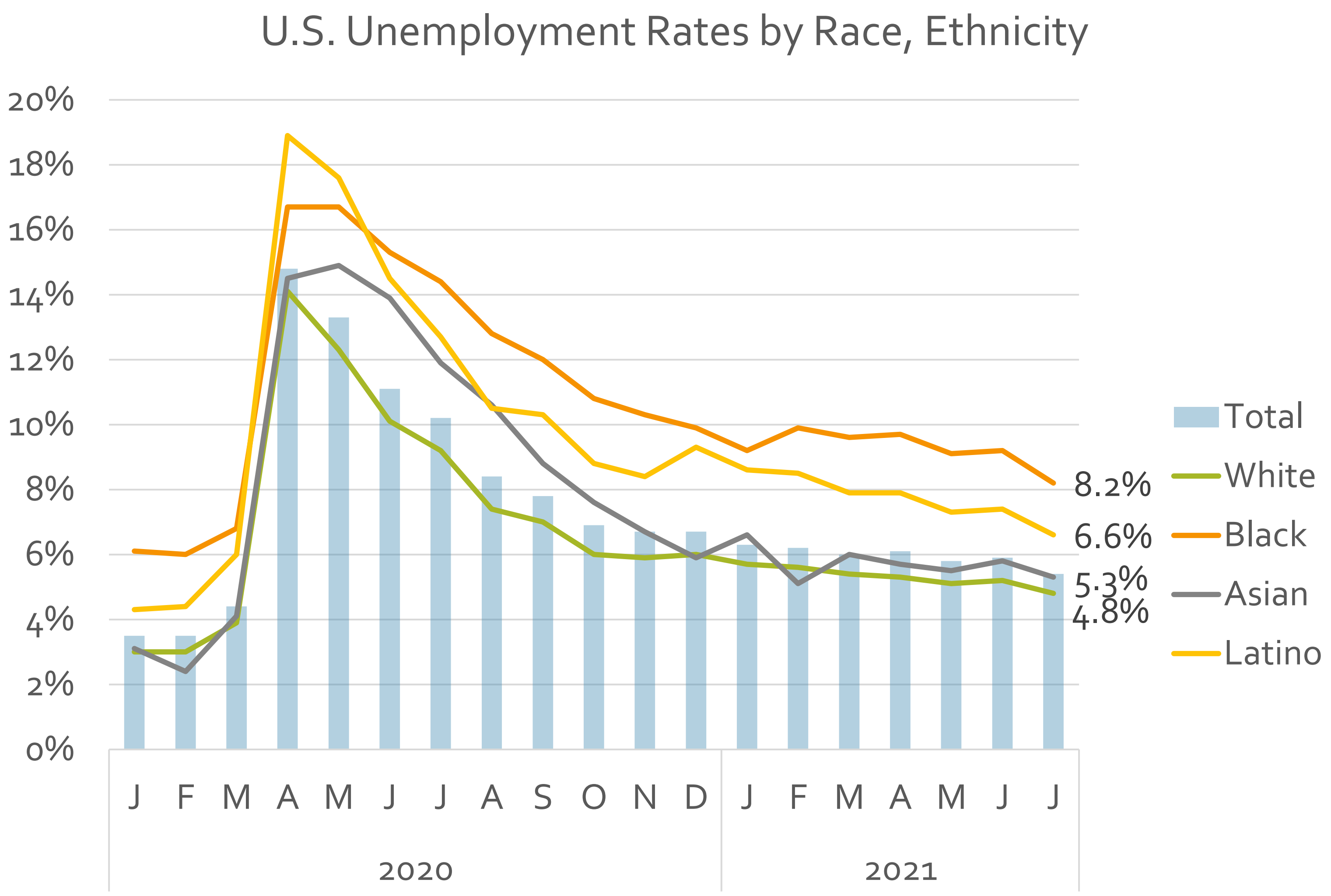
Yet clearly, there is still much slack in the labor market, with continued claims near 3 million.



Even though the official unemployment rate dropped to 5.4% in July, it remains 50% higher than it was pre-pandemic. Moreover, including discouraged workers and those seeking full-time work raises the rate of labor force underutilization to 9.2%

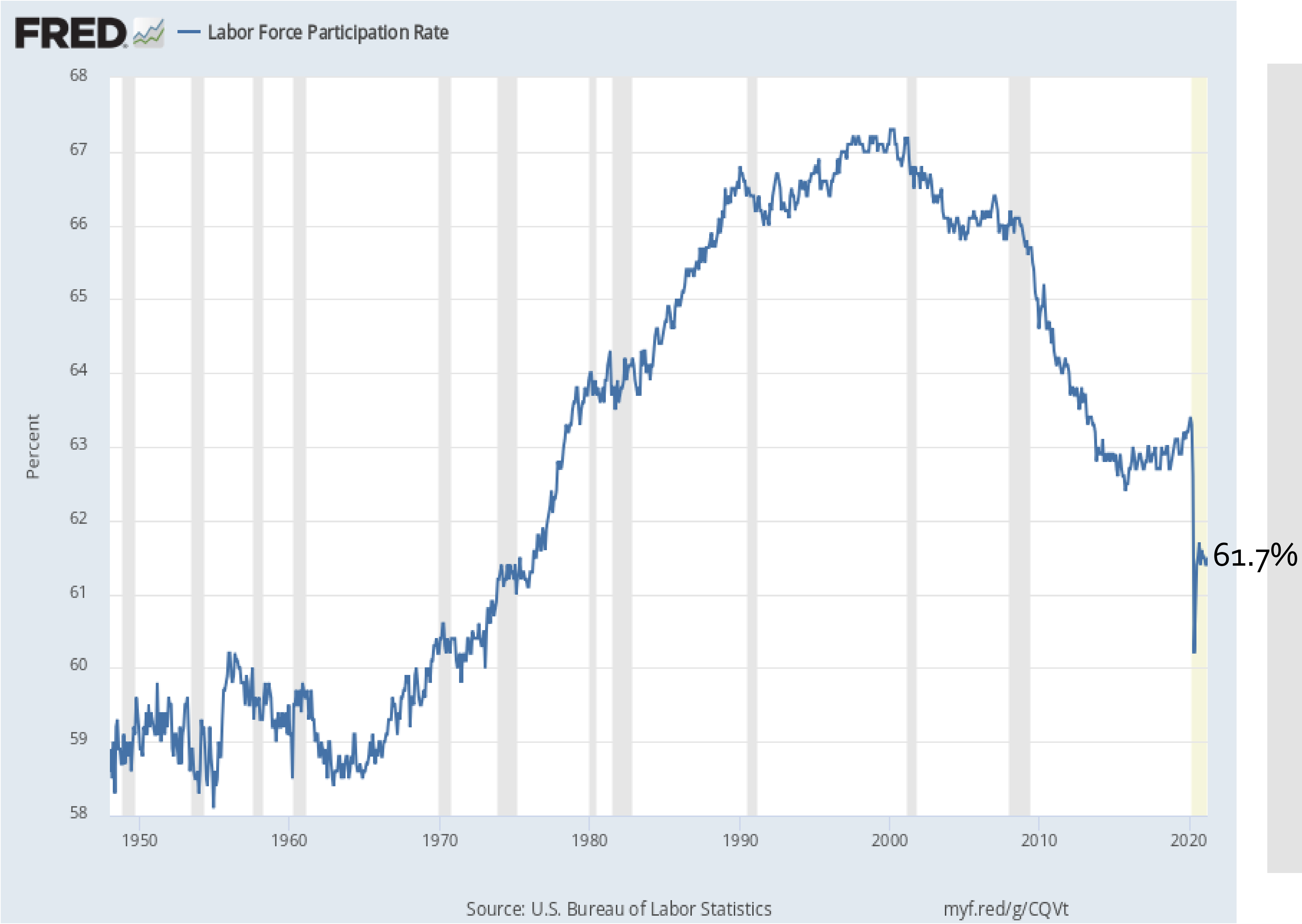


Despite the official unemployment rate falling to 5.4% in July, racial disparities in official unemployment remain large. Unemployment rates for Latino and Black workers are roughly 40% to 70% higher, than White workers, respectively.

