Greater Kansas City Chamber Economic Forecast
December 9, 2021

The Path of Economic Recovery From the COVID-19 Pandemic:

Current trends and a 2022 Economic Forecast

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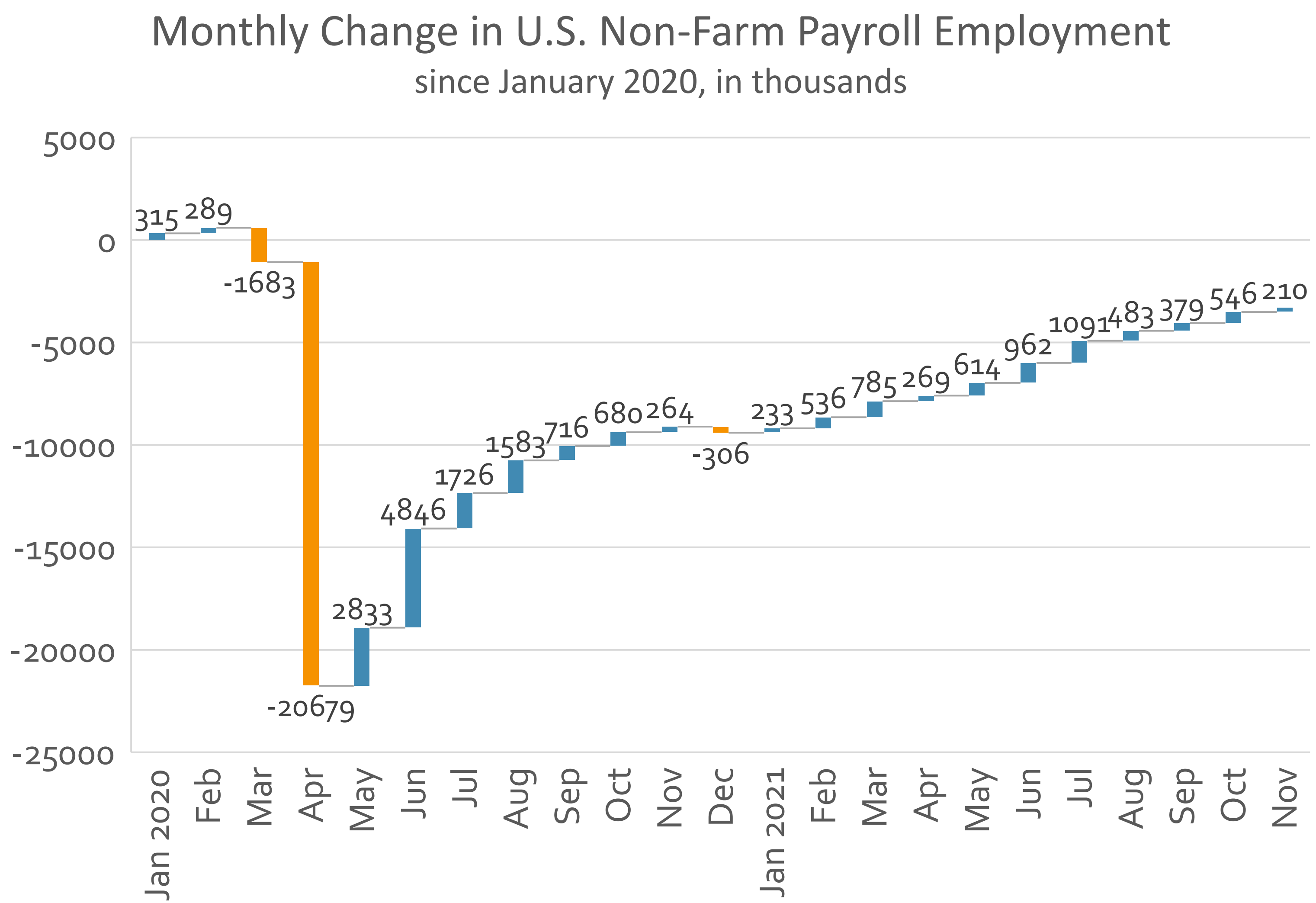
U.S. Economic Situation and Forecast

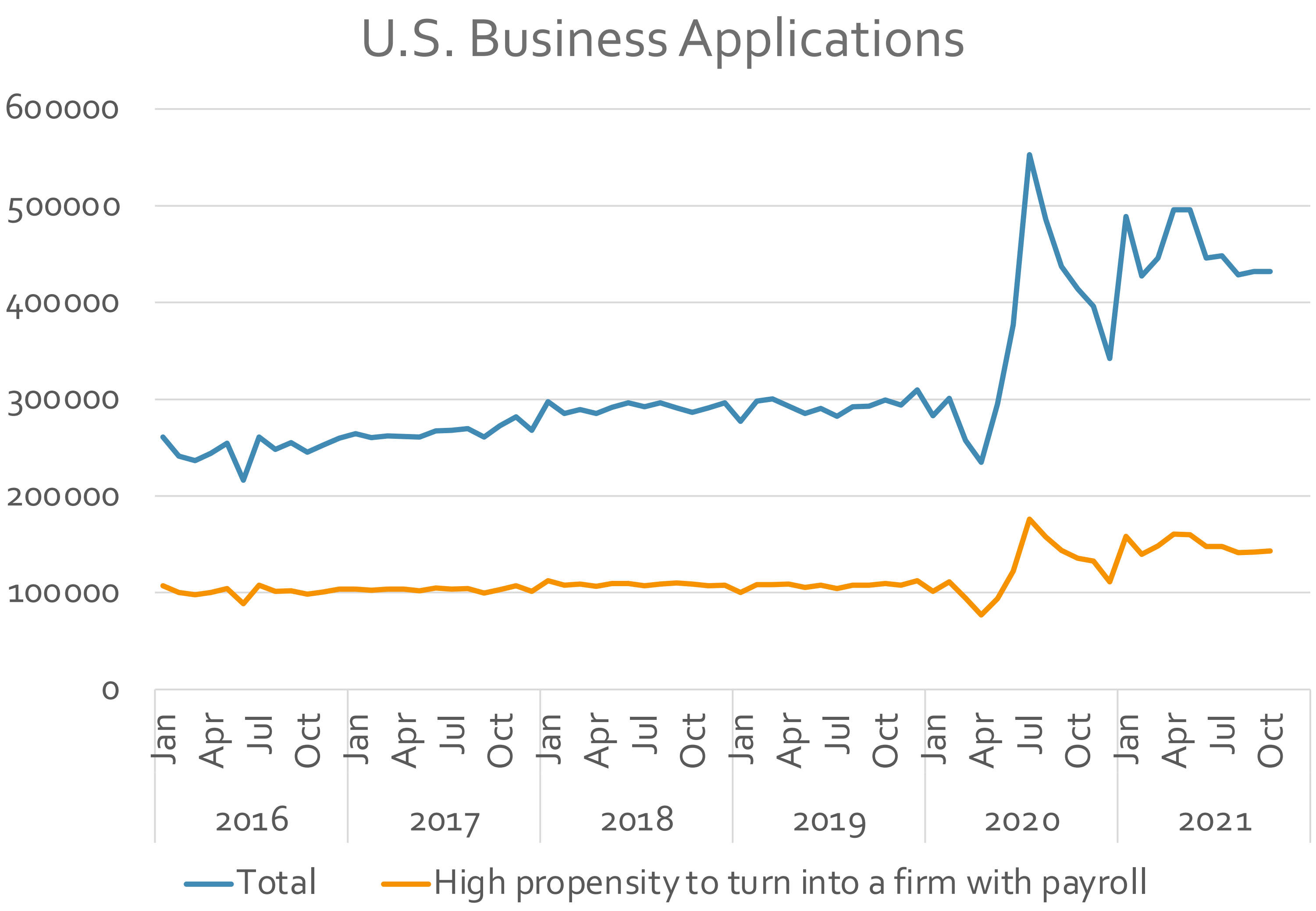
Photo by NASA on Unsplash

November's jobs report disappointed , though earlier months were revised upward which partially compensated. U.S. non-farm payroll employment has now clawed back 83% of the jobs lost during the recession. Employment is still 3.9 million below its pre-pandemic peak.

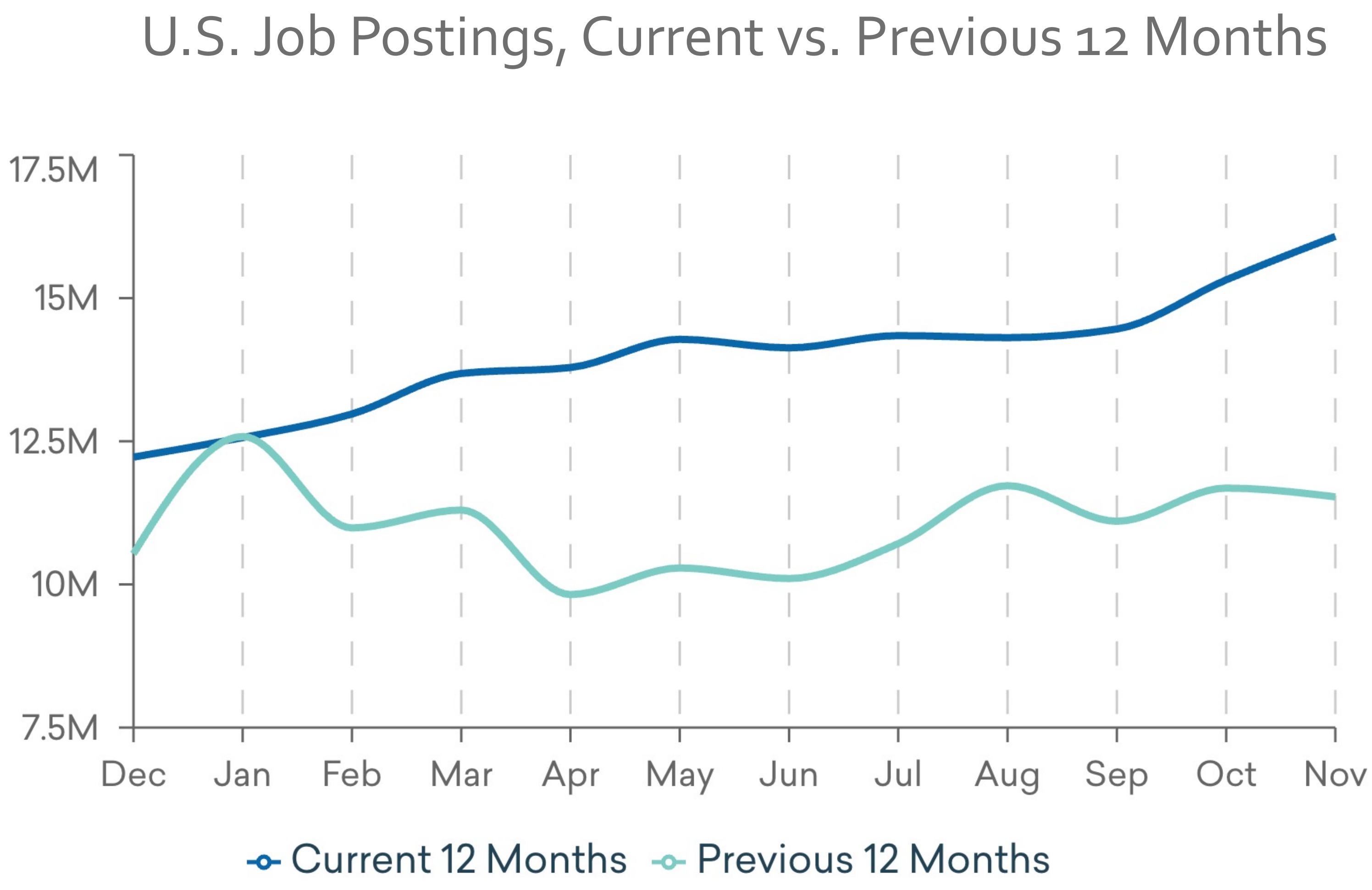


Source: BLS

Other indicators showed a more robust recovery continuing. For example, there has been a burst of entrepreneurial activity since the pandemic began.

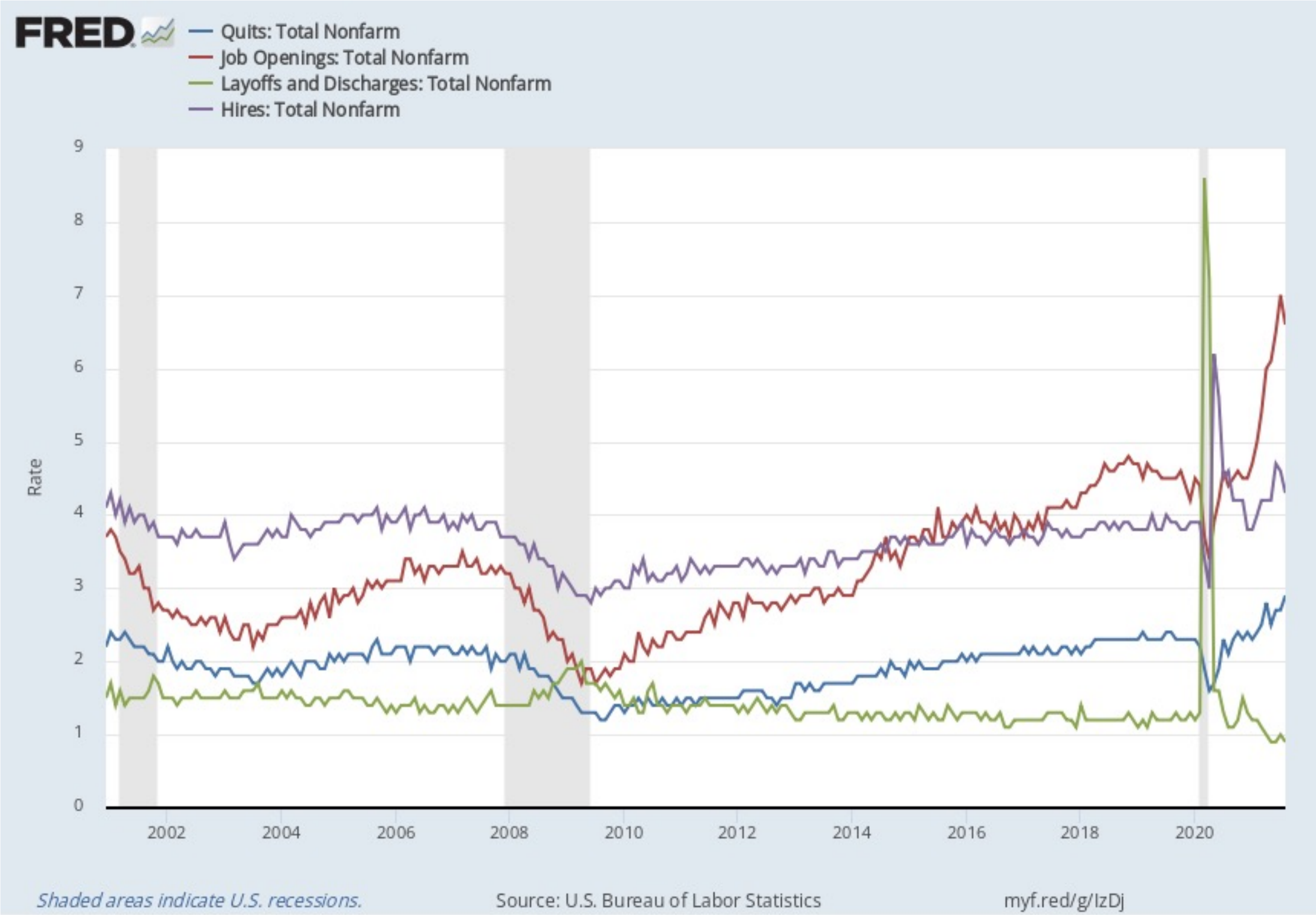


Job postings have reached record levels, indicating high demand for workers from businesses.



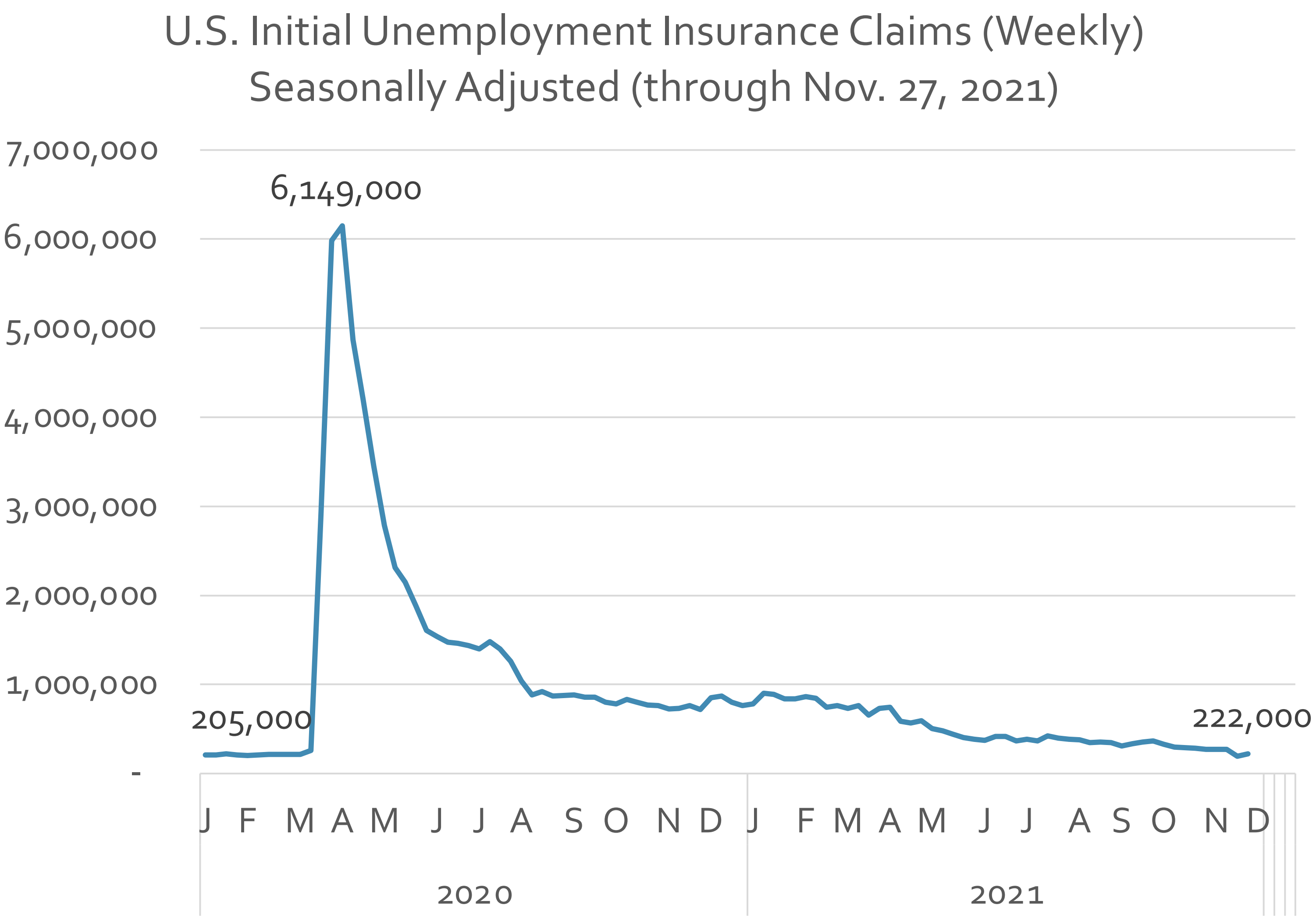
Source: EMSI

The growing gap between openings and hires has induced a record number of workers to quit their jobs – quit rates are now much higher than at the peak of recent recoveries.



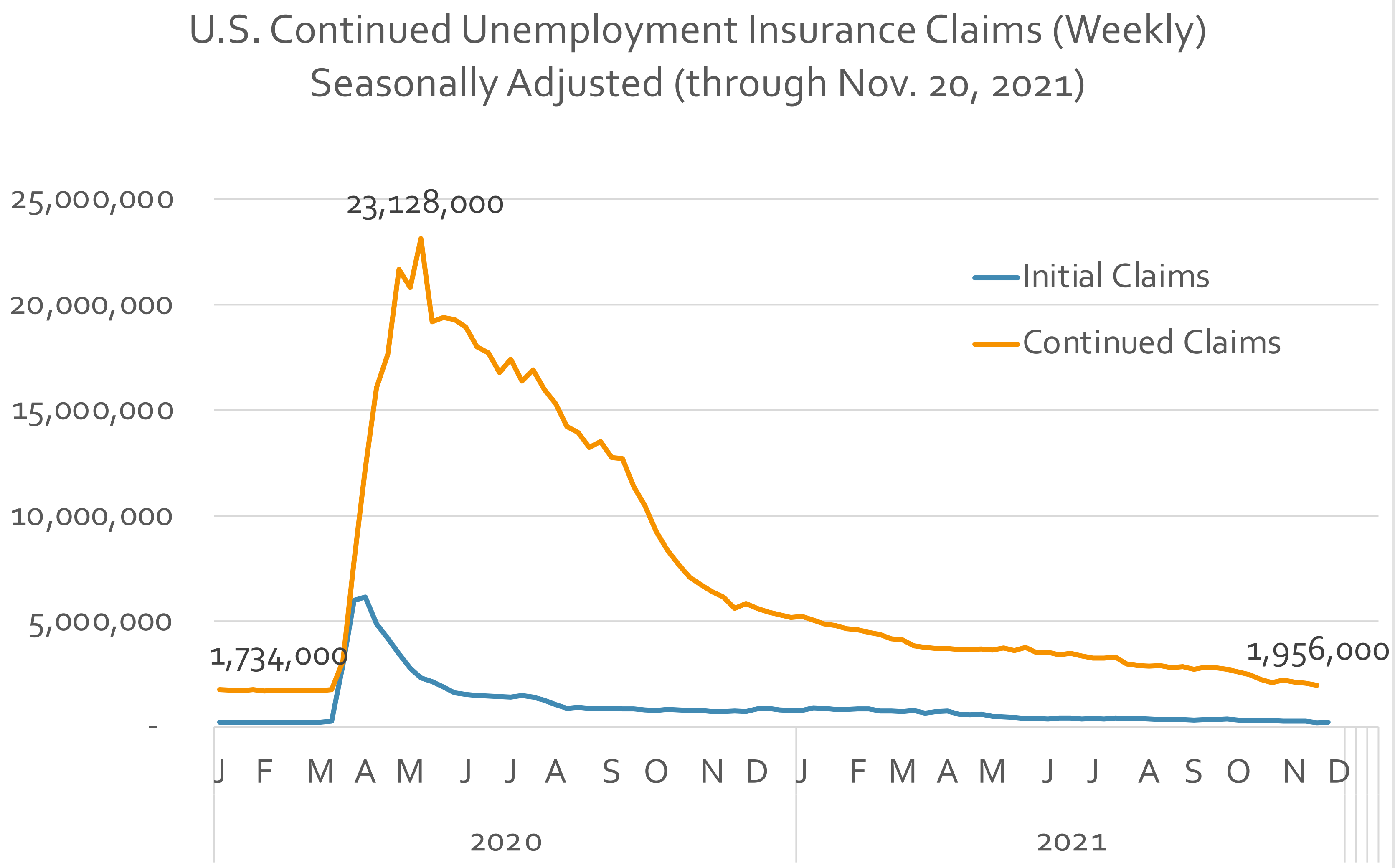
Source: FRED, U.S. Bureau of Labor Statistics

After dipping sharply the week of November 20th to levels that were *below* their pre-pandemic levels, initial unemployment claims ticked back up the following week to a level about 8 percent higher. Achieving anything near pre-pandemic levels roughly 18 months after the peak represents remarkable progress.



Source: FRED, U.S. Department of Labor

Despite improvement, there is still some slack in the labor market. Continued claims have declined to roughly 2.0 million, a figure that is about 220,000 (15%) higher than pre-pandemic levels.

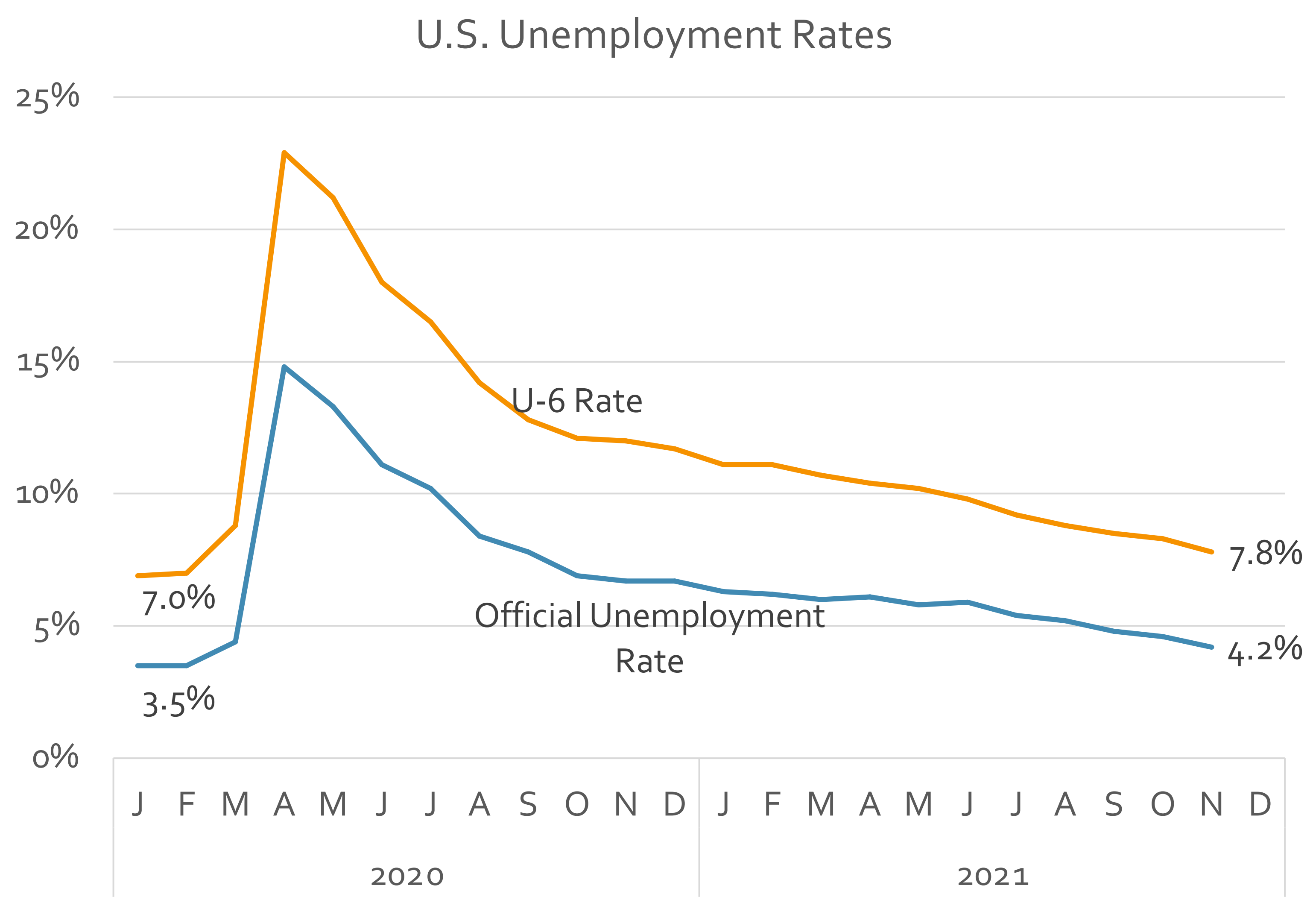


Source: FRED, U.S. Department of Labor

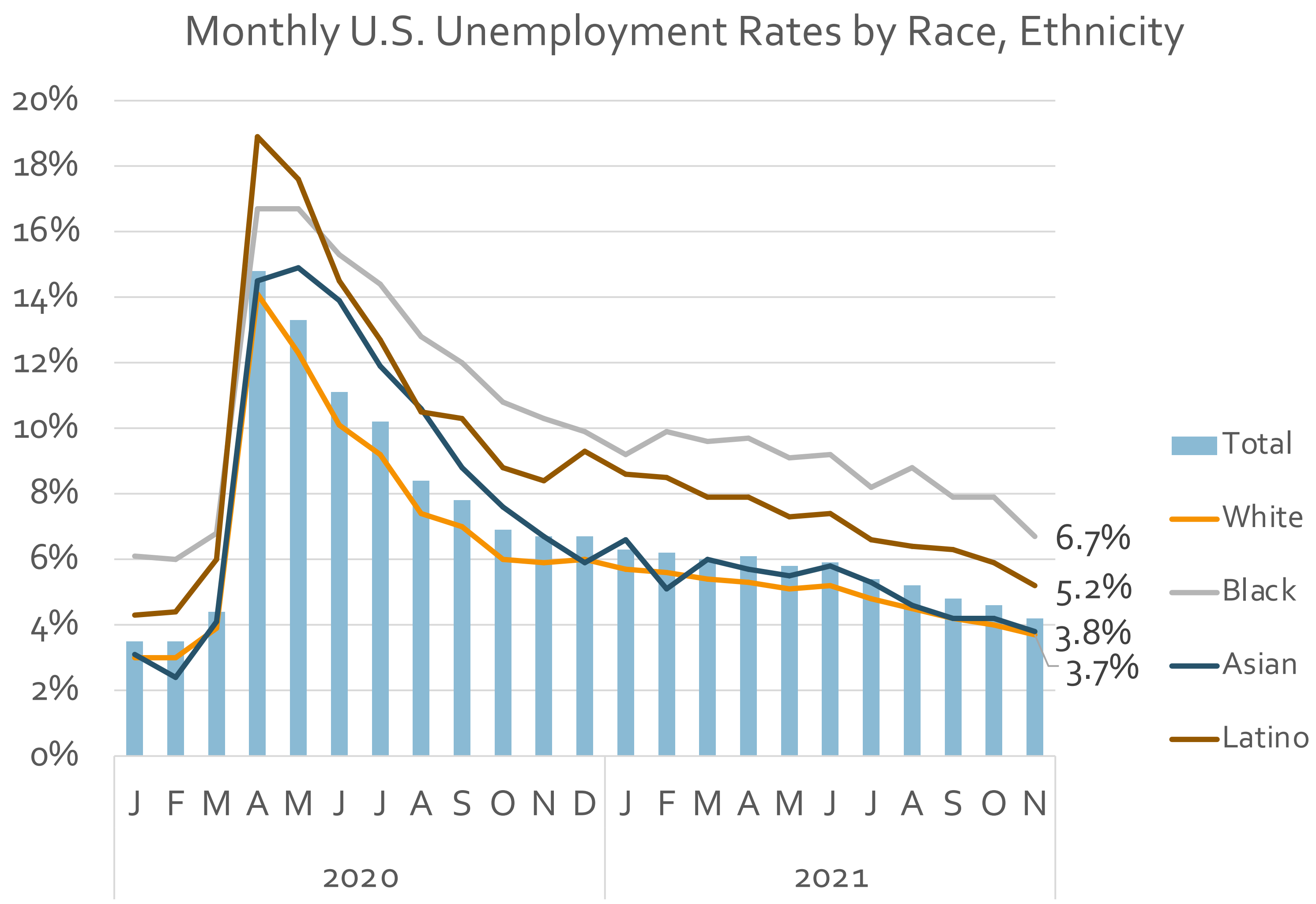
Despite slowing job growth, the official unemployment rate dropped to 4.2% in November, very close to the 4.0% traditionally assumed to represent full employment

A broader measure of labor force underutilization that includes discouraged workers and those seeking full-time work, the U6 rate, declined to 7.8%, close to a full percentage point above pre-pandemic levels, suggesting some slack still exists.

Source: FRED, U.S. Department of Labor

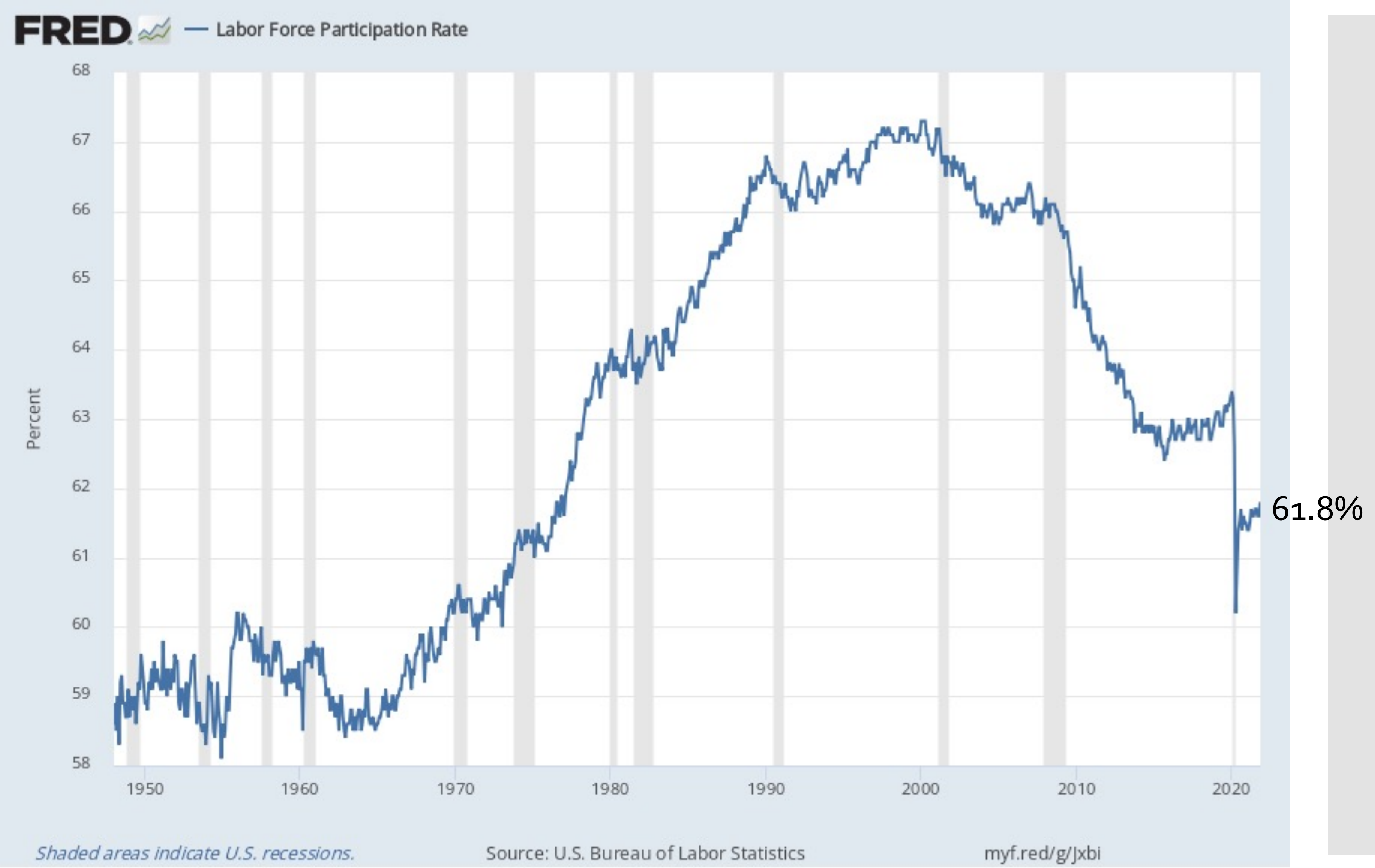


Unemployment rates continue to fall for most racial groups, though at varying speeds, creating significant disparities. Unemployment rates for Latino and Black workers remain 50% to 80% higher than White workers, respectively. The Asian unemployment rate of 3.8% essentially matches that of White workers.

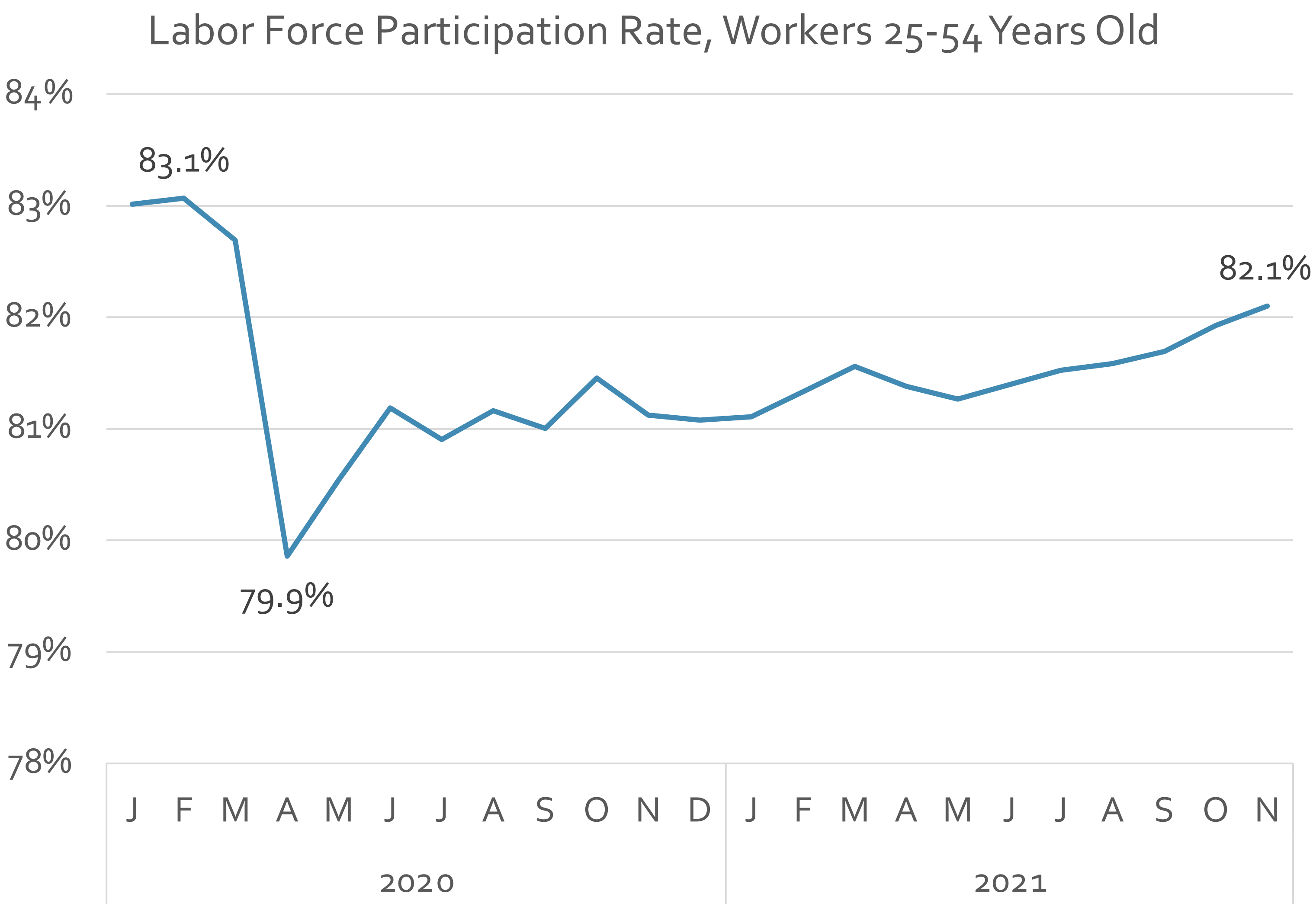


Source: Bureau of Labor Statistics

Though participation in the labor force ticked up by 0.2% in November, it remains at rates not seen since the mid-1970s. This translates to roughly 3.6M fewer workers in the labor force if participation rates had remained at the pre-pandemic levels.