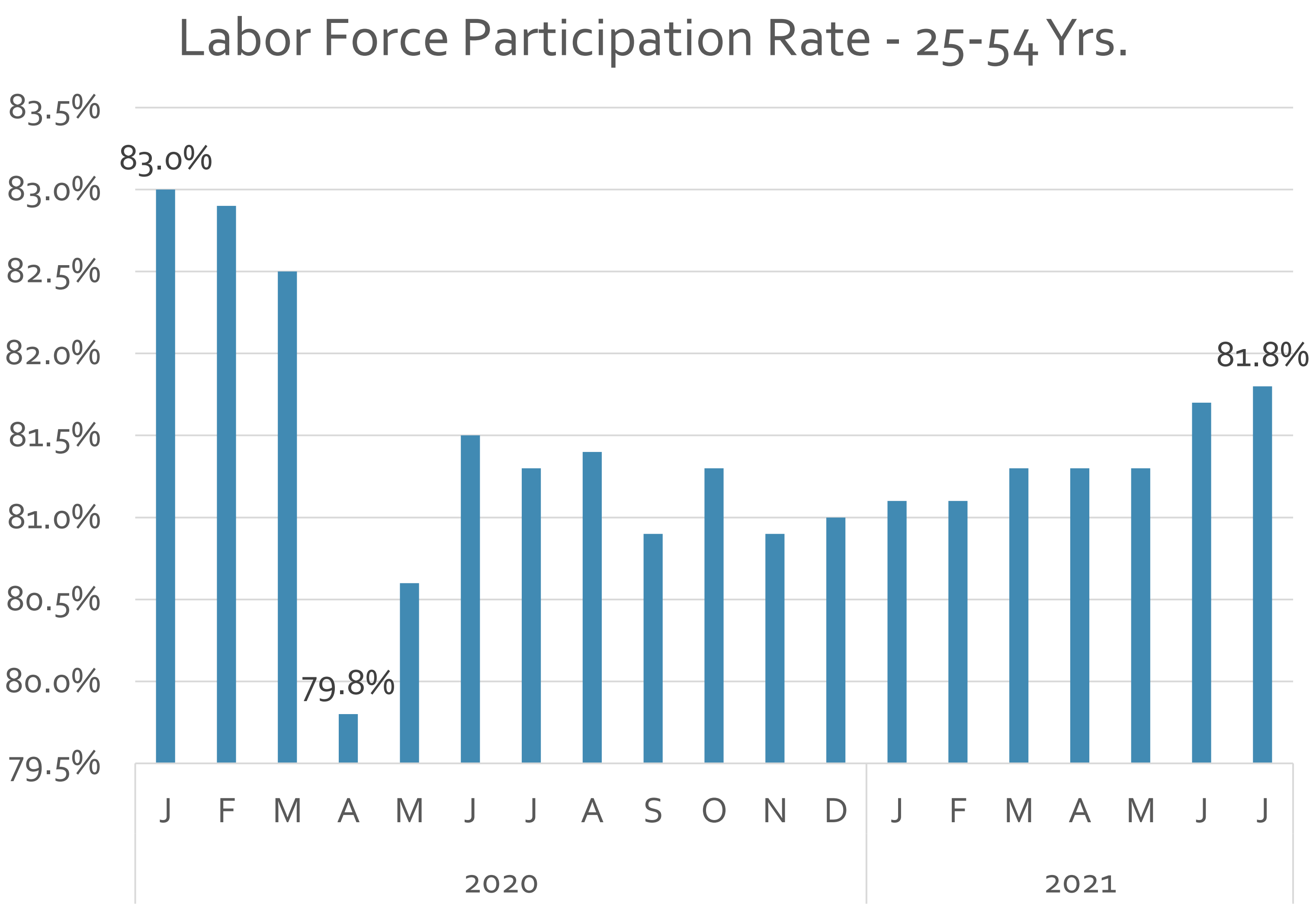


Source: BLS

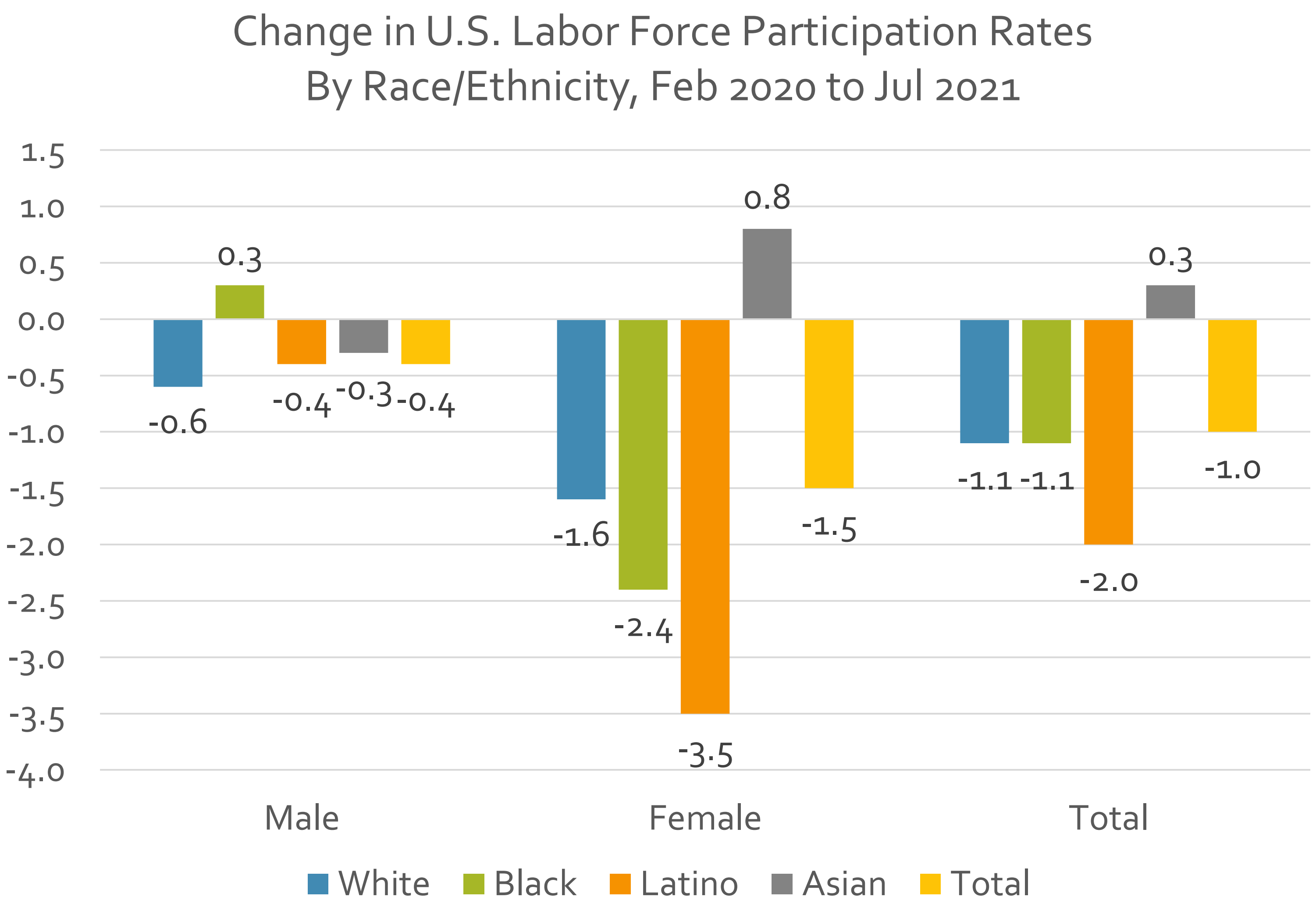
Participation in the labor force remains at rates not seen since the mid-1970s, which is when women started joining the labor force in greater numbers. This translates to roughly 3.4M people missing from the labor force



Some of the decline is due to a retiring Baby-Boom generation. But even for those in their prime working years, labor force participation rates have regained less than 2/3 of the loss resulting from the pandemic.



Though, labor force participation rates have dropped for most demographic groups, women have born the brunt of the losses, especially Black and Latino women. This is likely related declining availability of childcare and increasing need for children to be kept home.



Moody's Analytics:

February Assumptions for Baseline Forecast

- Total confirmed cases in the U.S. will be 36.3 million, compared with 47.3 million in the February baseline.
- Given the U.S. is now vaccinating 3 million people a day, the estimate for achieving herd immunity has been pushed forward to mid-July from September
- The American Rescue Plan will provide $1.9 trillion of stimulus instead of the $1.1 trillion assumed in February.
- Congressional Democrats are expected to pass a "Build Back Better" fiscal package in late 2021 that includes $2 trillion in infrastructure investments and $1 trillion in social benefits spending over the next 10 years.
- The Federal Reserve keeps the target range for the fed funds rate at 0% to 0.25% until early 2023. The Fed does not taper its asset purchases until 2022.
- The 10-year U.S. Treasury yield is expected to steadily increase over the next few years.

Moody's Analytics:

July Assumptions for Baseline Forecast

- U.S. will effectively achieve herd resiliency in September.
- Lawmakers pass a bipartisan infrastructure bill through regular order and a partisan Build Back Better package through budget reconciliation that together total $2.1 trillion in new spending over the next 10 years.
- The acceleration in consumer prices is expected to be transitory along with the U.S. labor supply constraints. Labor supply constraints are expected to begin easing in late August and September.
- The Federal Reserve keeps the target range for the fed funds rate at 0% to 0.25% until early 2023. The Fed does not taper its asset purchases until early 2022, but it announces its plans in September.
- The 10-year U.S. Treasury yield is expected to steadily increase over the next few years, reaching its estimated long-run equilibrium of 3.75% by mid-decade.
- The dollar will weaken further on the other side of the pandemic, but geopolitical uncertainties including the U.S. trade war with China will ensure that any decline will be modest. The dollar's reserve currency status will remain intact for the foreseeable future.

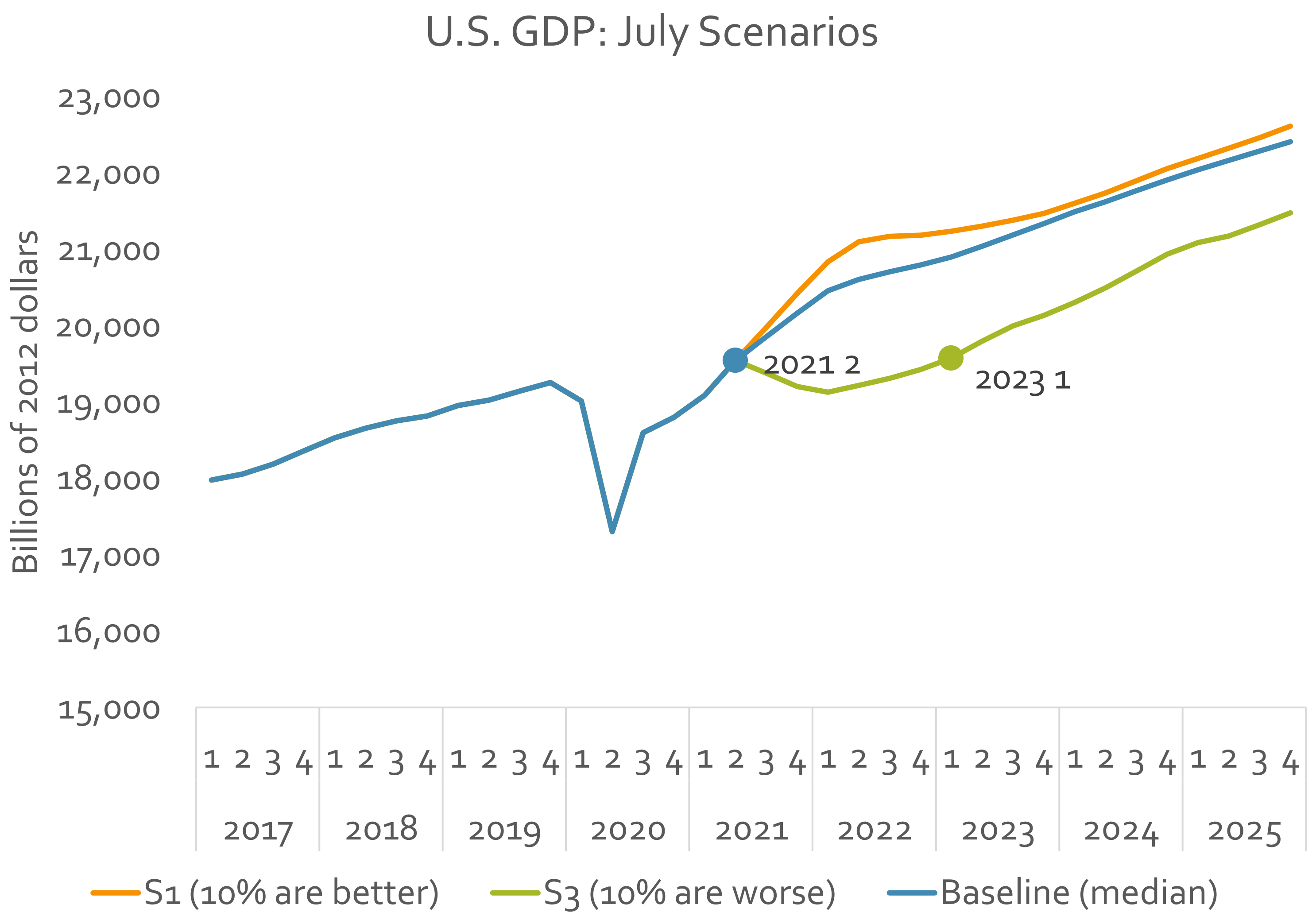
Moody's Analytics:

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.

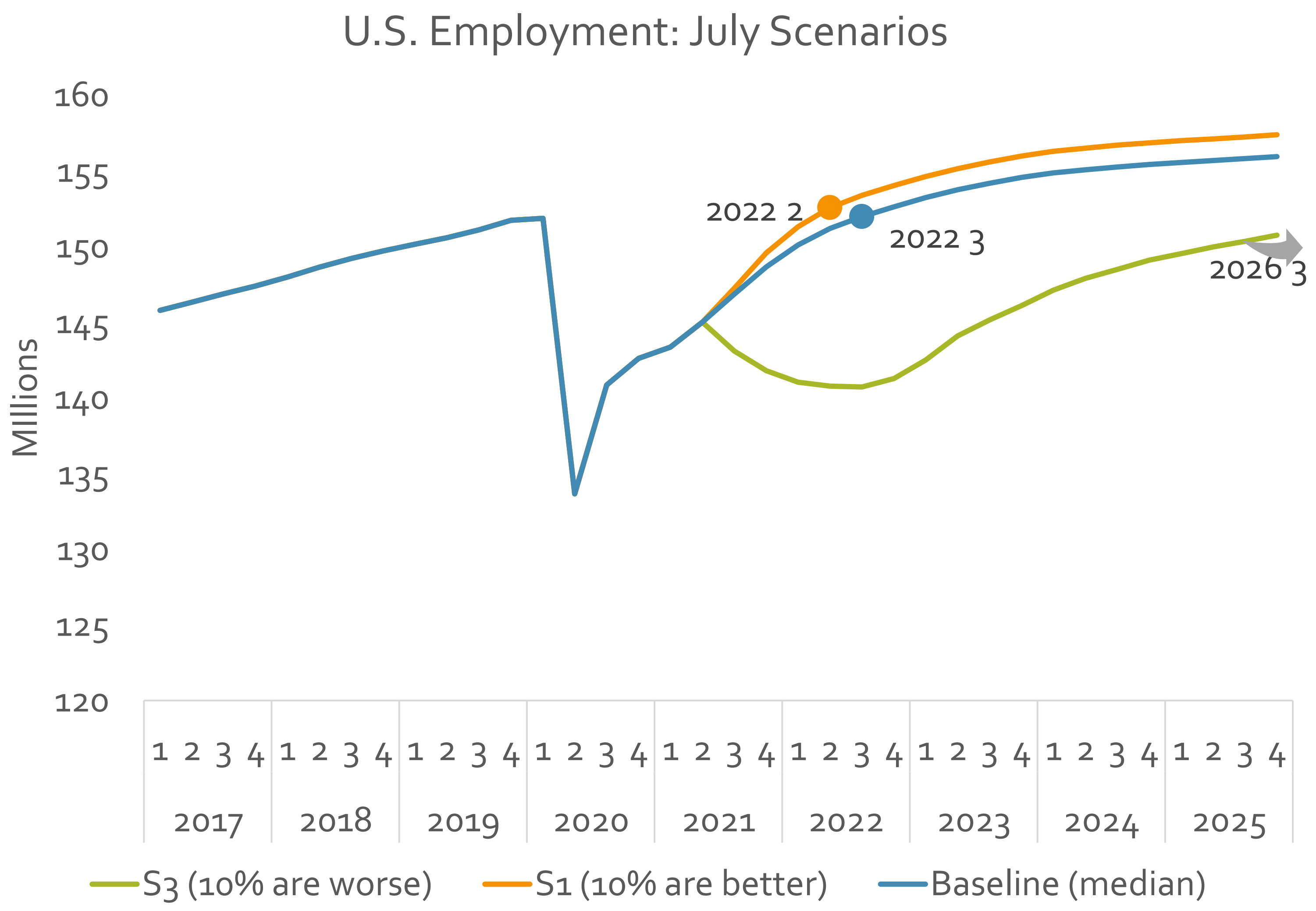
- **On the downside**:
  - A significant and persistent tightening in financial market conditions as the Fed announces plans to taper its monthly asset purchases.
  - Labor supply constraints are more binding than anticipated, slowing job growth and boosting wages along with inflation.
- **On the upside**:
  - On the upside, the demographic tailwind is more powerful for the housing market as more millennials enter their prime first-time homebuying years.
  - A large savings cushion provides a bigger than expected boost to consumer spending even in the absence of additional fiscal stimulus.