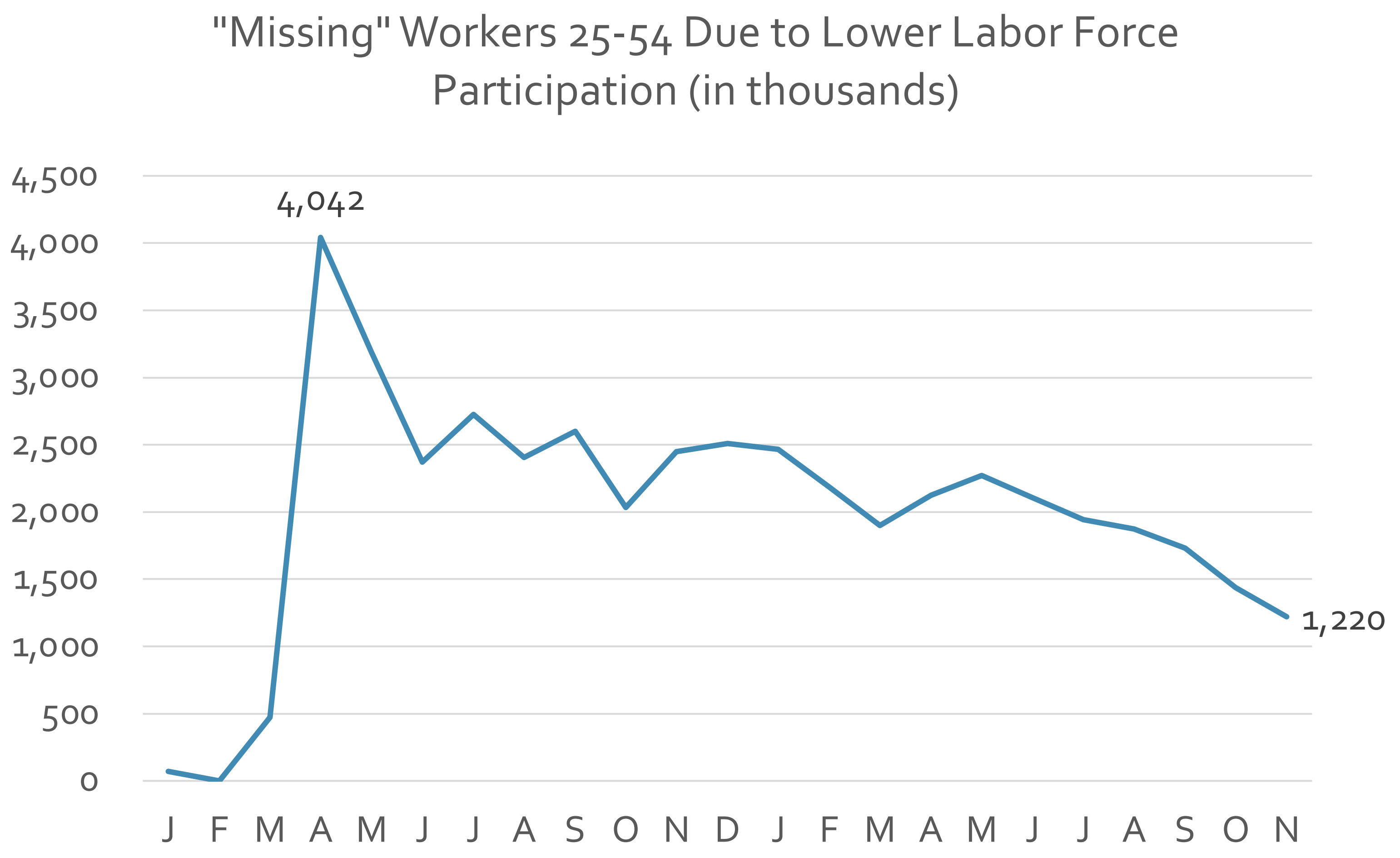


A large portion of the decline is due to a retiring Baby-Boom generation. But even for those in their prime working years, labor force participation rates have regained only 70% of the loss caused by the pandemic.



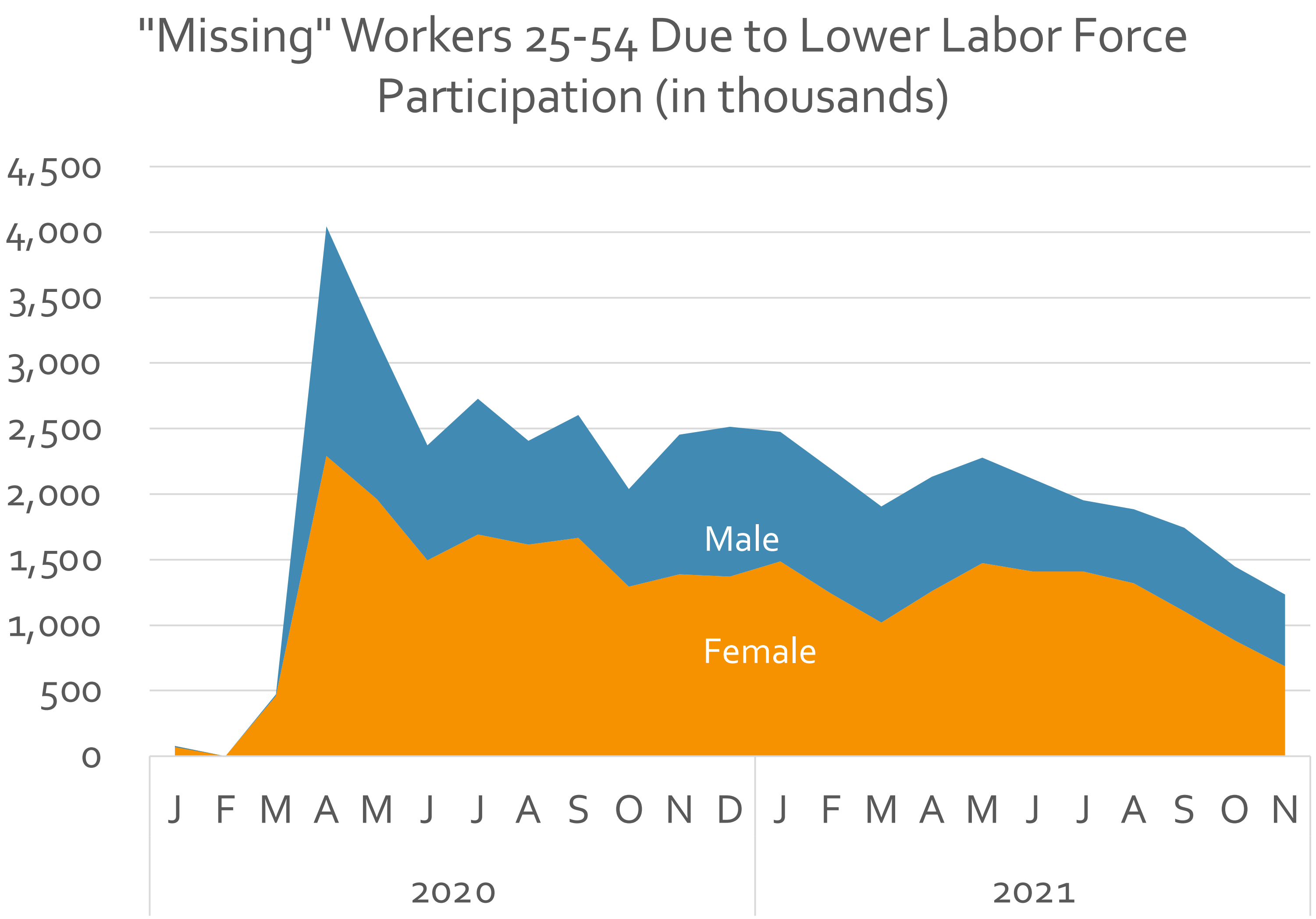
Source: Bureau of Labor Statistics

As a result, about 1.2 million workers in their prime working ages are still missing from the labor force, a figure that is 30% of the peak loss during the pandemic.



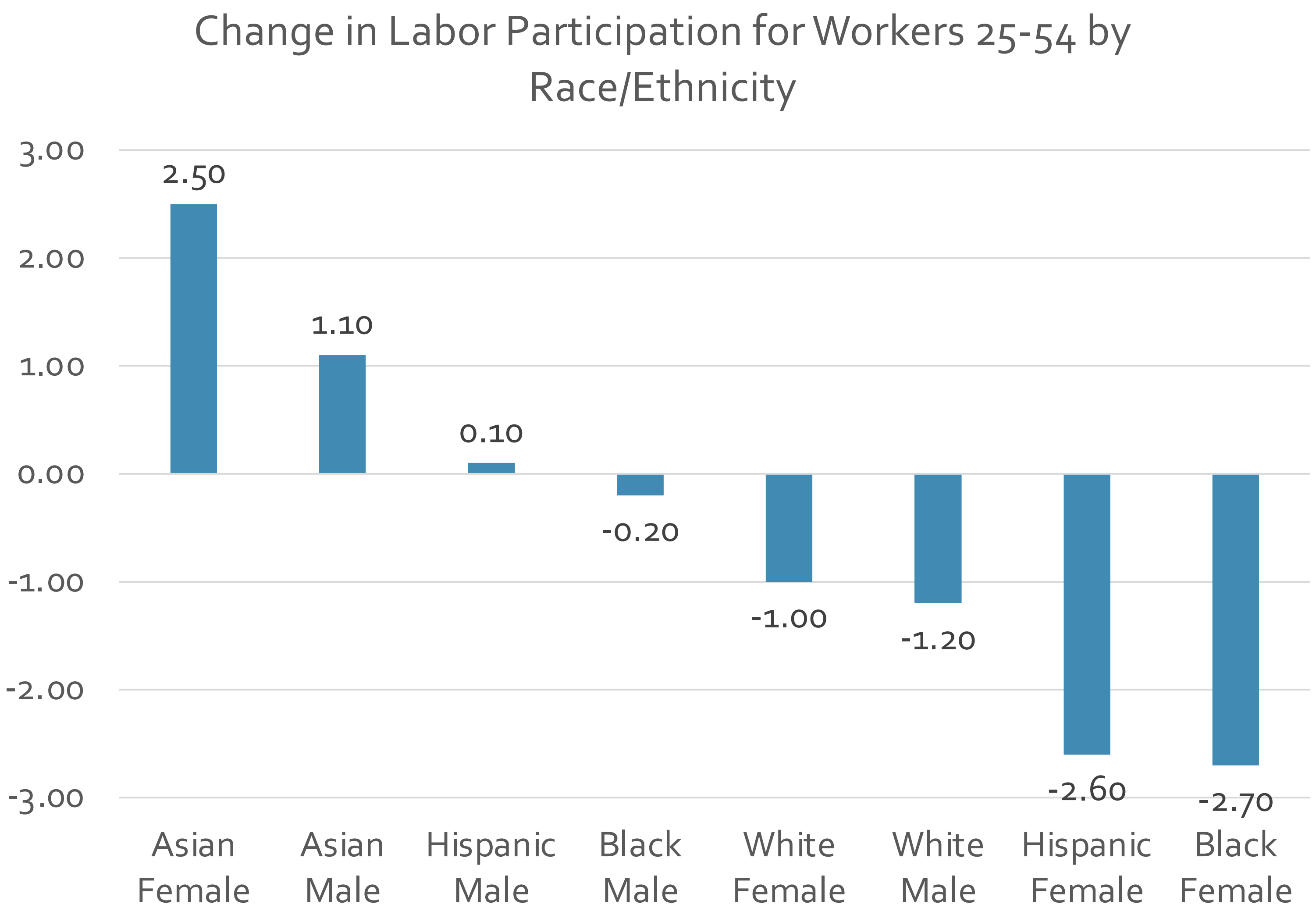
Source: Bureau of Labor Statistics

Women currently account for the majority (56%) of the missing prime-age workers. This suggests there is still some conflict between caregiving responsibilities and work.



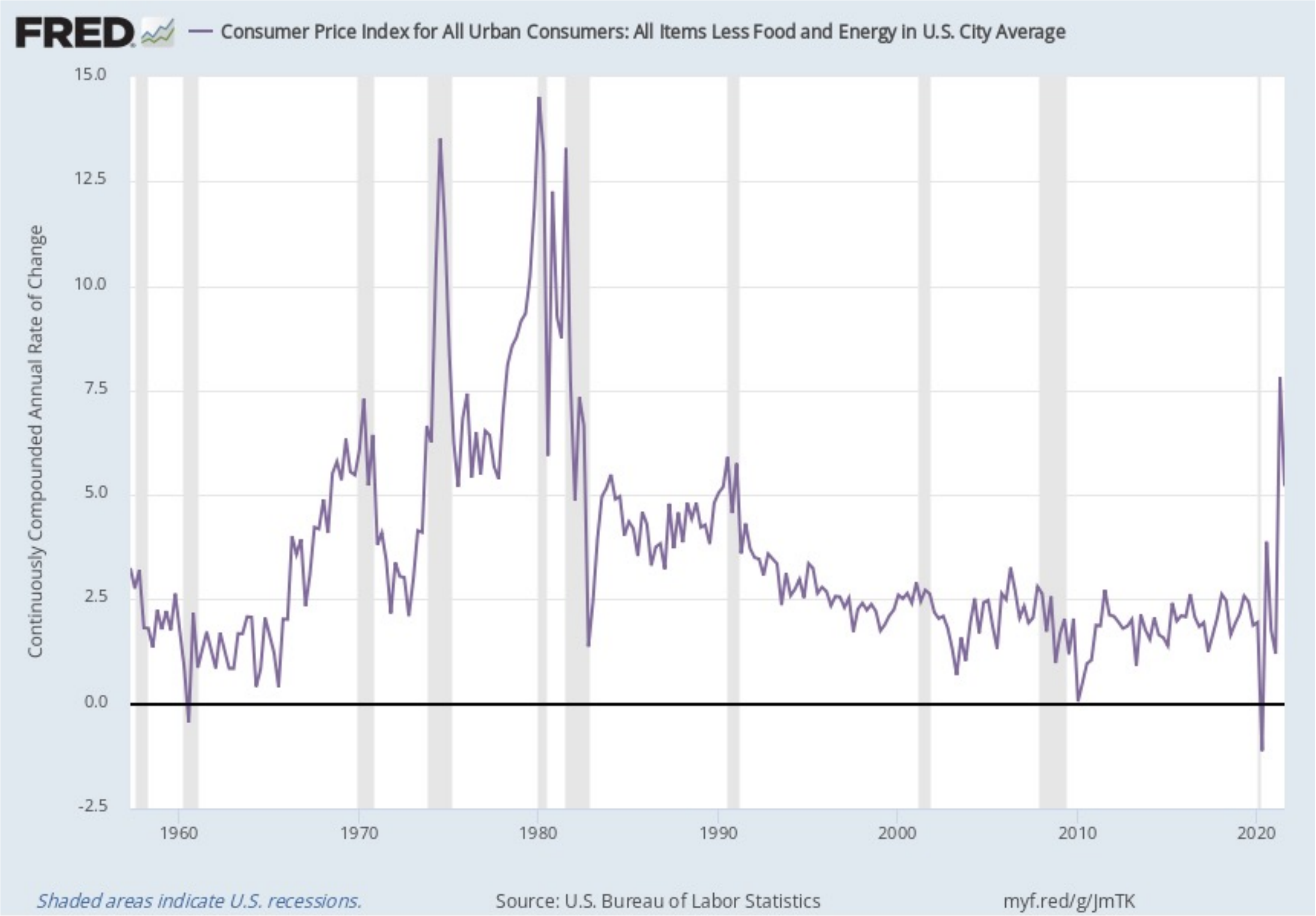
Source: Bureau of Labor Statistics

This is mainly because the Black and Hispanic female recovery in labor force participation has significantly lagged that of other groups. The gap for females of color is about 2 ½ times that of White females.



Source: Bureau of Labor Statistics

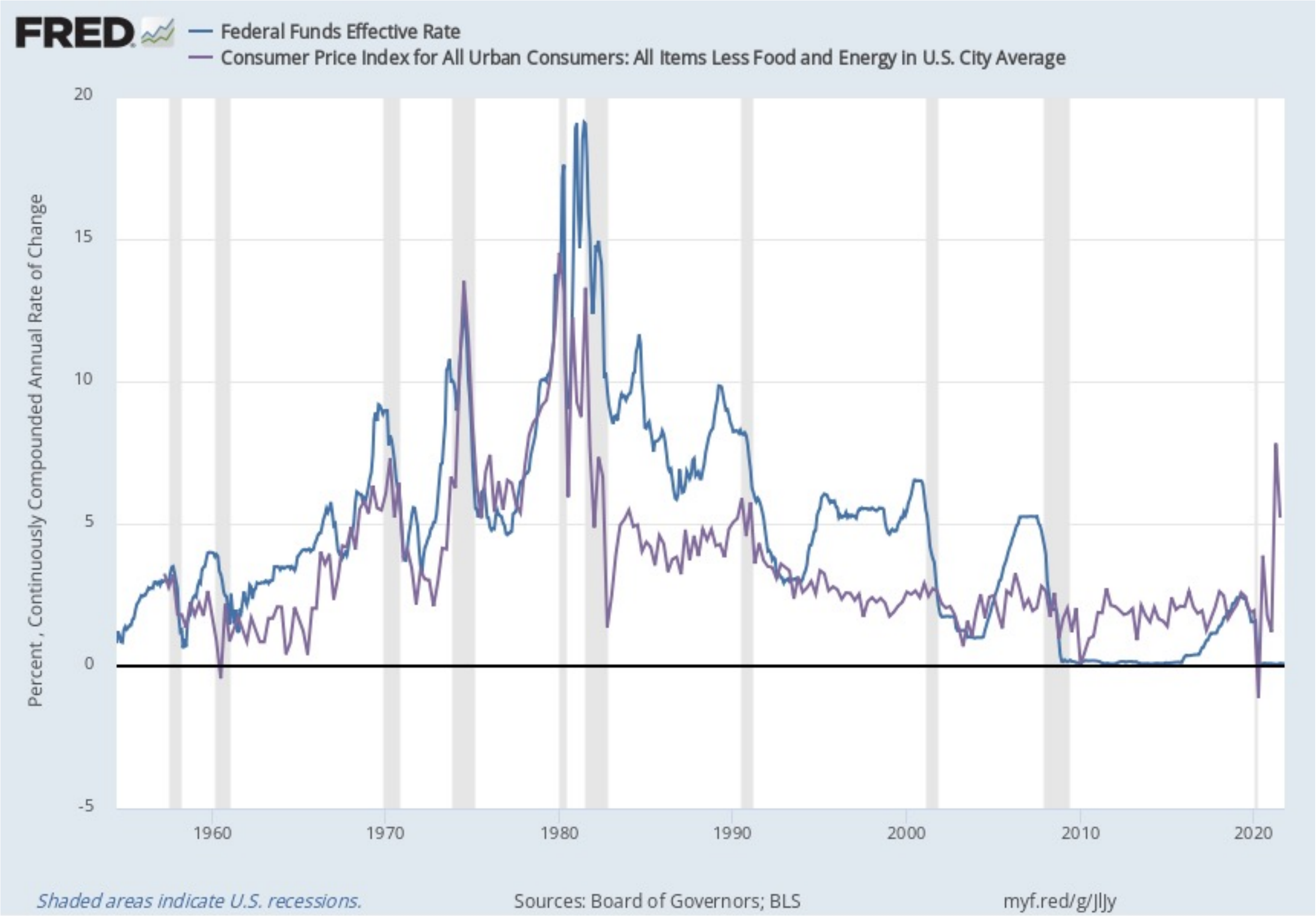
Despite missing about a million prime age workers, the U.S. economy is experiencing the highest core inflation since the 1980s. Are we entering a new period of "stagflation" – high underemployment with high inflation?