Basically, in terms of GDP, the recovery period ended 2Q 2021, beginning the expansion phase of the cycle, at least under the baseline and best-case scenarios. In the worst case, a resurging virus and a vaccine hesitant public causes widespread increases in infections, resulting in some shutdowns again.



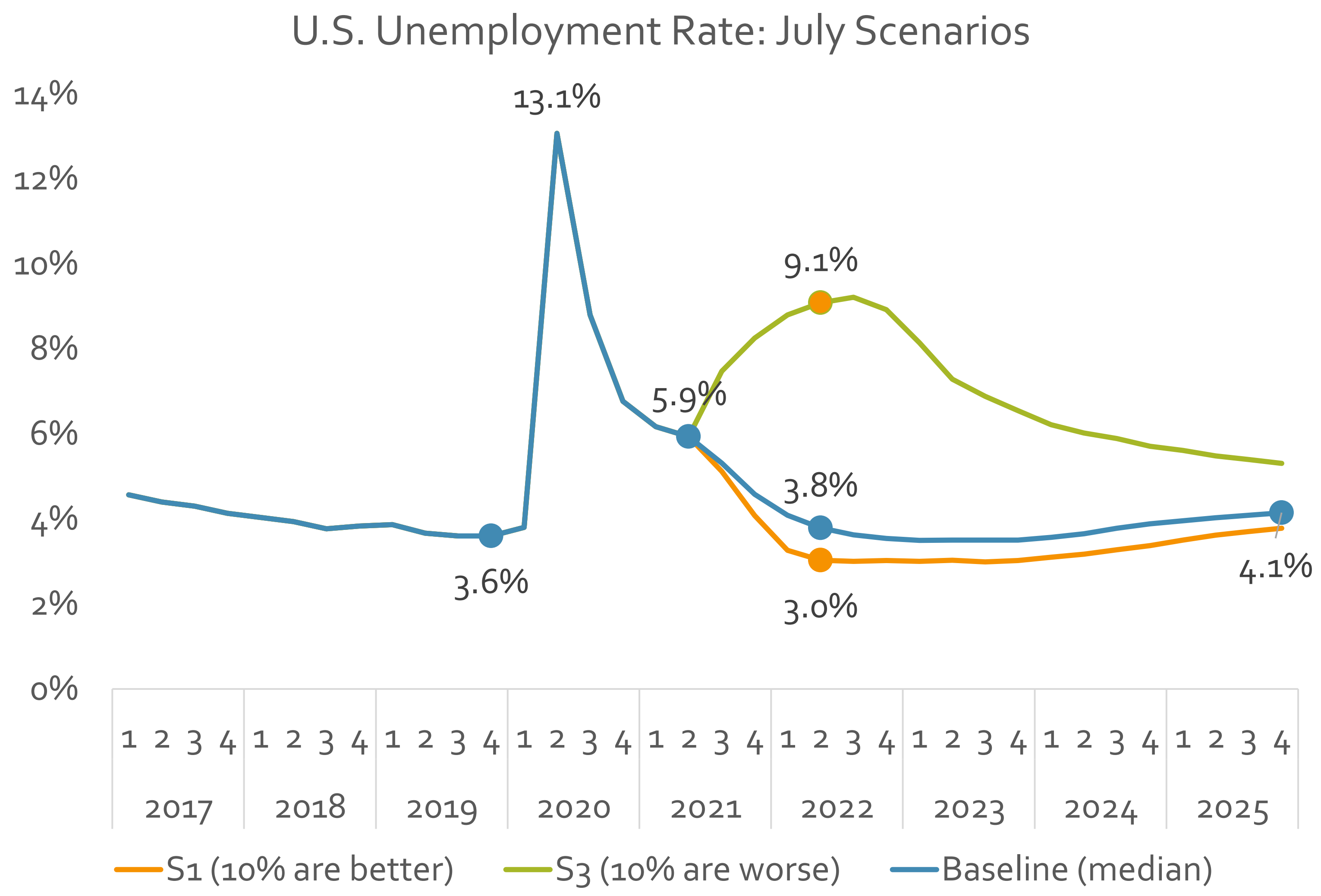
Source: Moody's Analytics

The recovery of U.S. employment, though, lags by a year in the best case and by 1 ¼ years in the baseline. The worst case pushes an employment recovery into the second half of the decade.



Source: Moody's Analytics

The baseline forecast calls for the nation's unemployment rate to drop more than 2 percentage points over the next year to near the levels pre-pandemic, while under the best-case scenario the unemployment rate drops below that. Given Moody's estimates the long-run equilibrium unemployment rate is about 4 percent, this indicates an overheating economy.

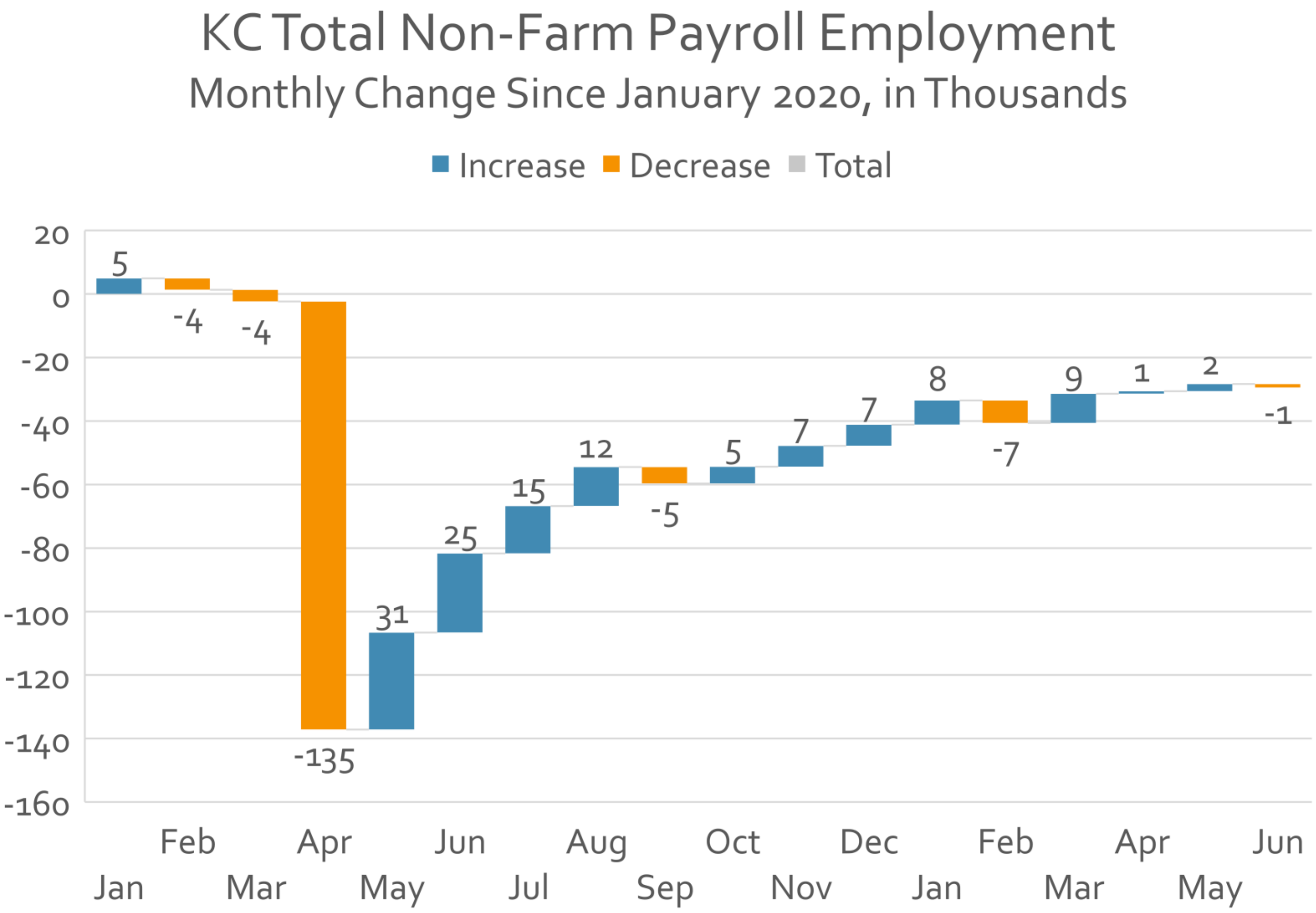


Source: Moody's Analytics

KC Economy – Current Situation

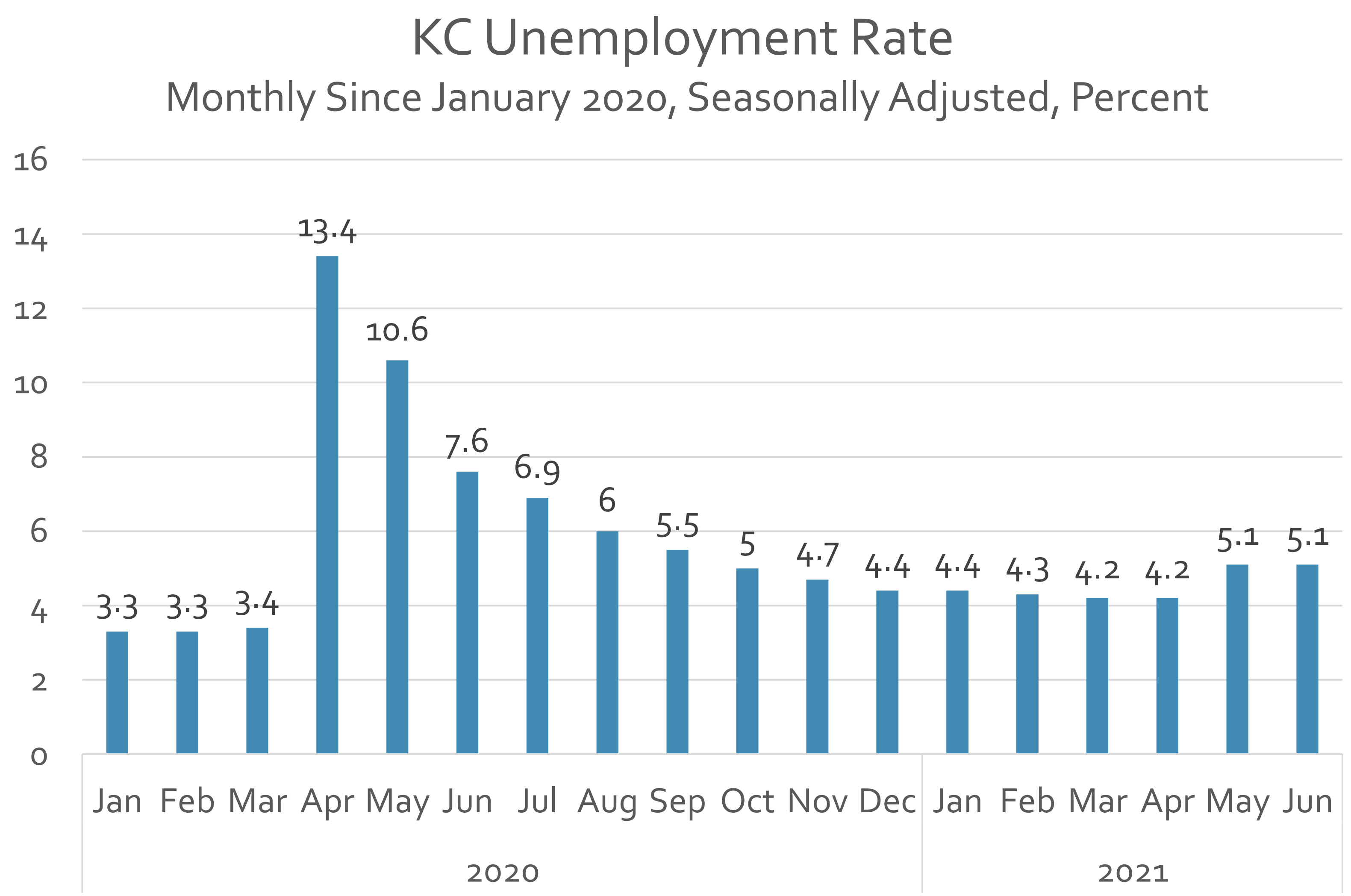
Photo by Jake Fagan on Unsplash

KC's employment recovered more quickly than the nation at first but has been flat in recent months. Overall, the region has regained 108,000 of 142,000 lost during the first few months of the pandemic, or 76% . This is about equal to the U.S.



Source: BLS CES series

Correspondingly, KC's progress on unemployment seems to have faltered, with the rate here rising to 5.1 percent while the U.S. rate falls to 5.4 percent.