Source: FRED, Bureau of Labor Statistics

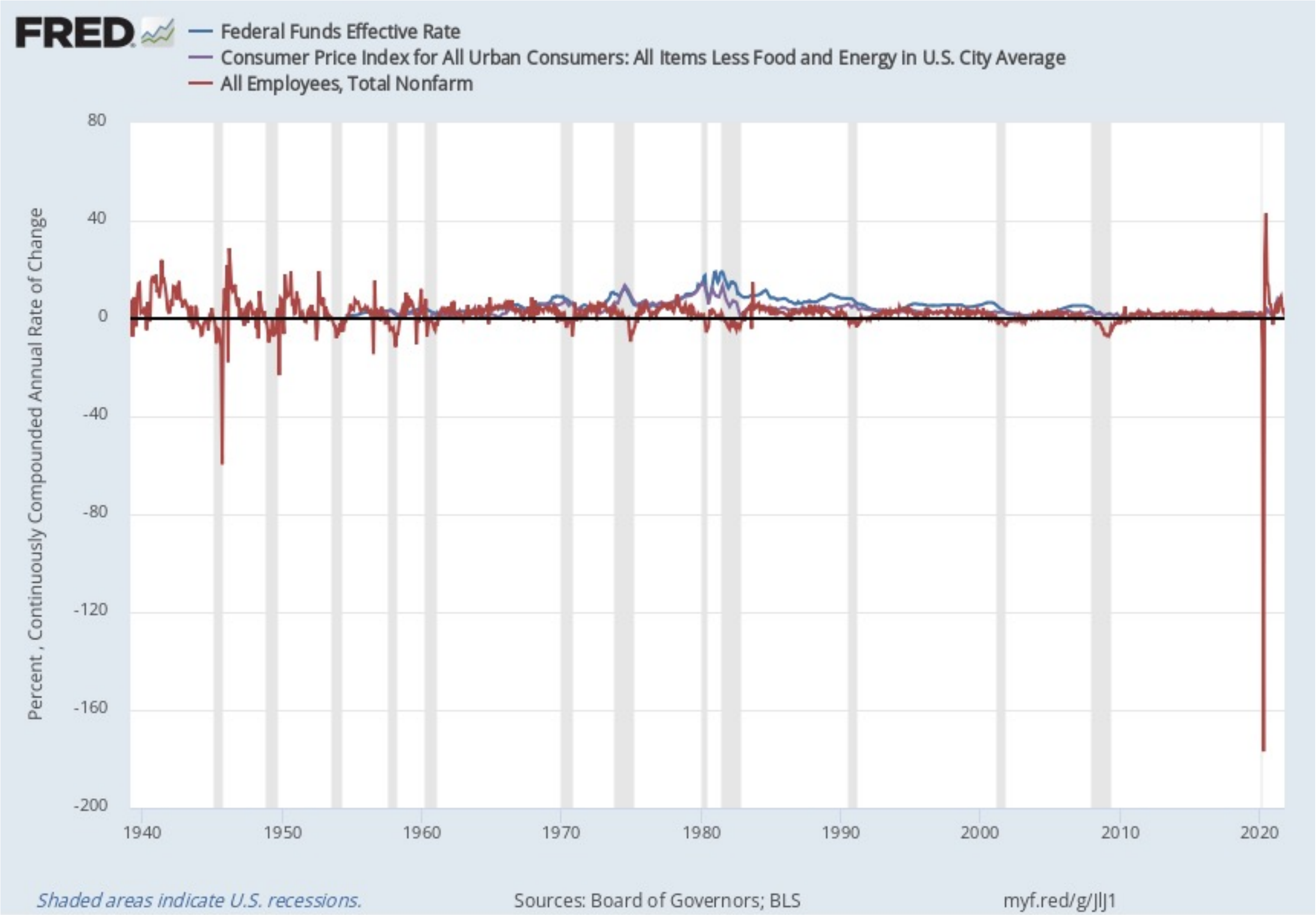
Prior to the 1980s, the Fed raised interest rates concurrently with inflation. After that it began raising it preemptively.

But the experience after the Great Recession suggested pre-emptive increases left too many jobs on the table.



Source: Bureau of Labor Statistics , U.S. Federal Open Market Committee

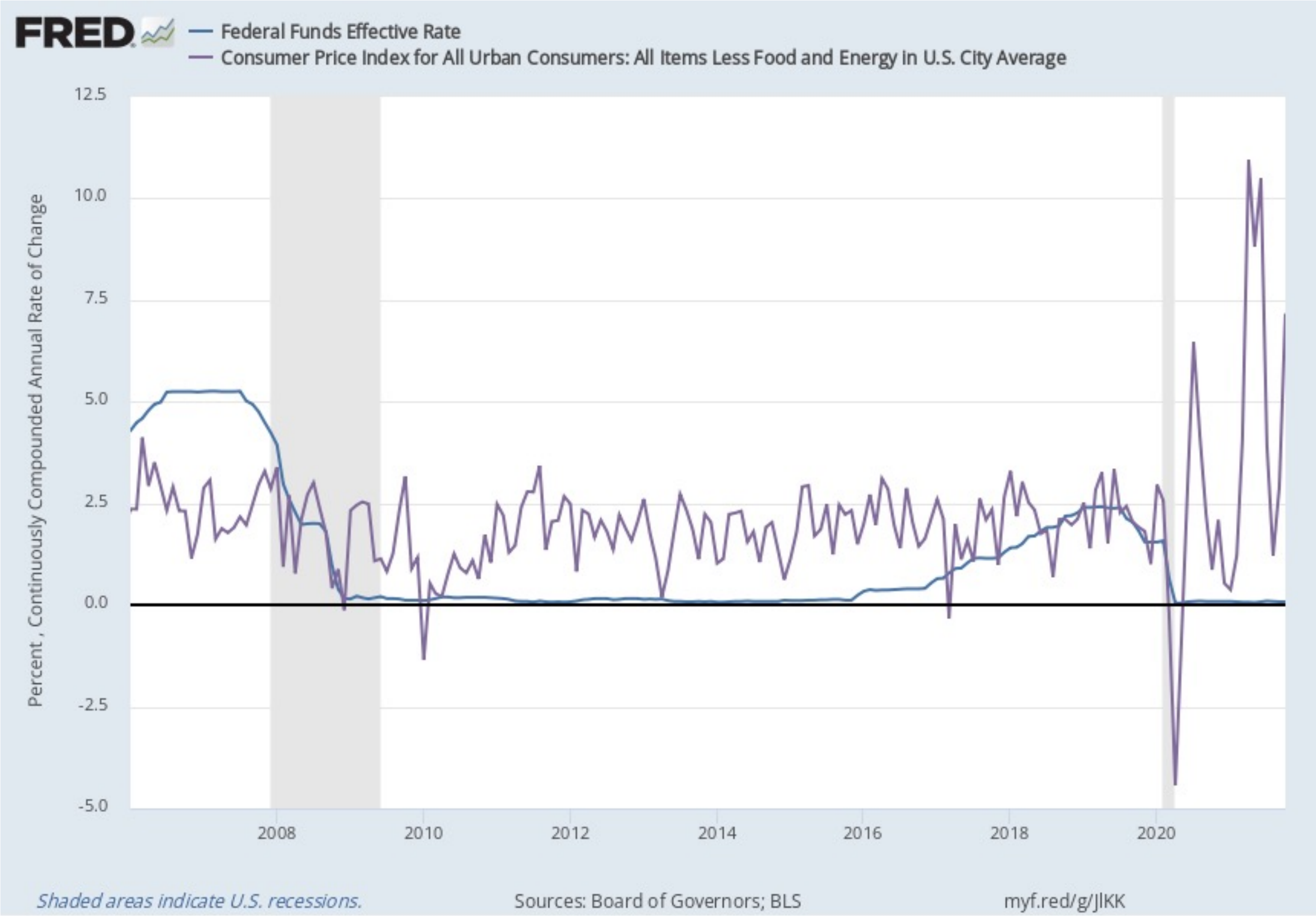
The COVID-19 recession was more of a natural disaster than typical recession.



Source: Bureau of Labor Statistics , U.S. Federal Open Market Committee

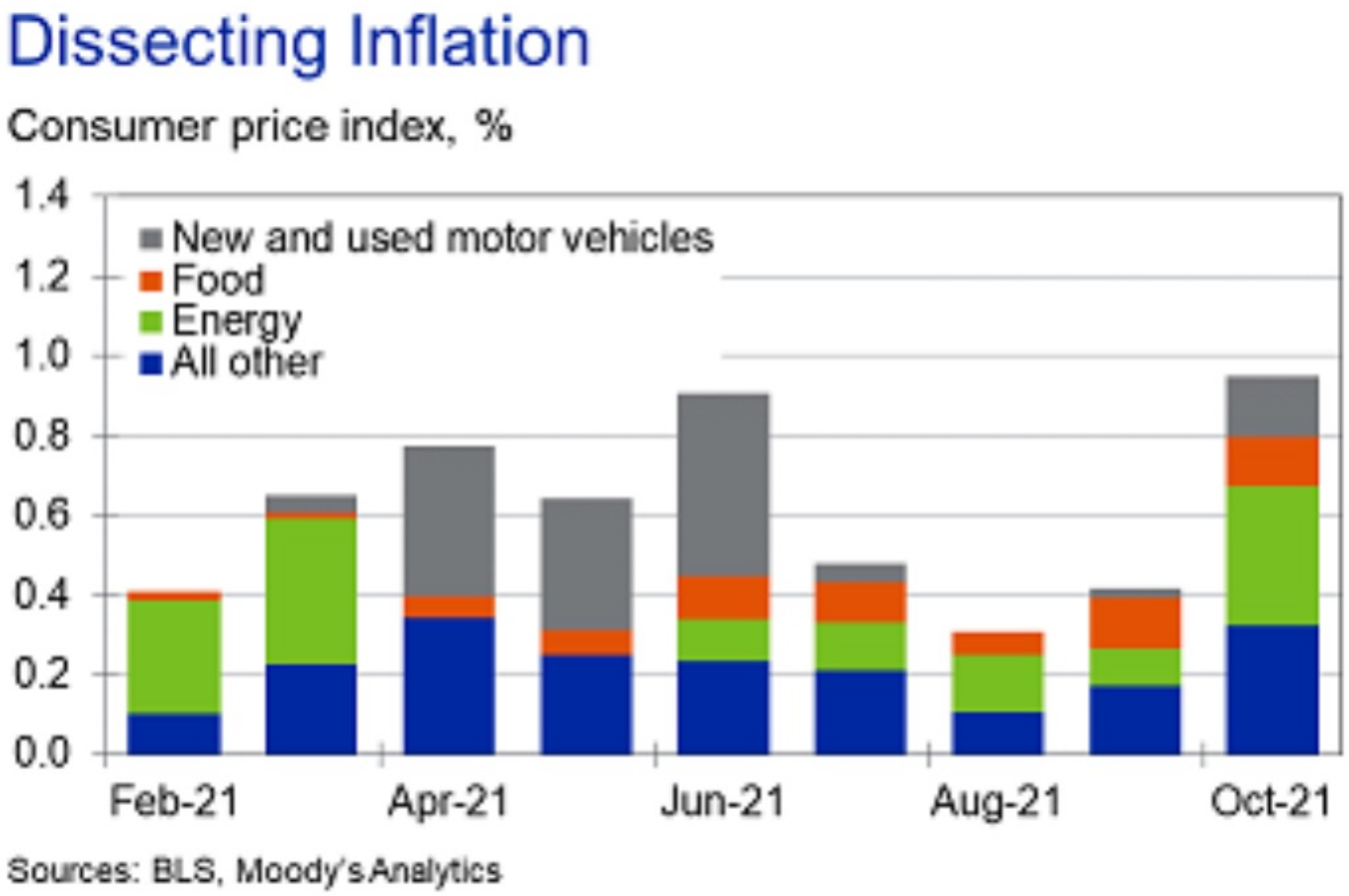
Inflation is rising and, as yet, there is no strong policy response from the Fed.

This is the dilemma created by a dual mandate, combined with a change in policy that lets inflation run above 2% for a period if it ran below 2% prior to that.

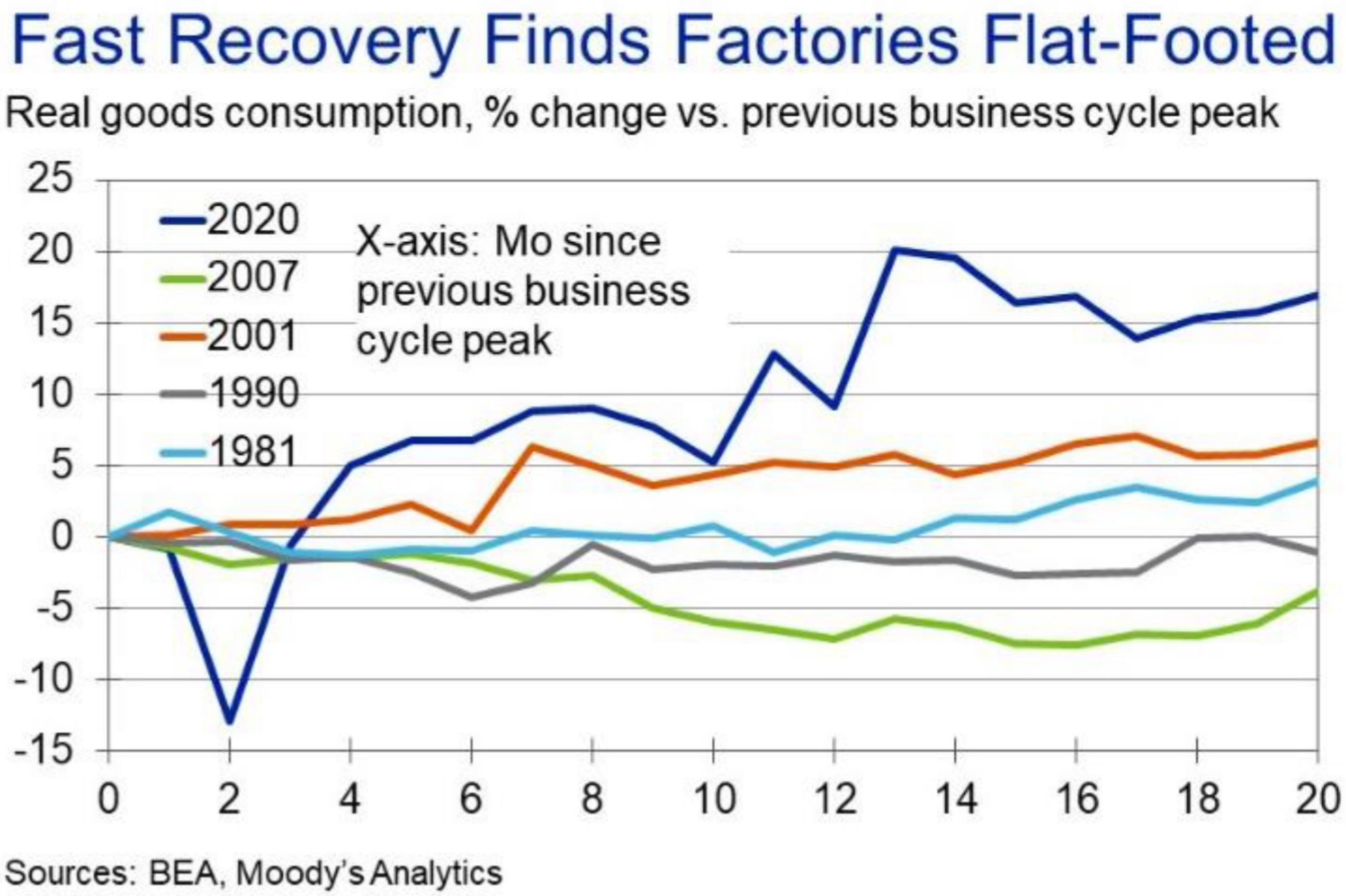


Source: Bureau of Labor Statistics , U.S. Federal Open Market Committee

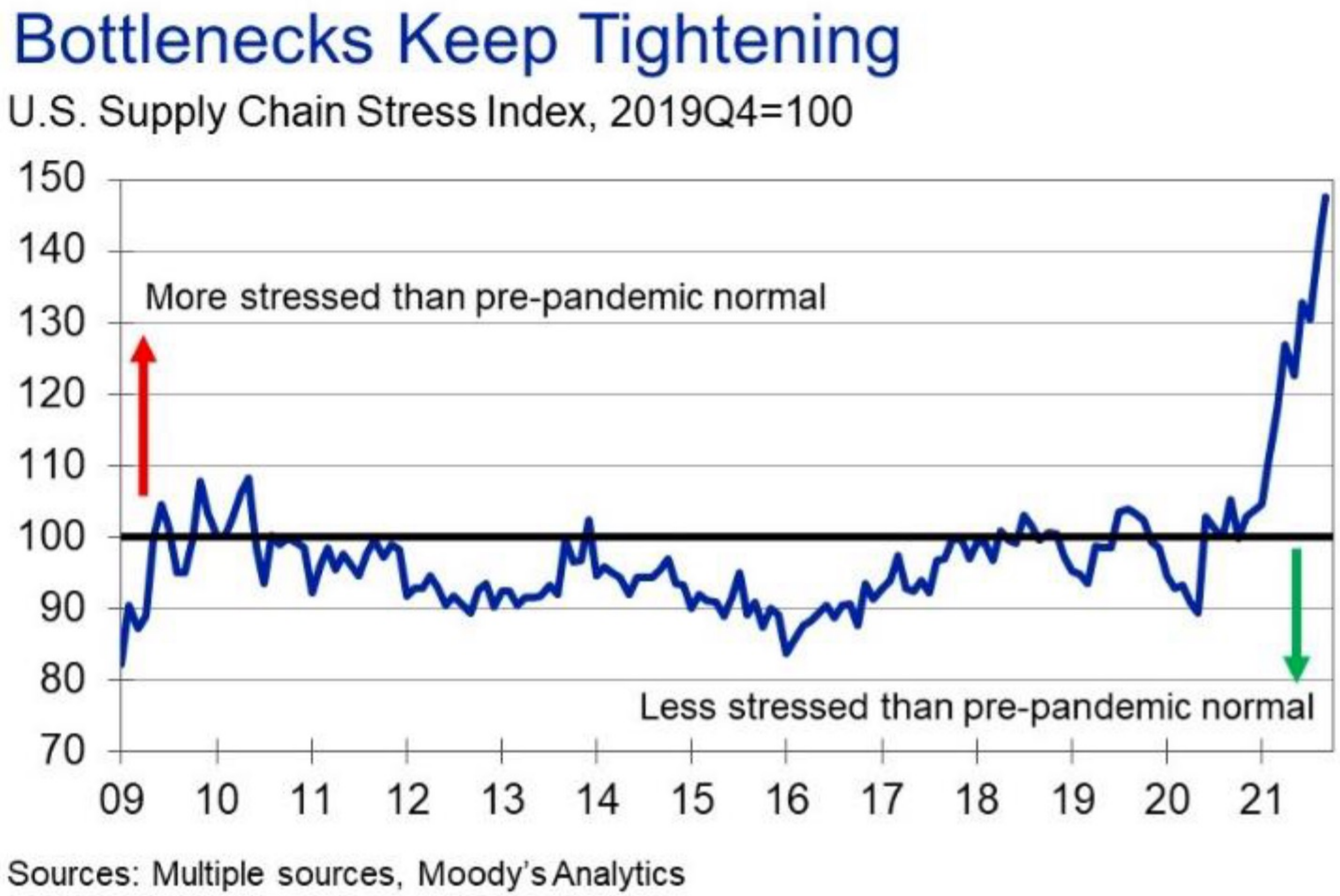
The latest inflation breakdown by major category from Moody's (October) shows energy now at the forefront of increases. But the recent decline in oil prices should mean this is less of a contributor moving forward.