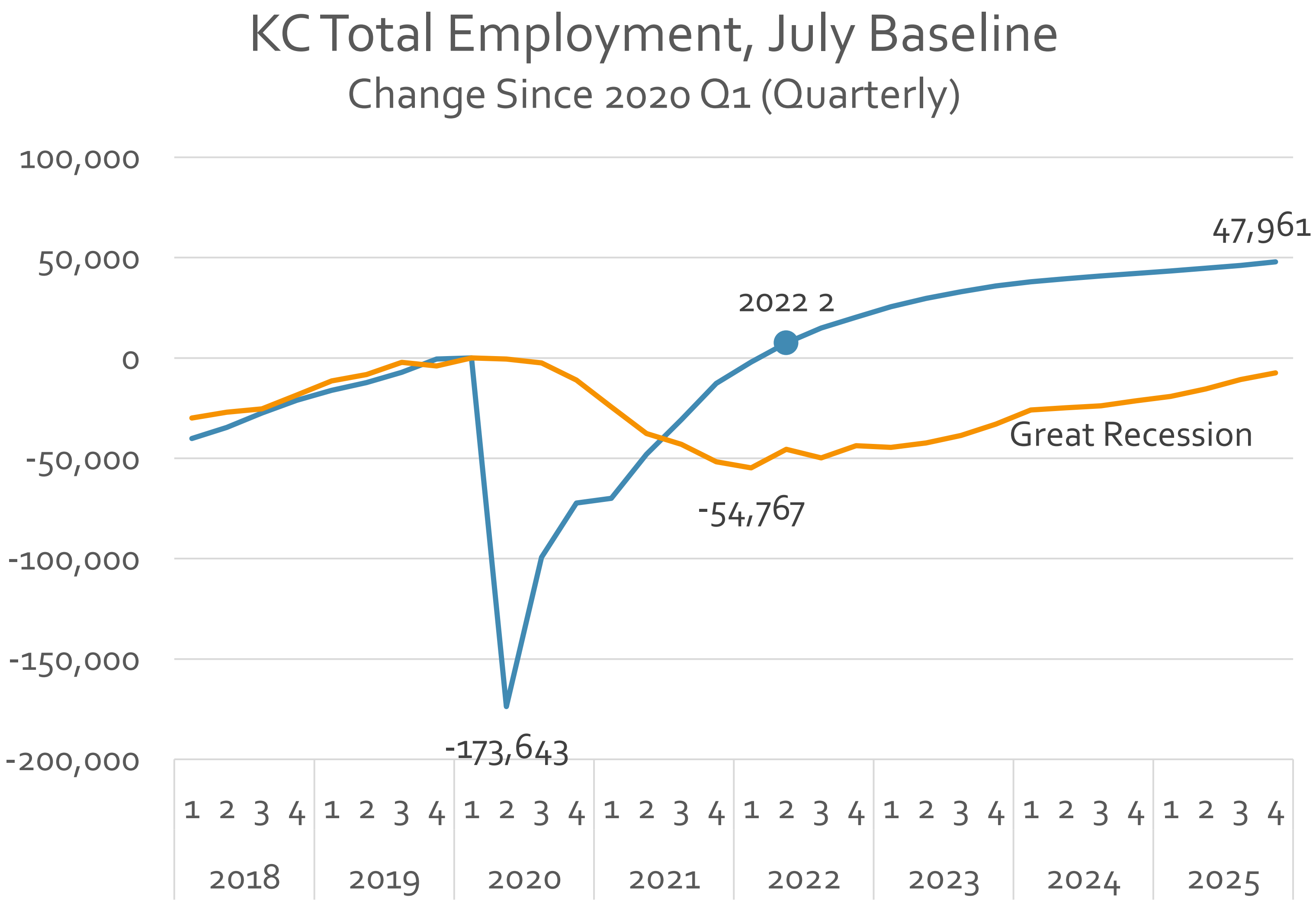


Source: BLS LAUS series

KC Economy – Forecast

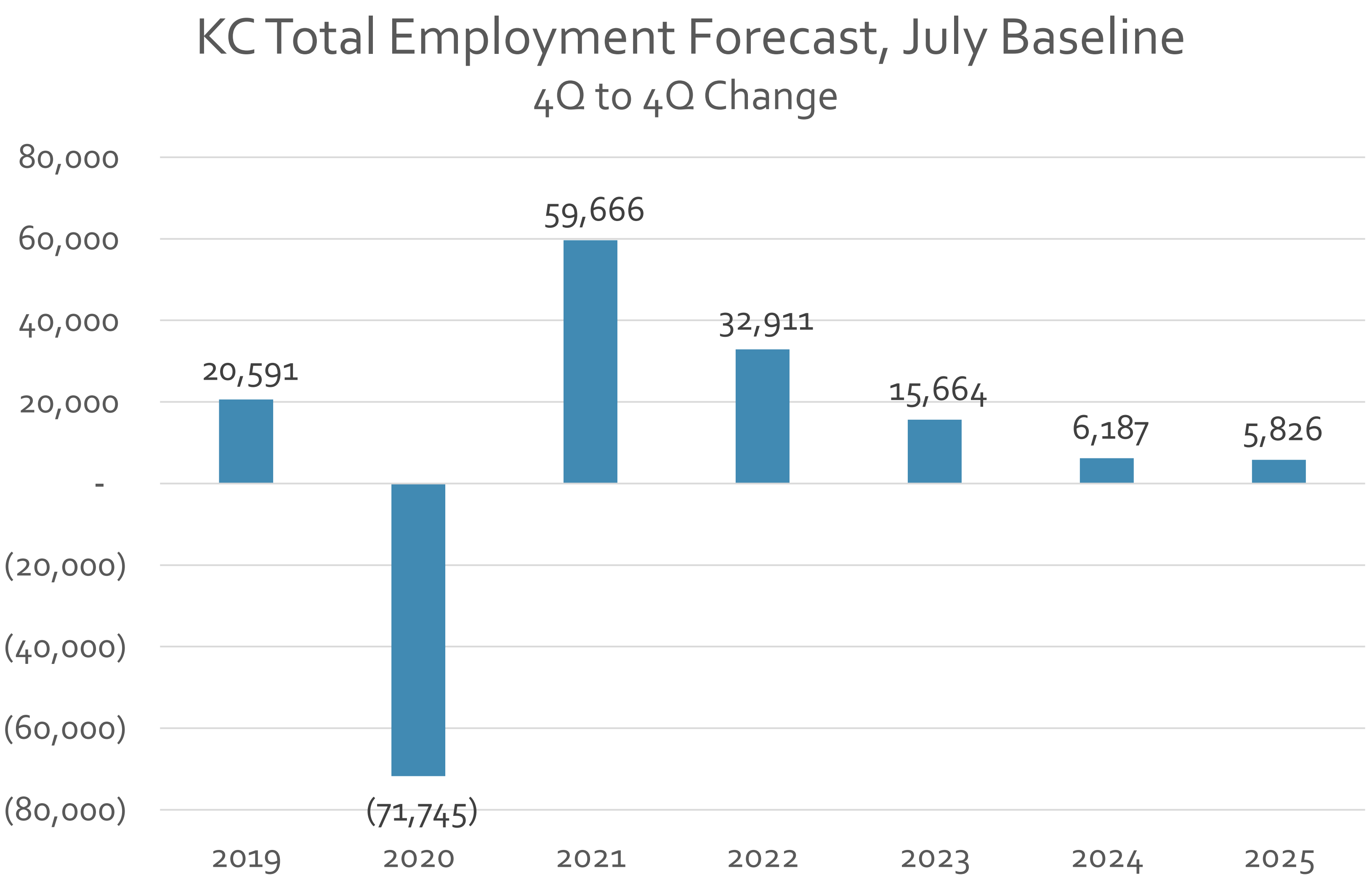
Photo by Jake Fagan on Unsplash

While much deeper job losses occurred than during the Great Recession, the recovery time for this pandemic-induced recession is expected to nearly 3 times faster, thanks largely to the more aggressive federal policy response. As a result, regional employment recovers to pre-pandemic levels by 2Q 2022.



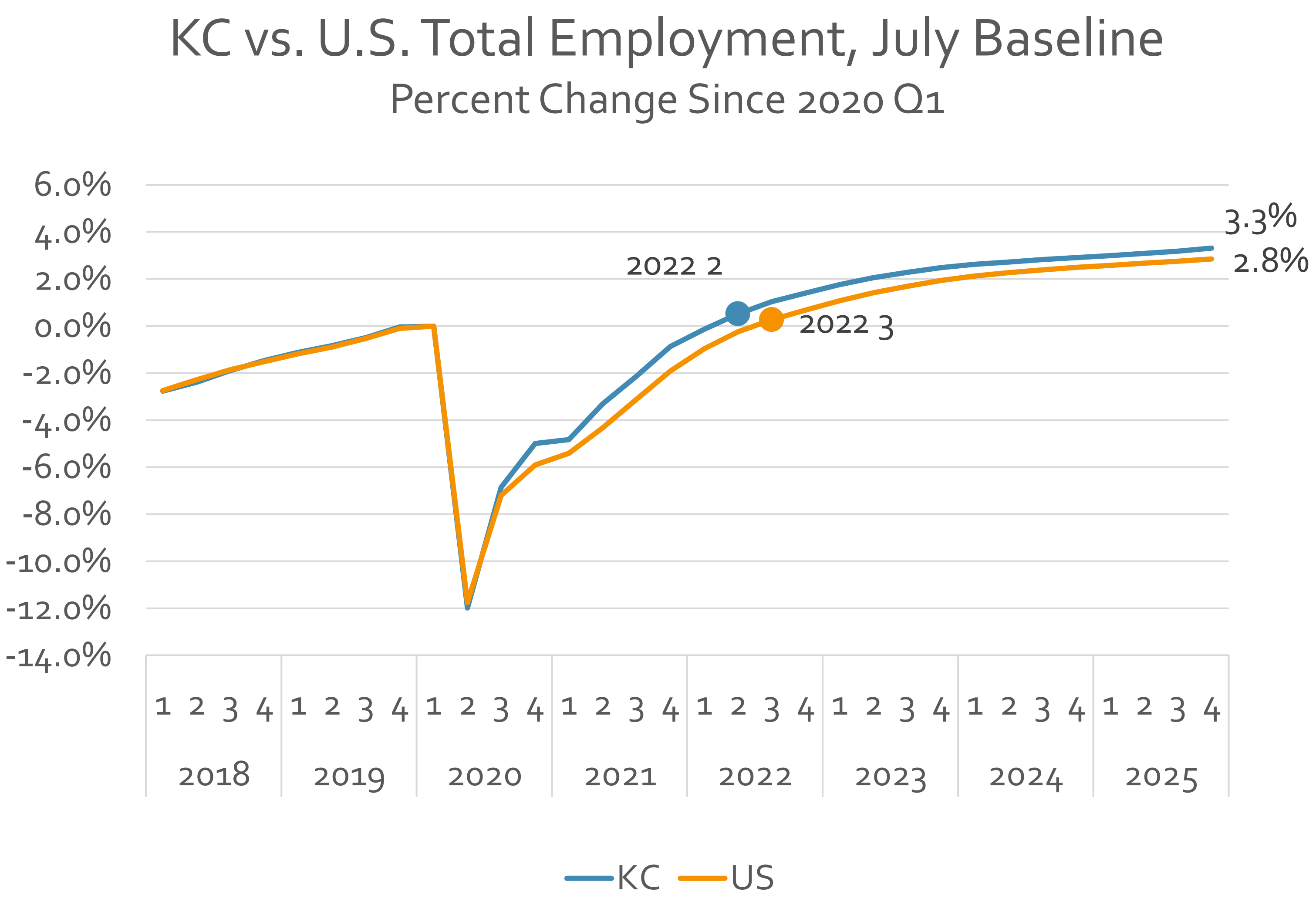
Source: MARC, using REMI model and Moody's national forecast

After having grown by 20,600 during 2019, the region is expected to have lost a net of 72,000 jobs in 2020, viewed on a fourth-quarter to fourth-quarter basis. Nearly 85% of that loss is recovered this year, after which employment growth slows down to the expected pace of working-age population growth. This makes boosting labor force participation paramount as a growth strategy.



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

Under the baseline forecast, KC employment grows slightly faster than the U.S. , especially in the initial rebound. This leads to KC recovering to its pre-recession peak about one quarter sooner than the U.S. By the end of 2025, though, this advantage narrows so that the KC growth rate is only ½% higher than the US.

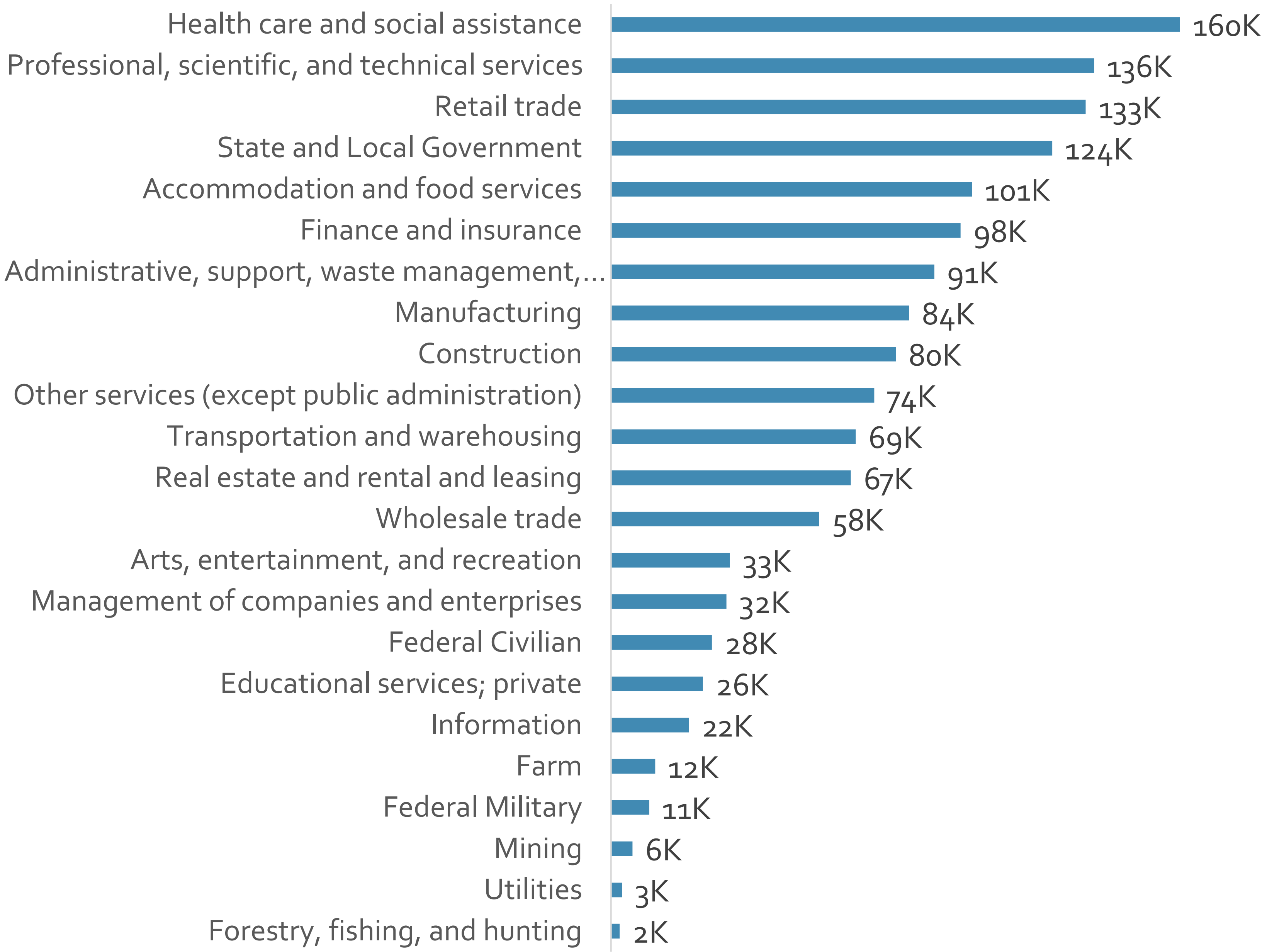


Source: MARC, using REMI model and Moody's national forecast

KC Employment by Industry, 2020 Q1

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

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.