We are buying more goods than in 2019. We are having them shipped directly to our homes, increasing the demand for truck drivers.



Though the supply of goods is increasing, it is still not able to keep up with how fast demand snapped back, creating bottlenecks.



Moody's Analytics:

November Assumptions for Baseline Forecast

- The worst of the Delta-variant wave is behind us. Future waves will be less severe due to vaccine eligibility expanding to other age groups.
- The reconciliation package that funds a range of social investments will be passed and valued at $1.75 trillion.
- Debt ceiling is raised and a partial government shutdown is avoided.
- The acceleration in consumer prices is expected to ease by Spring 2022, as are labor-supply constraints
- The Federal Reserve keeps the target range for the fed funds rate at 0% to 0.25% until late 2022 and will taper its $120 billion in monthly asset purchases at a rate of $15B per month until mid-2022.
- Full employment is reached by the end of 2022, defined by when the prime-age employment-to-population ratio reaches 80%.
- The 10-year U.S. Treasury yield is expected to steadily increase to 3.75% by mid-decade.

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.

Downside:

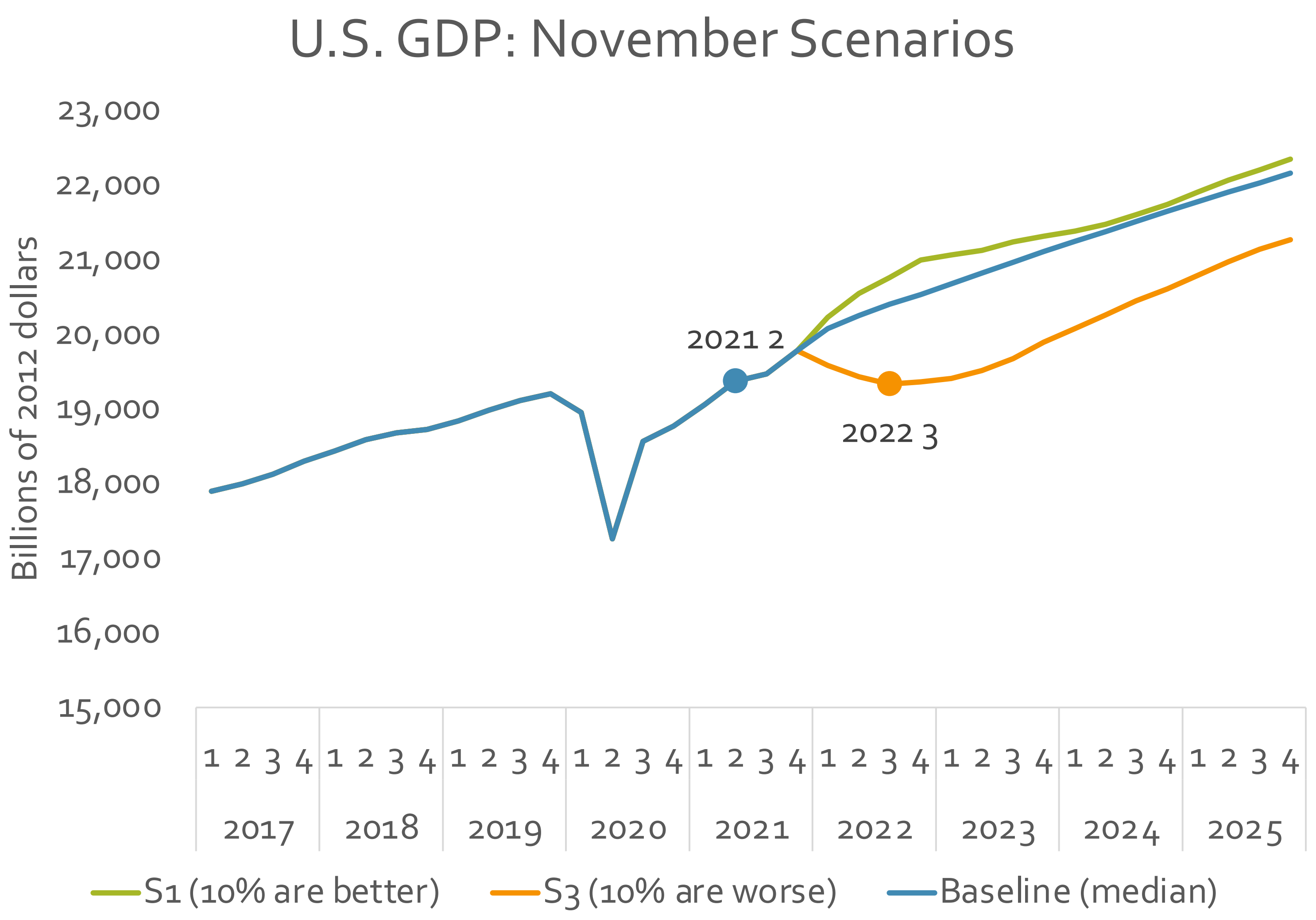
- Omicron variant may cause a significant pullback in demand if vaccines are shown to be significantly less effective in preventing serious illness. (Note: Moody's forecast was published before the variant became known)
- Supply-chain issues worsen, bolstering U.S. inflation
- Financial market conditions tighten due to the Fed tapering monthly asset purchases, a debt-ceiling battle, and profit taking ahead of a potential capital gains tax increase next year
- The social spending in reconciliation bill is substantially reduced
- Labor-supply constraints are more binding, slowing job growth, boosting wages and inflation

Upside:

- Millennials start buying homes commensurate with their ages and incomes
- The existing large savings cushion is tapped to boost consumer spending even in the absence of as much stimulus

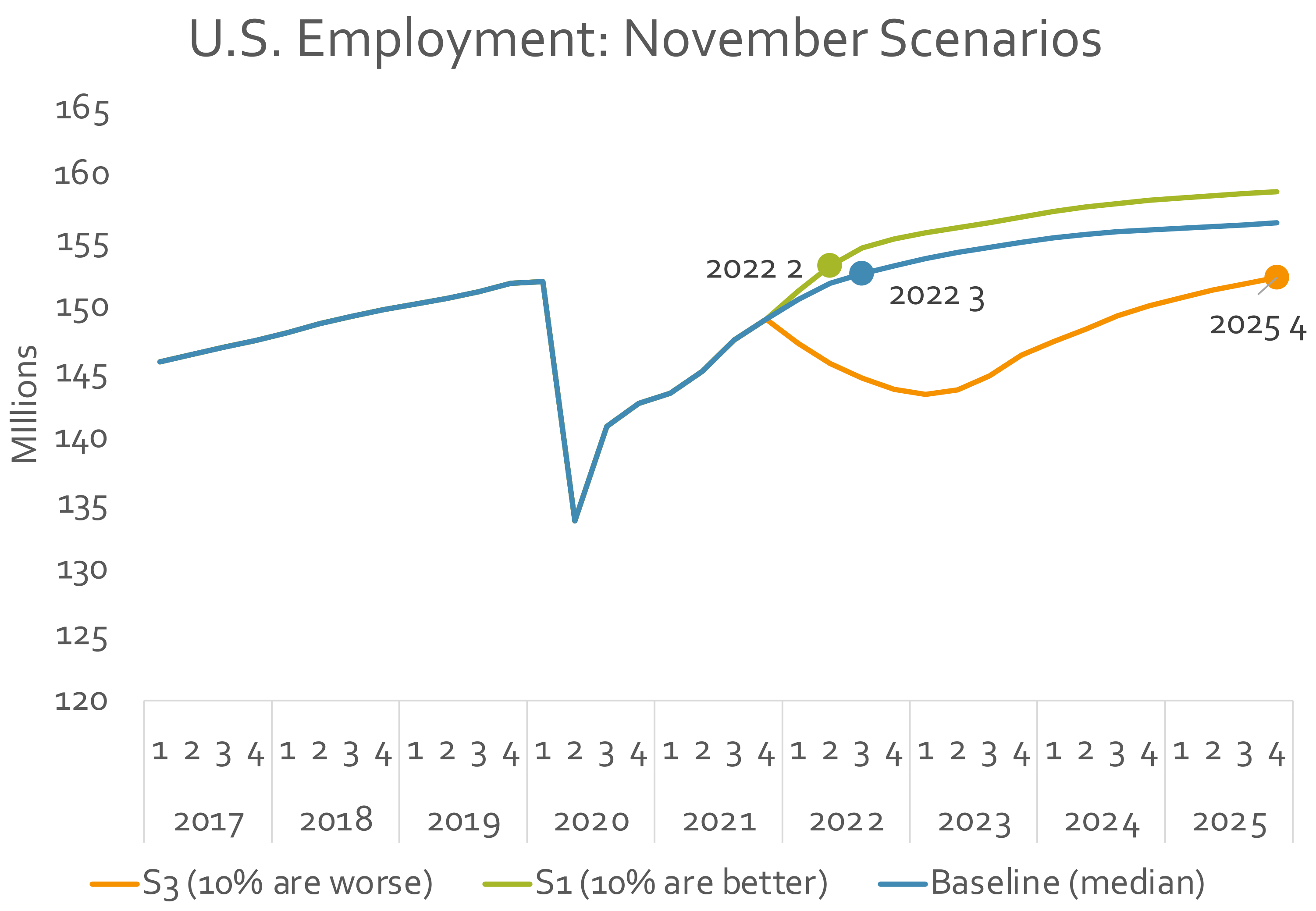
Basically, in terms of GDP, the recovery period ended 2Q 2021, beginning the expansion phase of the cycle. It appears GDP is back on its pre-pandemic trend line.

In the worst case, a resurging virus and a vaccine hesitant public causes widespread increases in infections, resulting in a pull-back of demand creating a new recession.



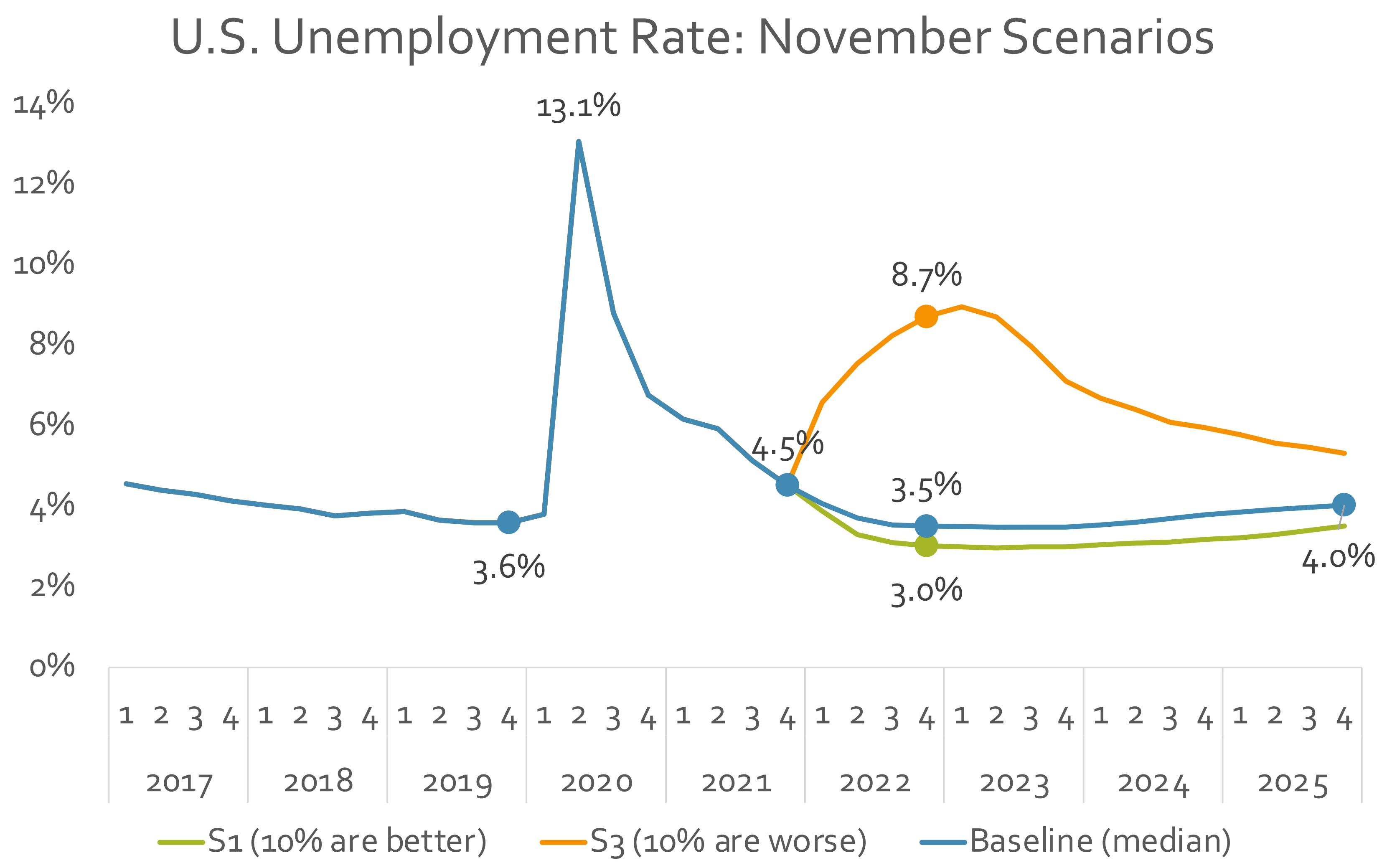
Source: Moody's Analytics

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 to the end of 2025.



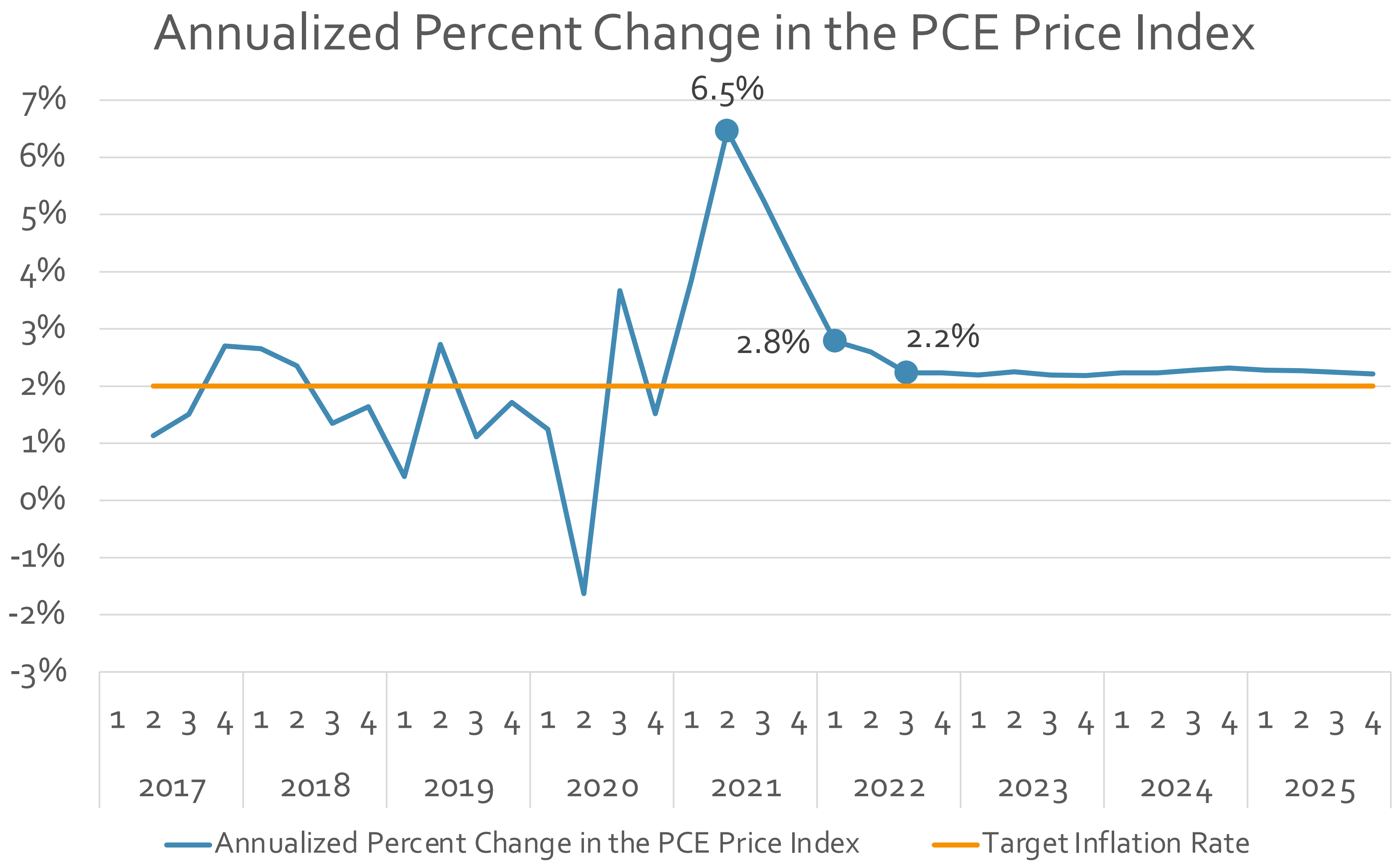
Source: Moody’s Analytics

The baseline forecast calls for the nation's unemployment rate to fall 3.5 percent over the next year to pre-pandemic levels. Under the best-case scenario it drops ½ percentage point below that. Given Moody's estimates the long-run equilibrium unemployment rate is about 4 percent, this indicates an overheating economy.