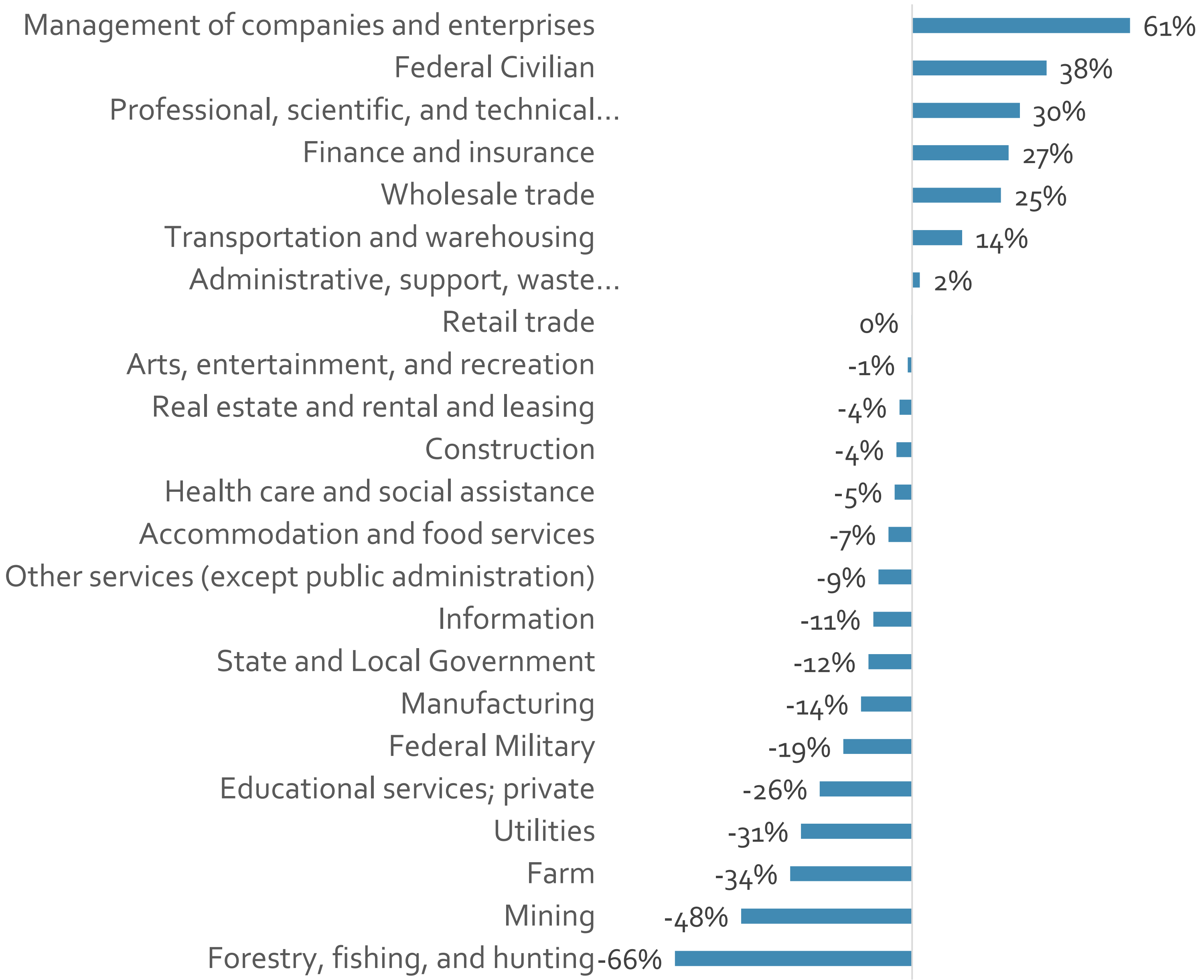


Source: REMI, based on BEA definition of employment

KC Industry Employment Specializations

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

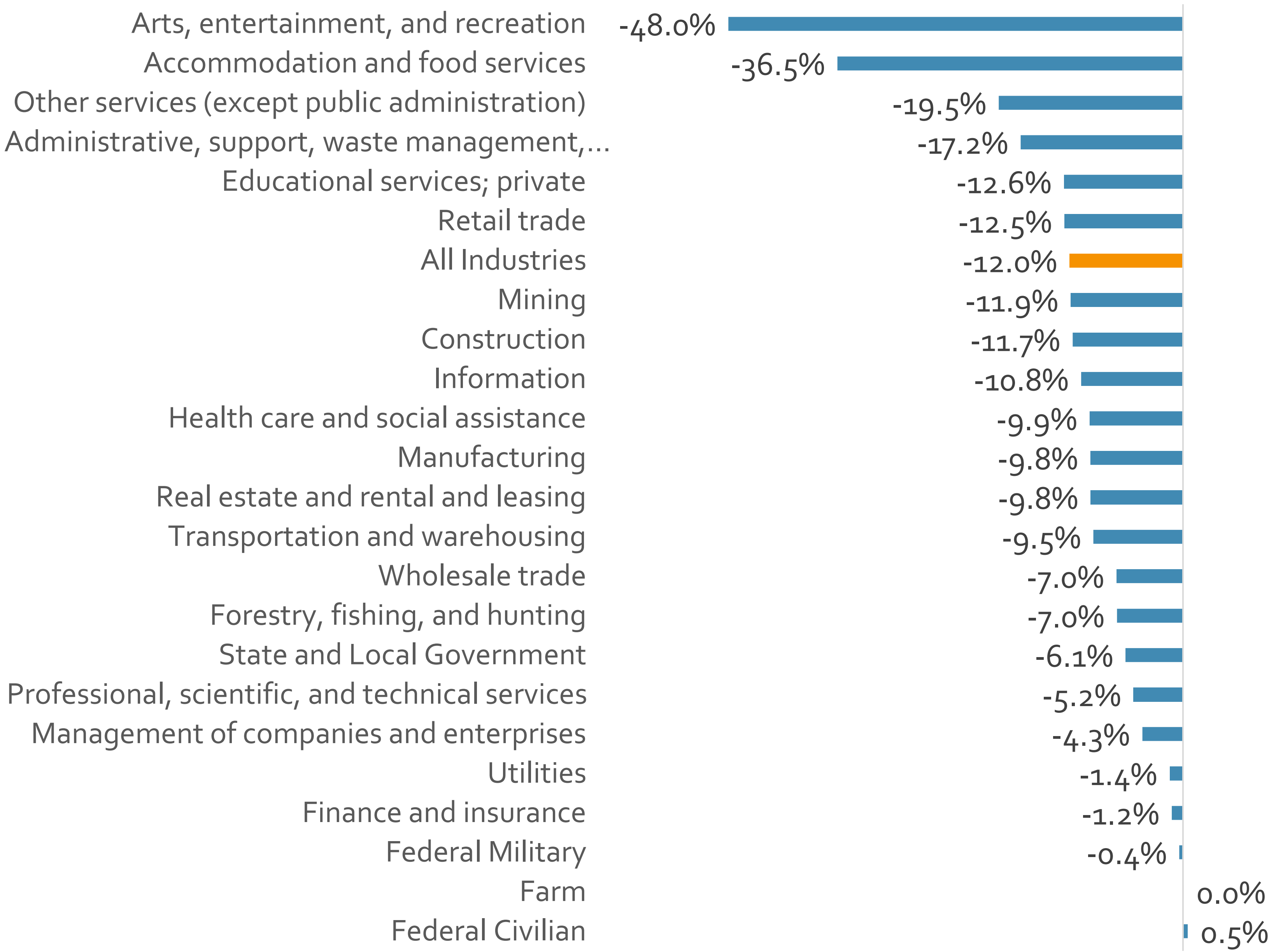
Regions grow by serving the larger U.S. and international economies. The industries in which we specialize are those where we have a comparative advantage and have been able to do a better job selling to the rest of the world.



Source: REMI, based on BEA definition of employment

Depth of Downturn by Industry, April Baseline

Percent change in employment from 2020 Q1 to 2020 Q2

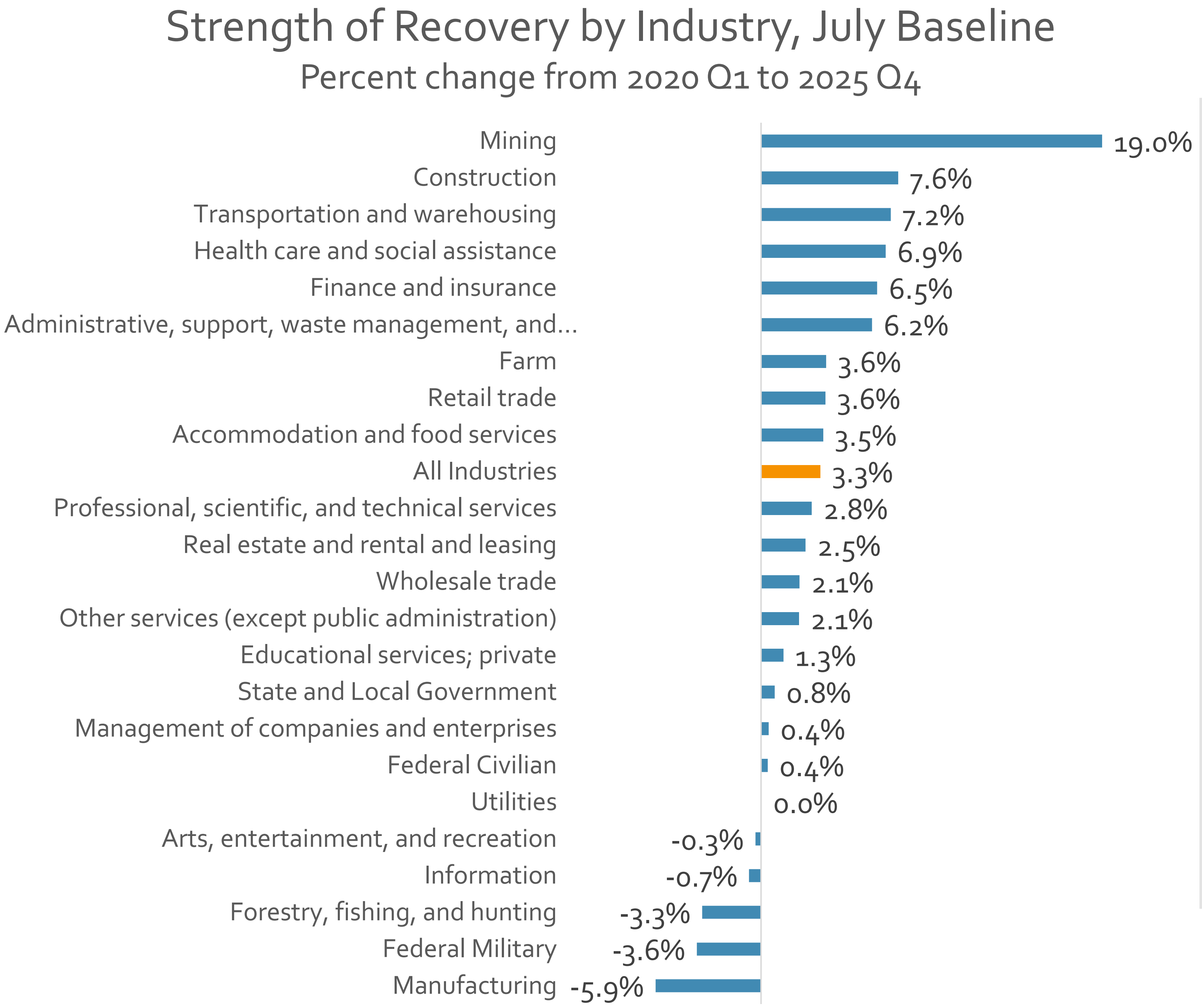


Overall, the KC economy lost 12 percent of its jobs in the downturn, with Arts and Entertainment and Accommodation and Food hit hardest. On the other hand, some of our specializations – Finance and Insurance, Management of Companies, Professional Services – proved relatively resilient.

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

Some of our specializations also do better than average on the upswing – Finance and Insurance, Transportation and Warehousing. But 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



Summary

- Given the depth of the recession, the recovery has exceeded expectations and is now moving into the expansion phase.
- Overall, the U.S. economy is expected to grow at rates not seen in decades.
- But there is still much slack in the labor market, with millions unemployed or underemployed and labor force participation still low, even for prime-age workers.
- With an aging population and limited immigration, even achieving historically normal growth rates will become difficult.
- This makes unlocking the untapped potential of the existing working-age population a key strategy to increase the future growth and competitiveness of the region’s economy.
- Such a strategy can produce rising opportunity for all.

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

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