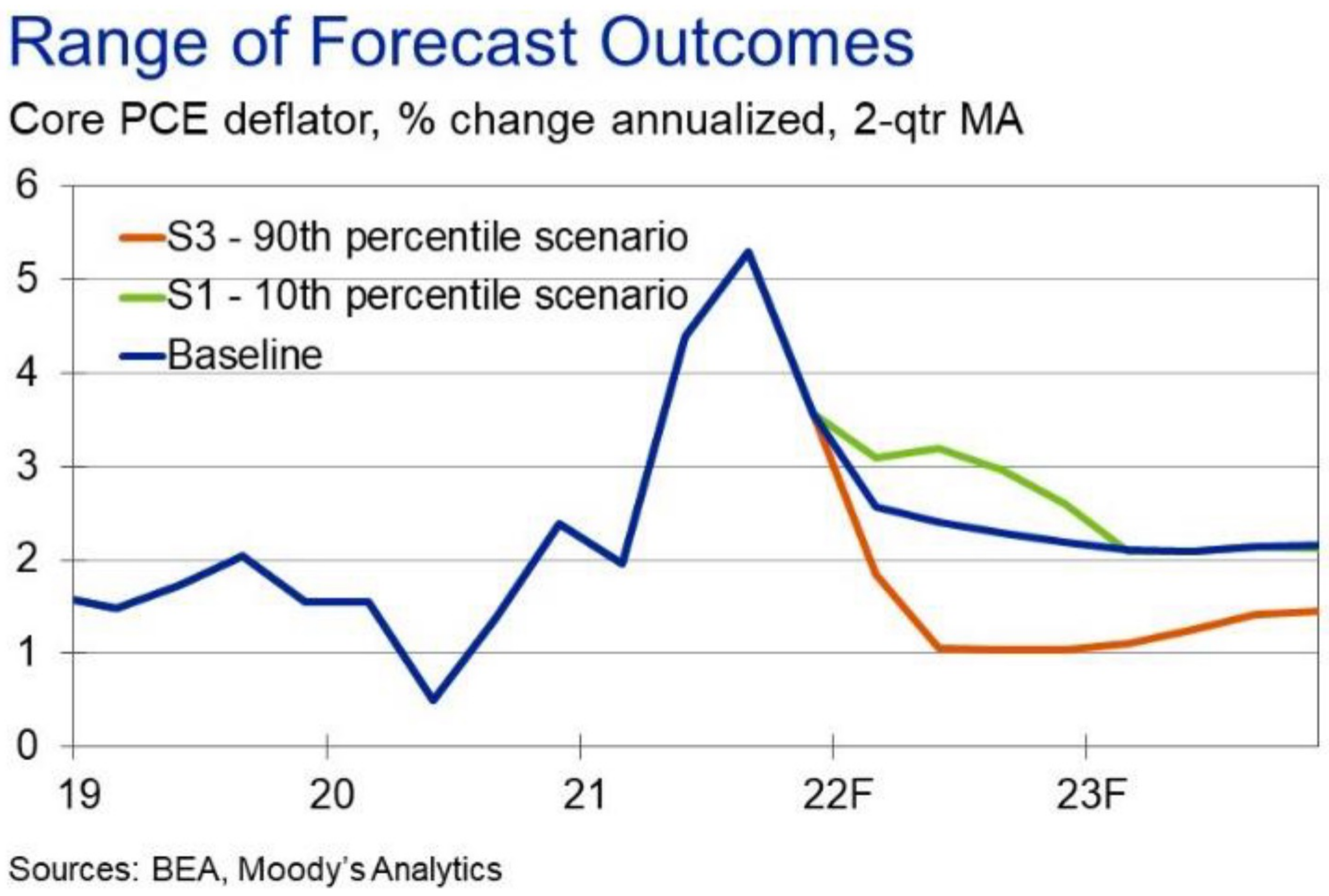


Source: Moody's Analytics

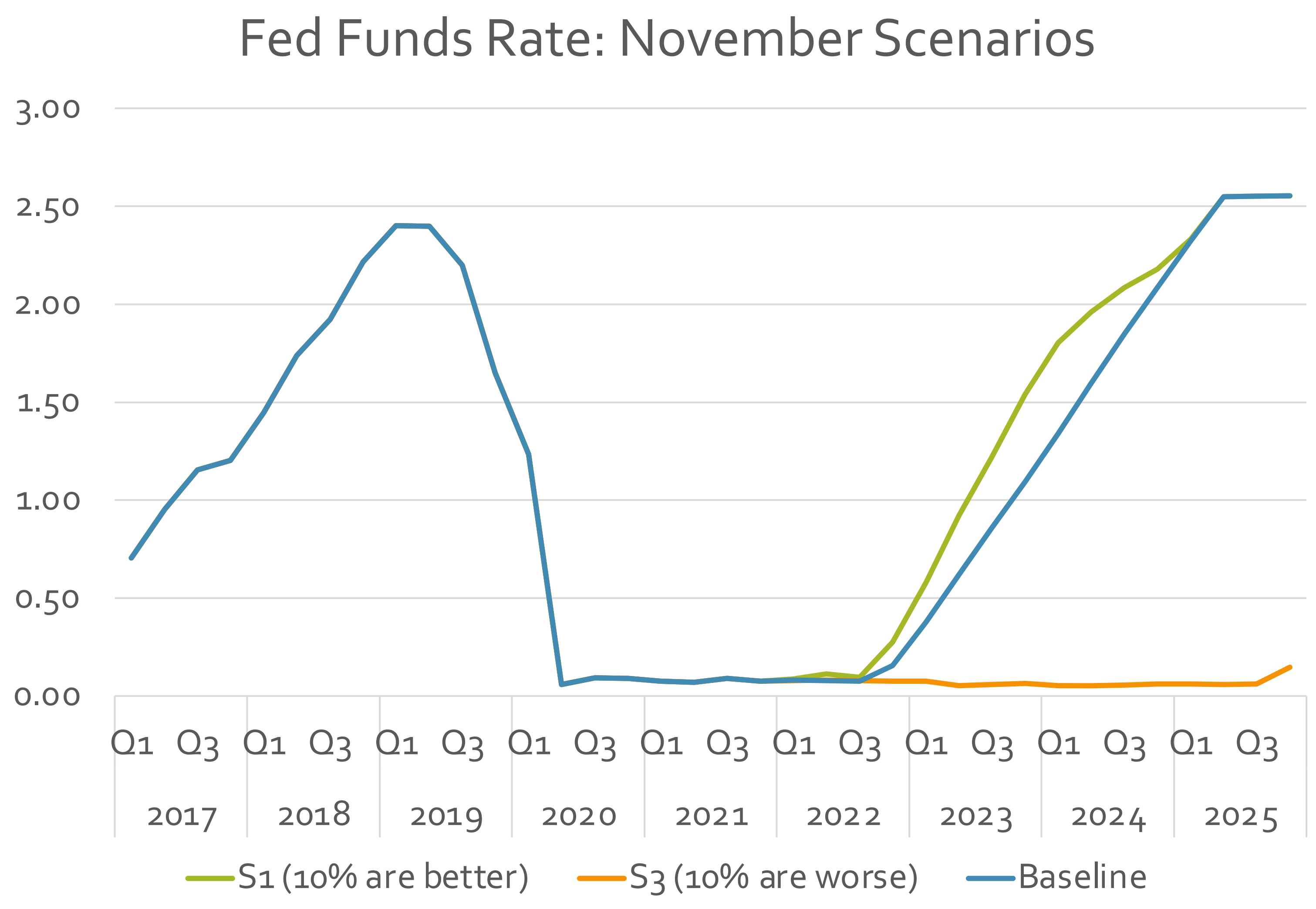
Moody's forecasts that supply-chain and labor supply constraints in the face of rapidly increasing demand gradually resolve themselves . As a result, core PCE inflation is expected to be significantly lower in first-quarter 2022 and to be near the Fed's target by the end of 2022.



Even under the most rapid growth assumptions, Moody's does not foresee an extended period of core inflation much above 3%.



This is both because they believe bottlenecks will resolve themselves and that the Fed will successfully demonstrate its ability to rein in inflationary expectations if it should prove necessary. This is shown by their forecast of a more aggressive rate of increase in the Fed Funds rate in the high growth scenario.



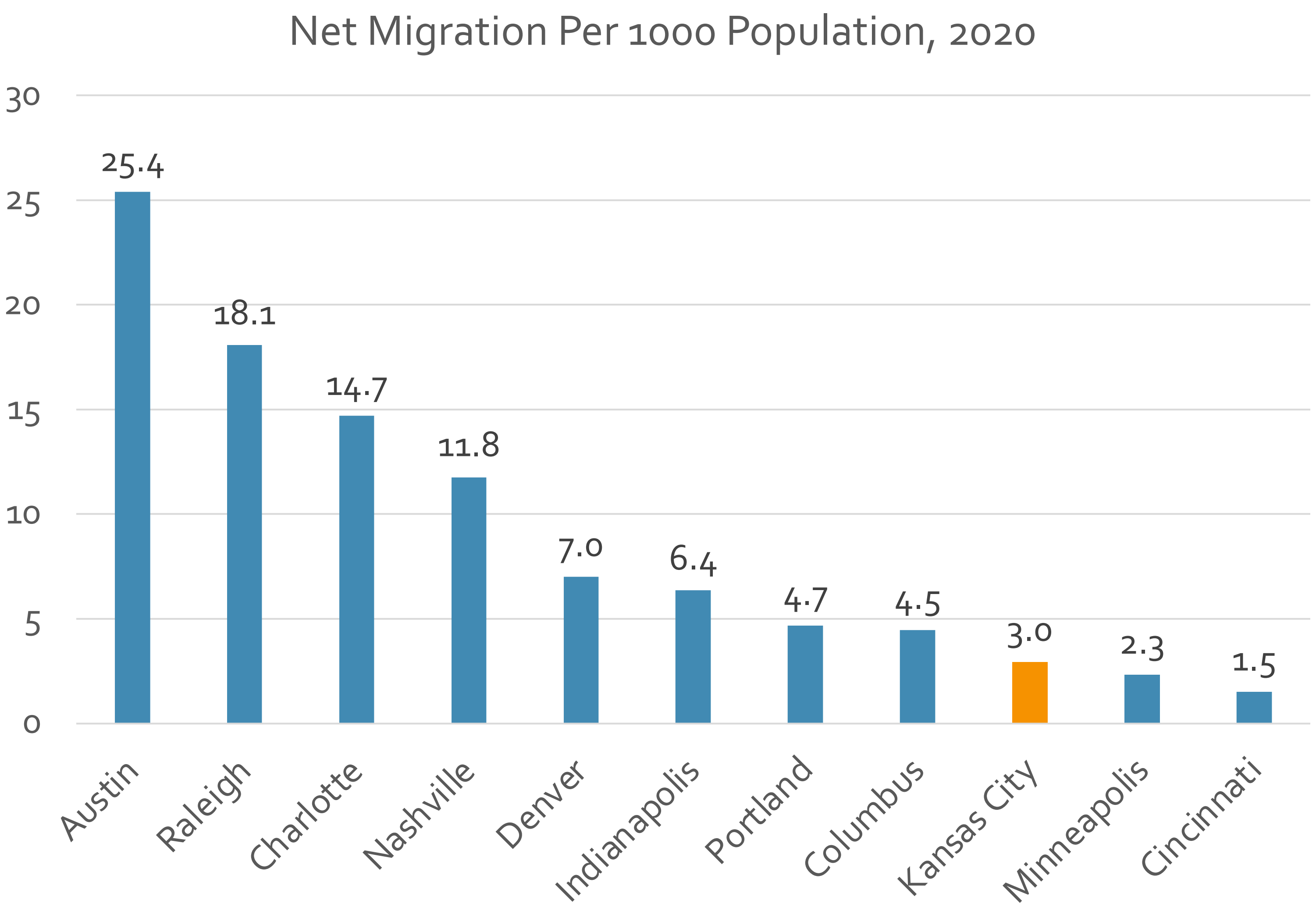
KC Economy – Current Situation

Photo by Jake Fagan on Unsplash

Grow the Economy

Net Migration Rate

KC ranks 9th



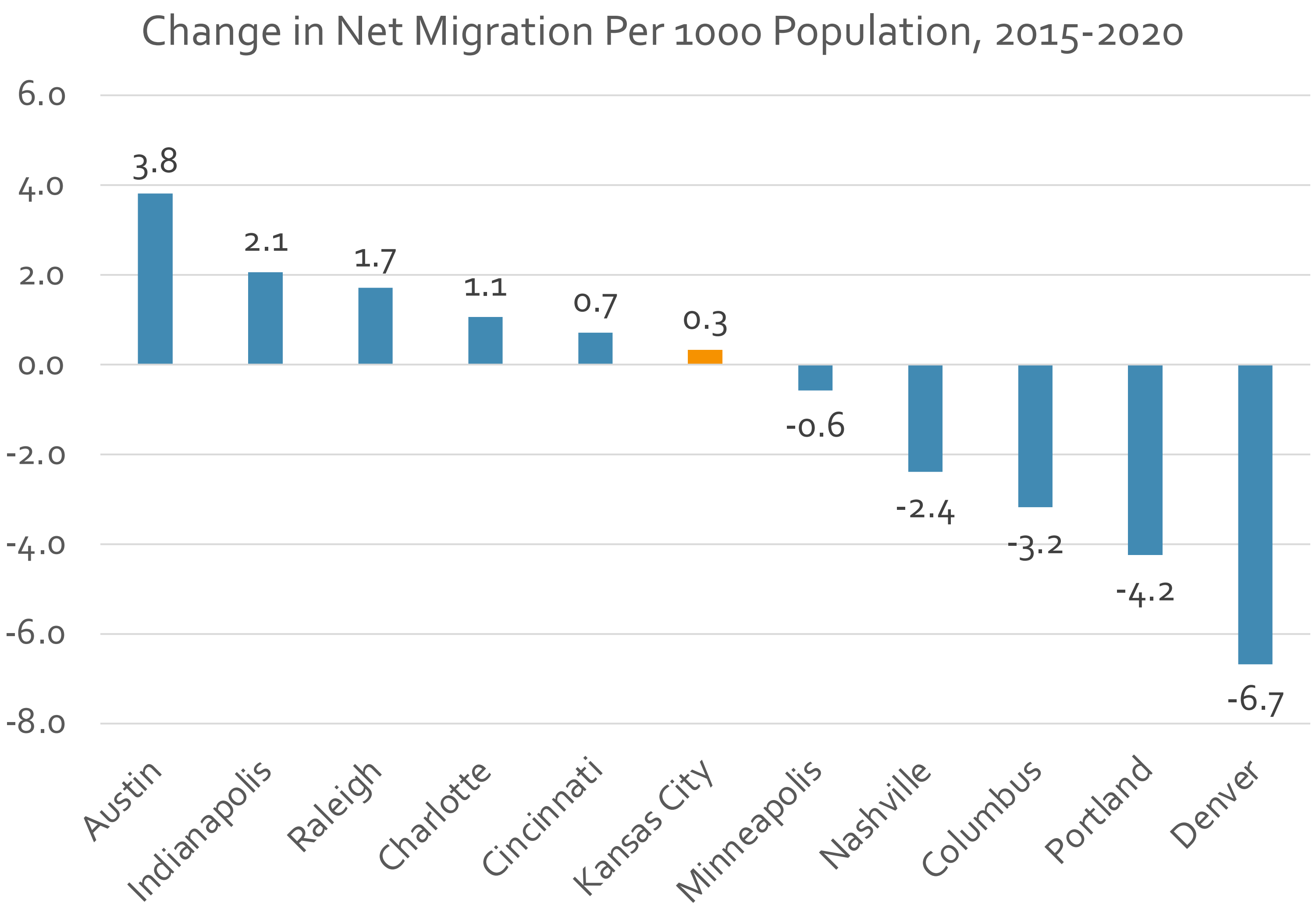
Source: Census Bureau Population Estimates

Calculation based on 3-year moving average data series

Grow the Economy

Change in Net Migration Rate, 2015-2020

KC ranks 6th



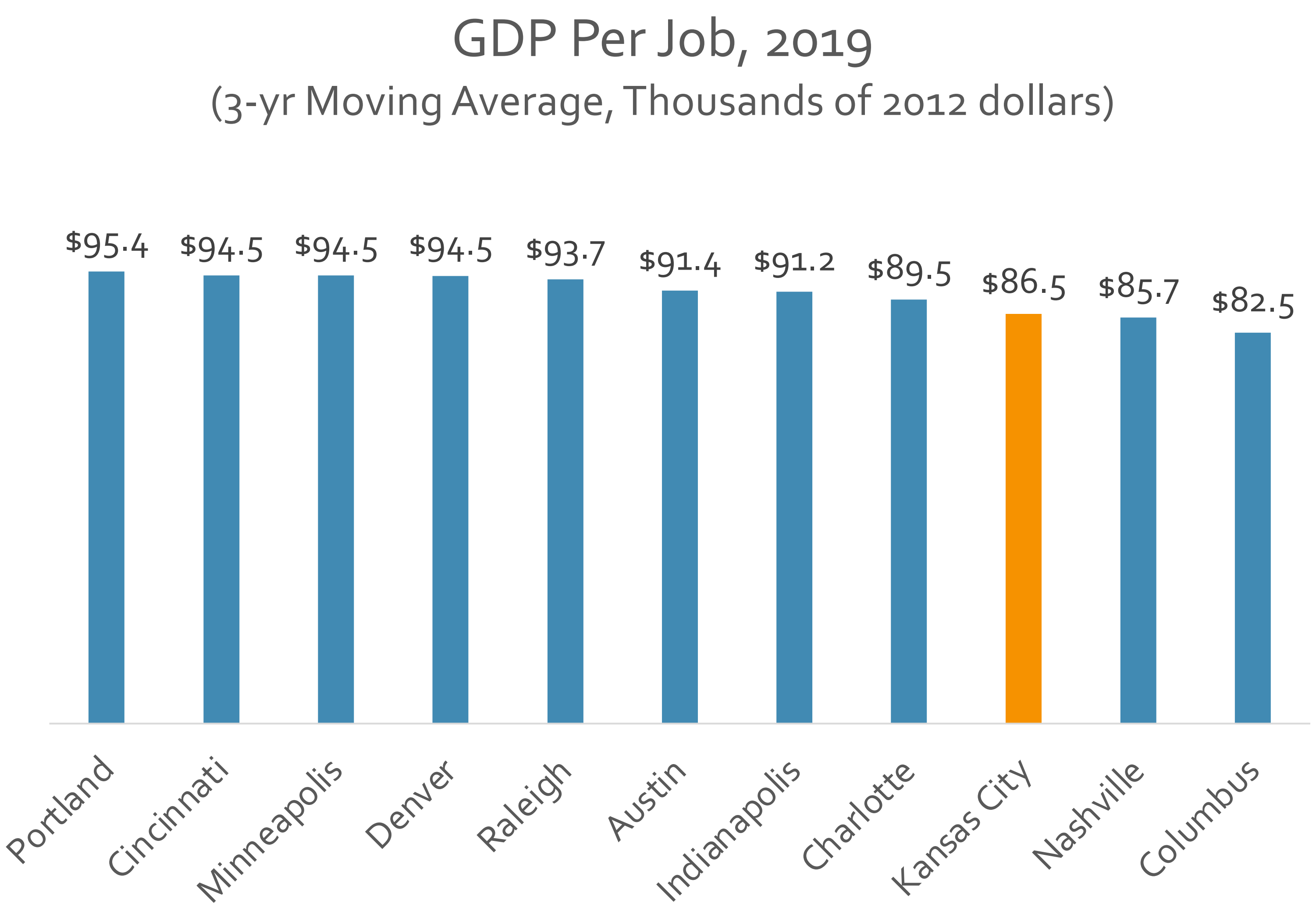
Source: Census Bureau Population Estimates

Calculation based on 3-year moving average data series

Grow the Economy

GDP per Job

KC ranks 9th



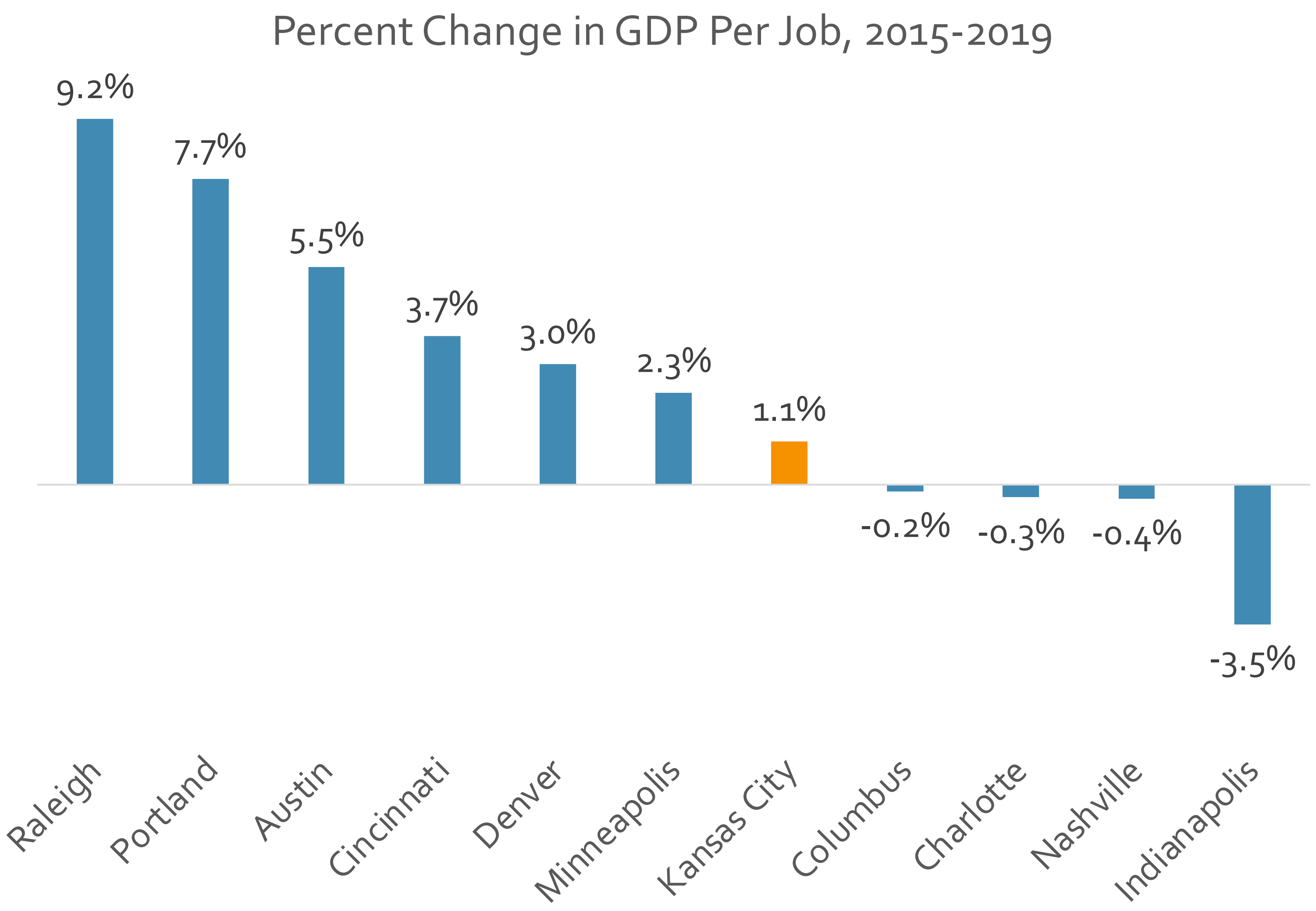
Source: Bureau of Economic Analysis

Calculation based on 3-year moving average data series

Grow the Economy

Percent change in GDP per Job

KC ranks 7th



Source: Bureau of Economic Analysis

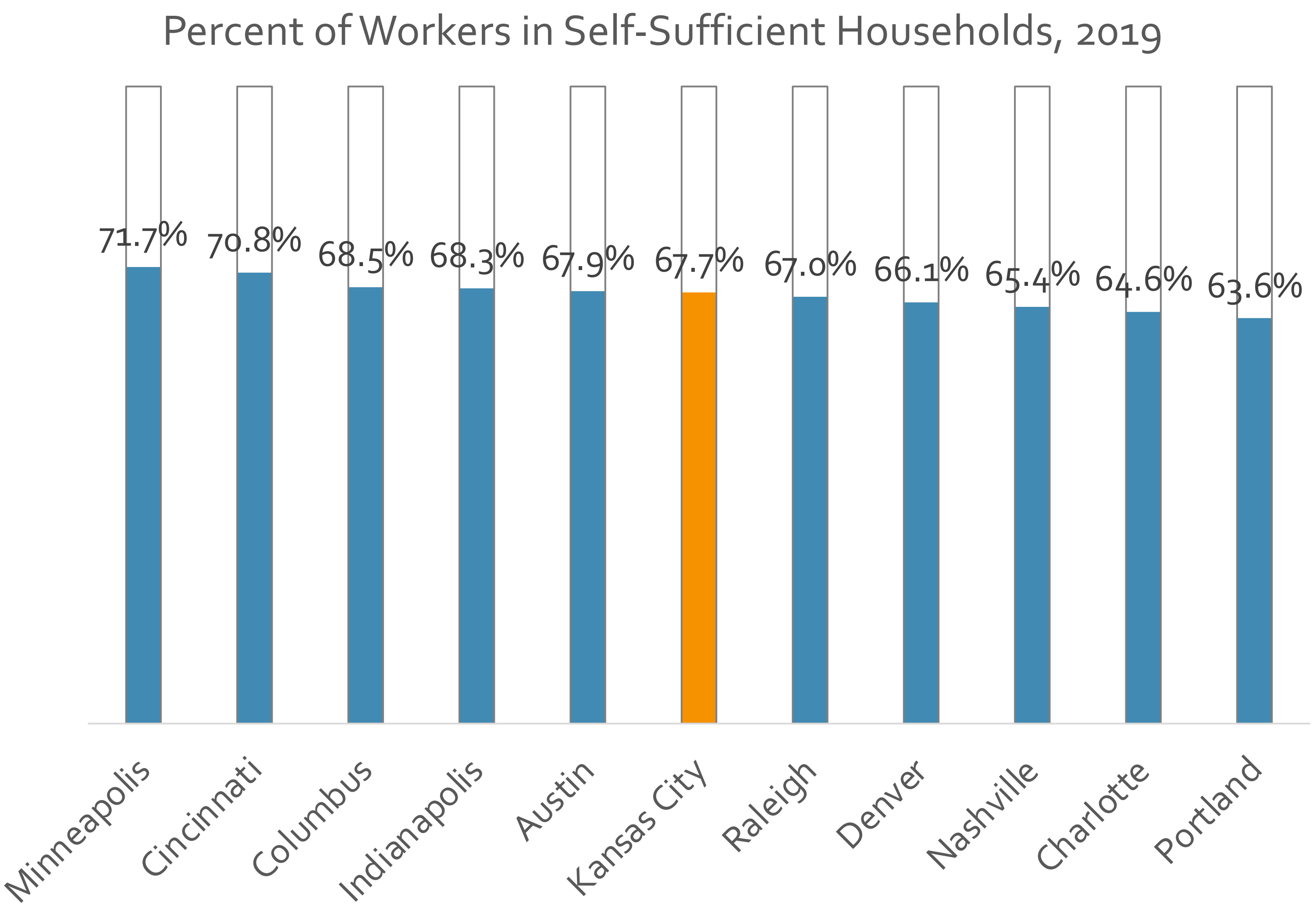
Calculation based on 3-year moving average data series

RISING
OUR SHARED VISION FOR REGIONAL PROSPERITY

For Everyone

Percent of Workers in Self-Sufficient Households

KC ranks 6th



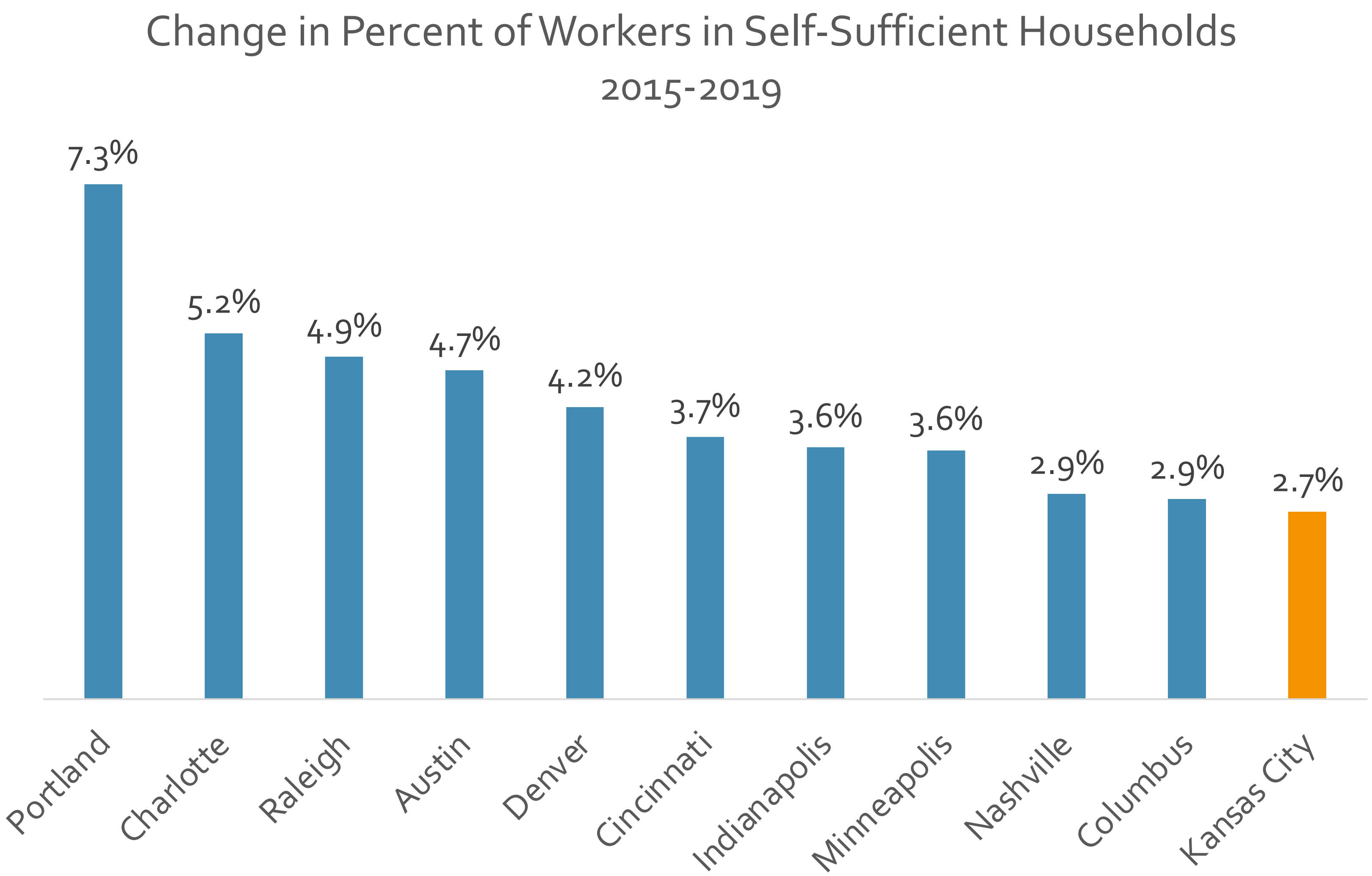
Source: American Community Survey PUMS

Calculation based on 3-year moving average data series

For Everyone

Change in the Percent of Workers in Self-Sufficient Households

KC ranks 11th



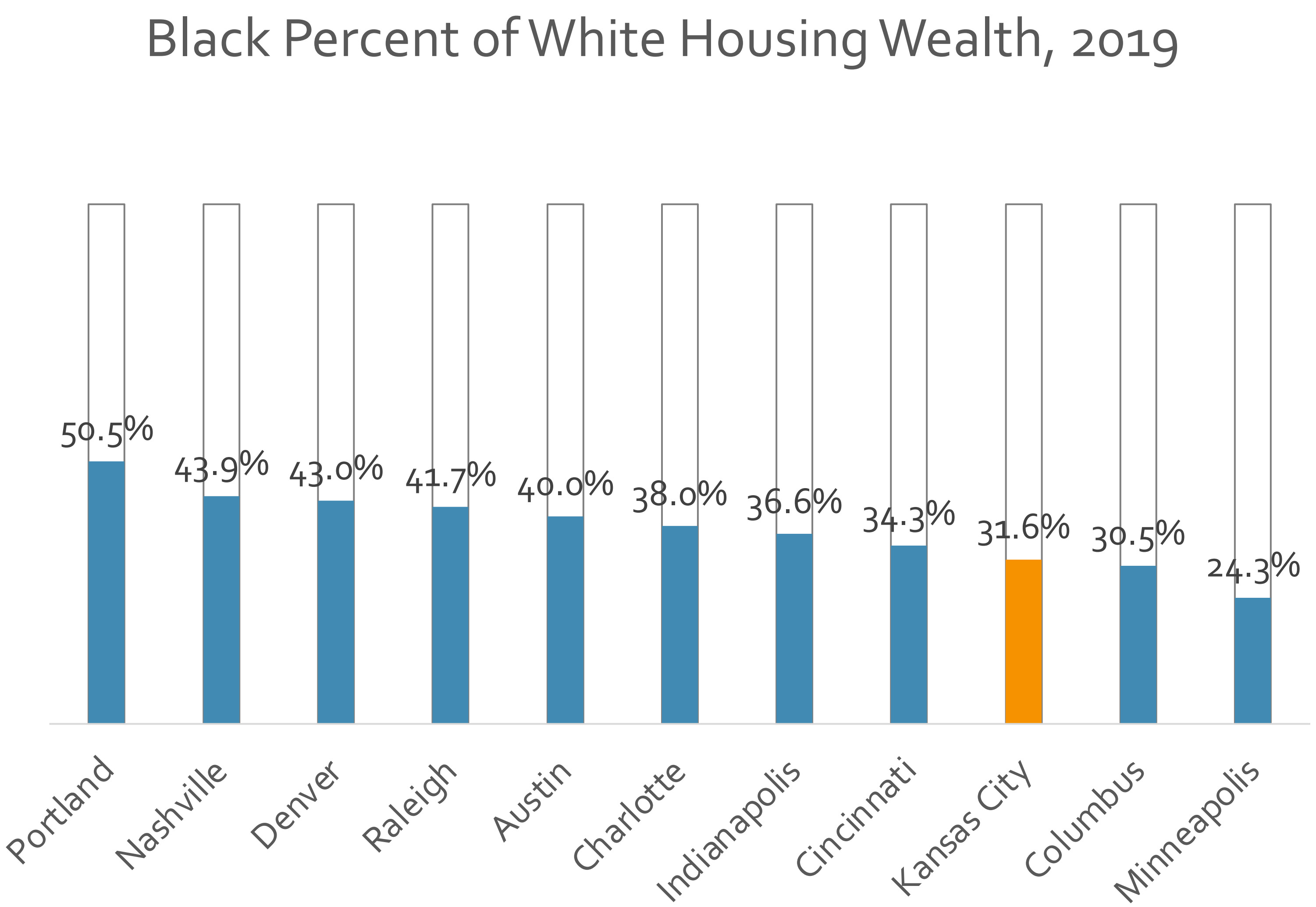
Source: American Community Survey PUMS

Calculation based on 3-year moving average data series

For Everyone

Black Percent of White Housing Wealth

KC ranks 9th



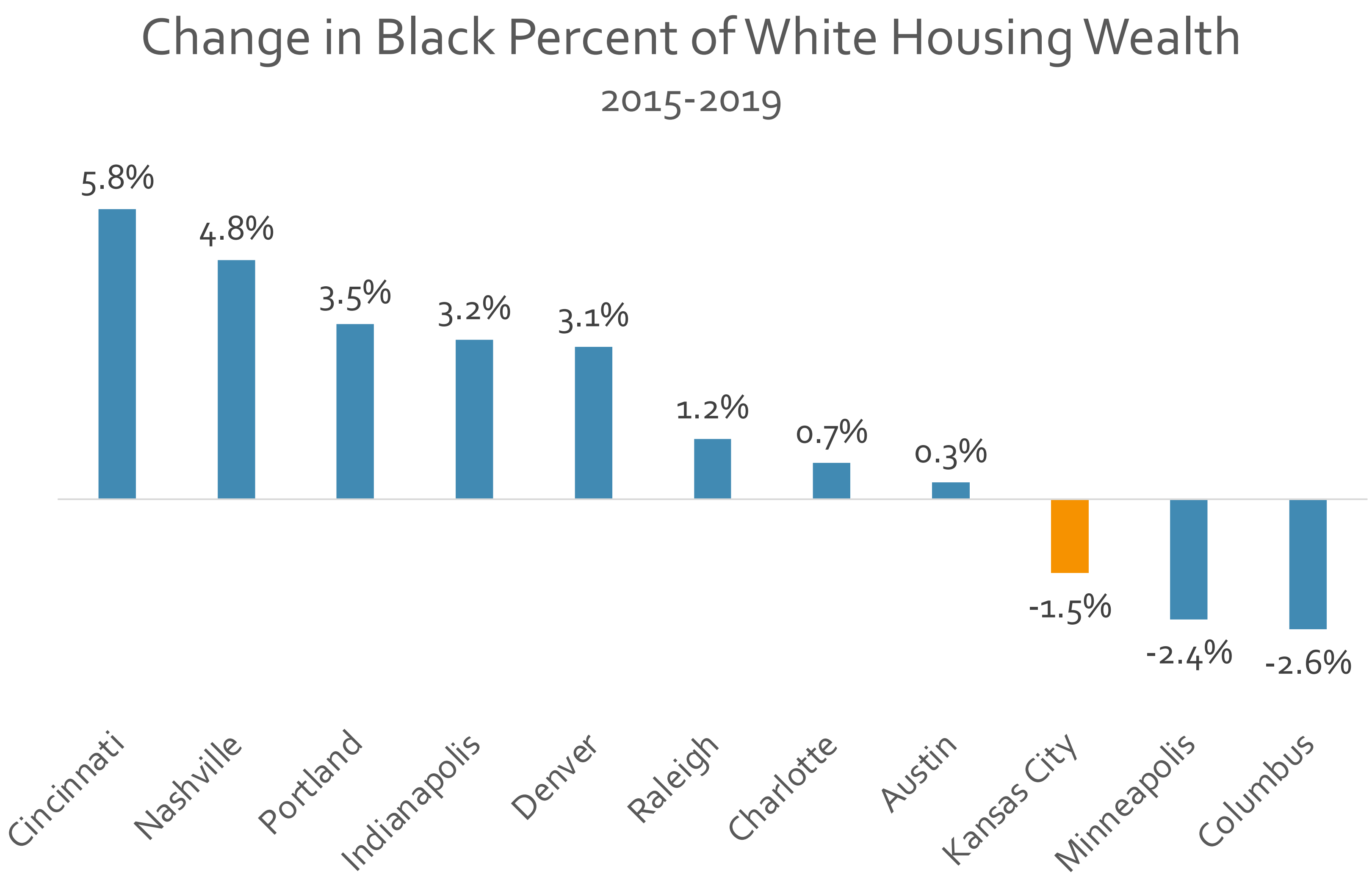
Source: American Community Survey PUMS

Calculation based on 3-year moving average data series

For Everyone

Change in the Black Percent of White Housing Wealth

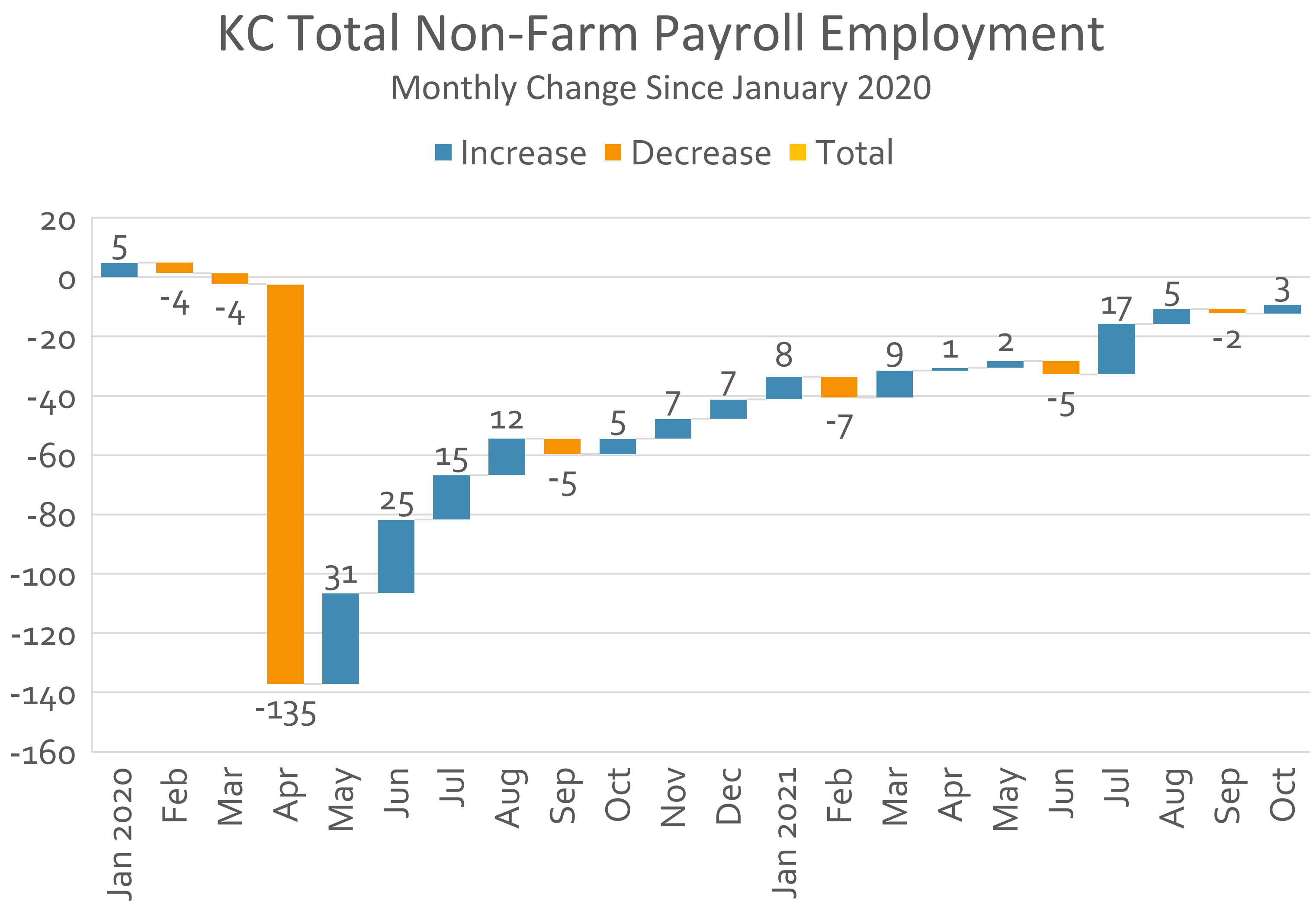
KC ranks 9th



Source: American Community Survey PUMS

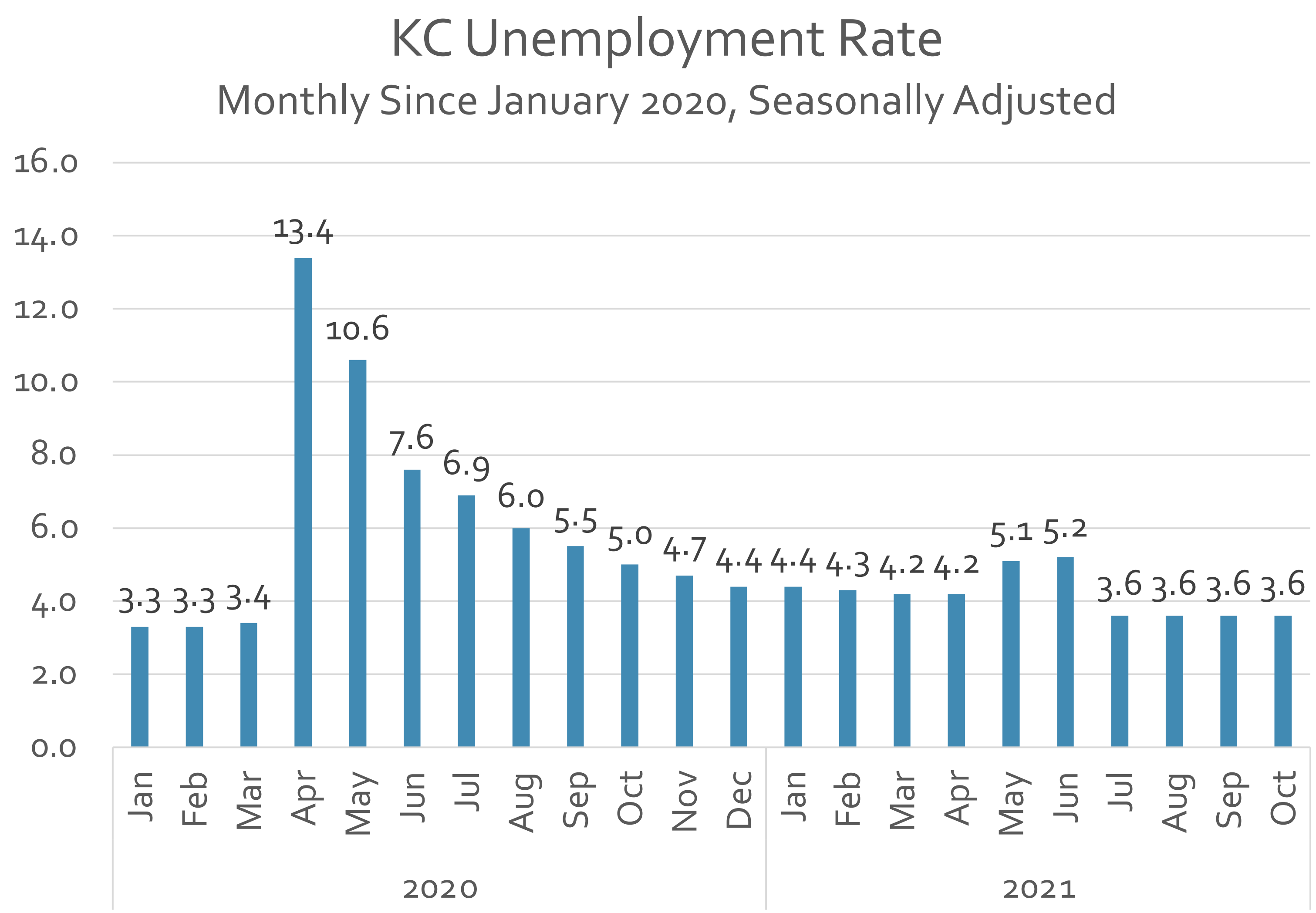
Calculation based on 3-year moving average data series

KC's employment recovered more quickly than the nation at first but was flat in recent months until July's burst of 17,000 jobs. Since then, growth has been modest. Overall, the region has regained 127,900 of the 142,000 jobs lost during the first few months of the pandemic, or 90%.



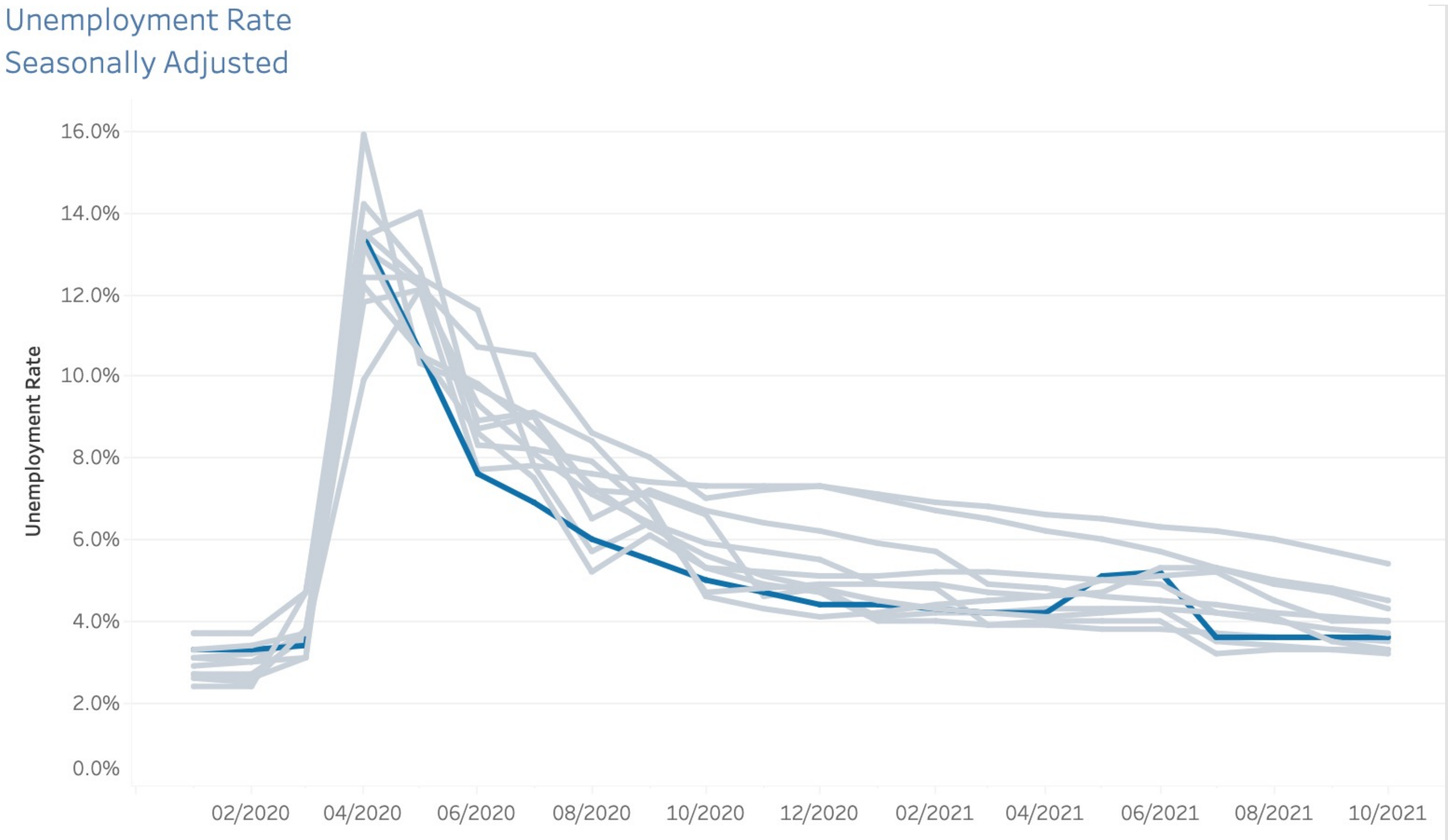
Source: BLS CES series

That spurt of job growth had a large impact on the region's seasonally adjusted unemployment rate, lowering it to 3.6 percent, where it has remained ever since. This is very near the pre-pandemic low of 3.2 percent in late 2019 and more than ½ percentage point below the nation.



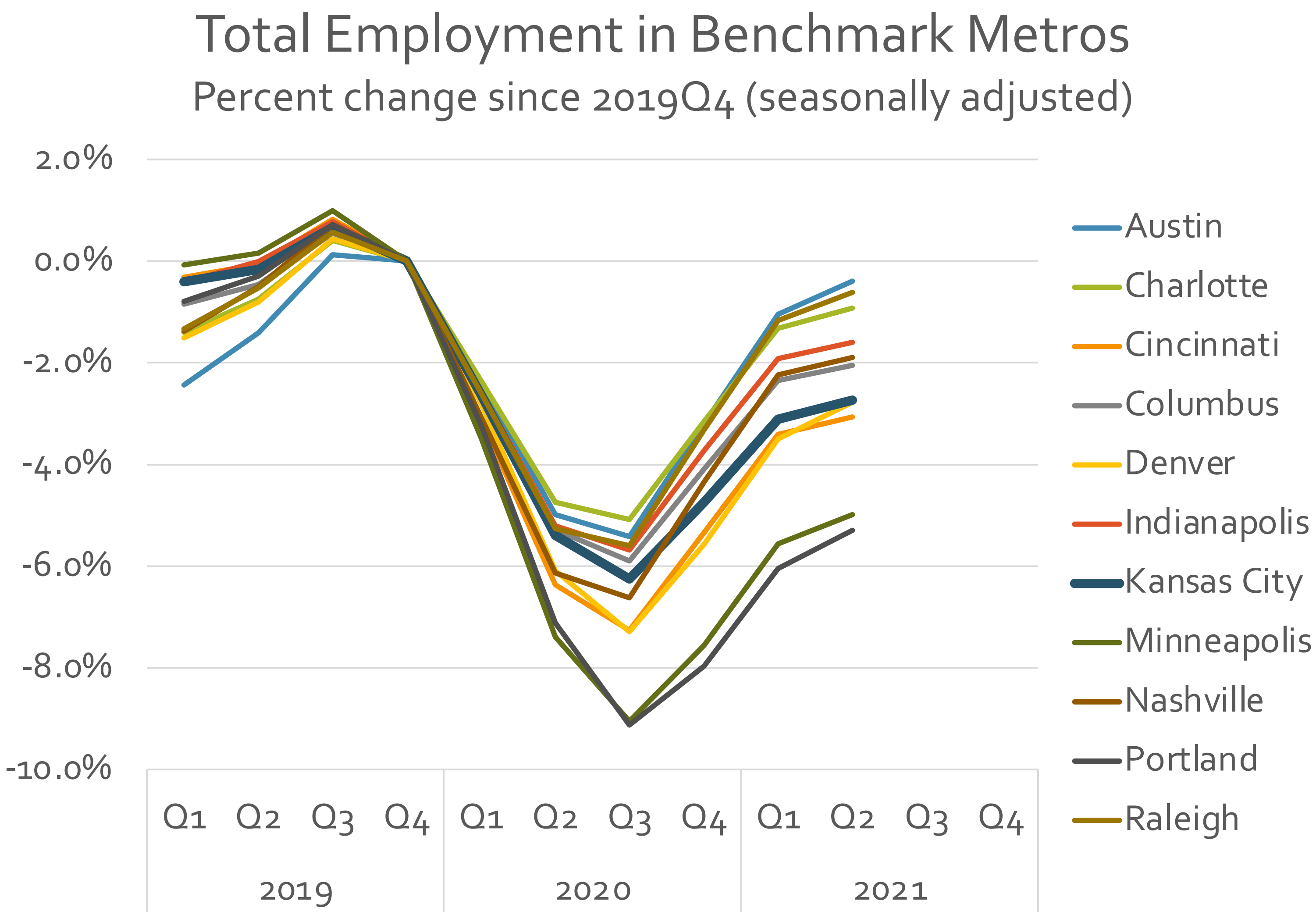
Source: BLS LAUS series

When compared against the 10 benchmark metros with which it generally competes, KC's unemployment rate is ranked 4th, about 0.4 percentage points above the leader, Nashville.



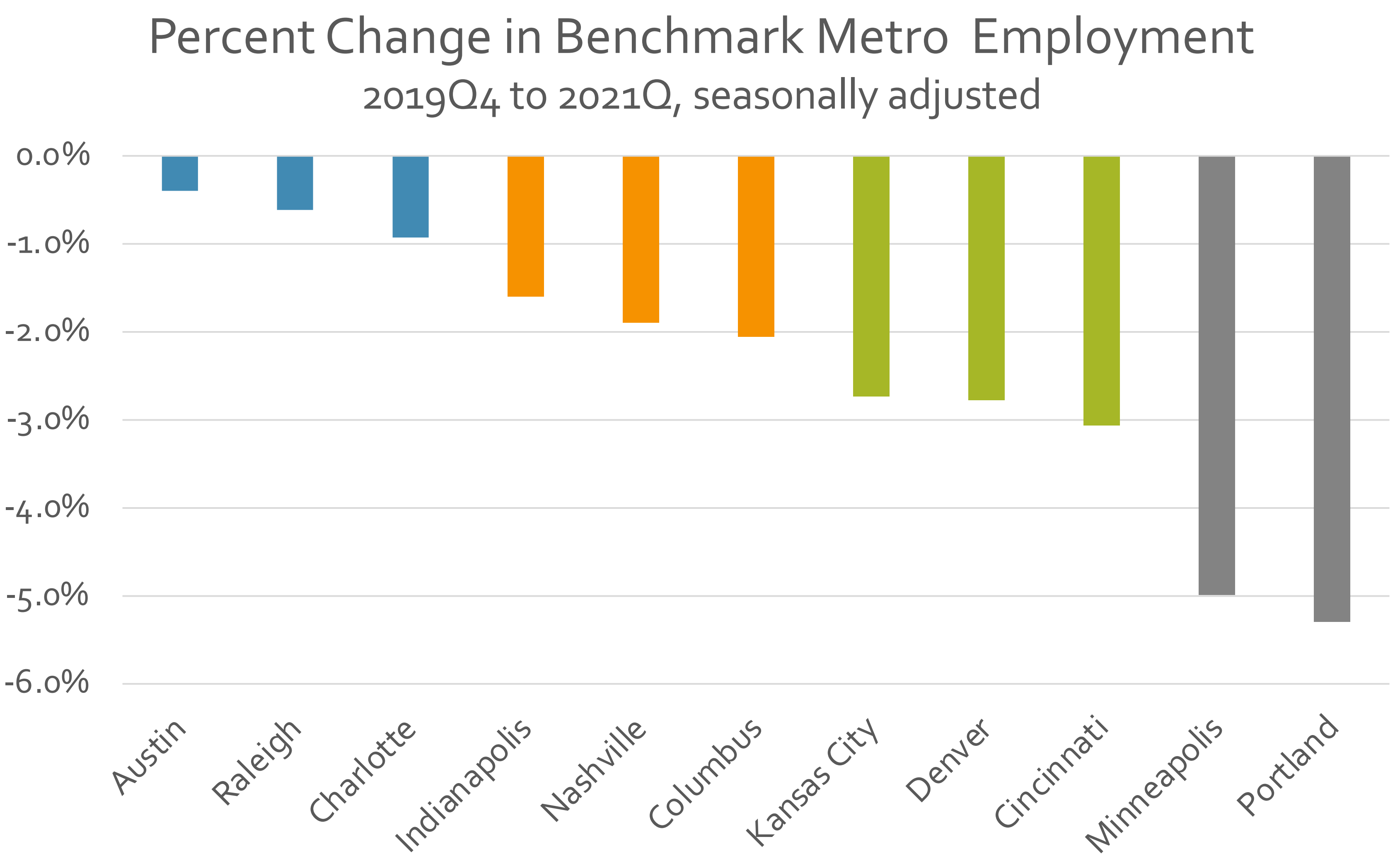
Source: BLS LAUS series

On the other hand, KC's employment recovery is near the middle of its benchmark peer metros, but it still ranks in the lower half (7th out of 11). Typical of many recessions, KC did not bust as low, but neither has its recovery been as rapid.



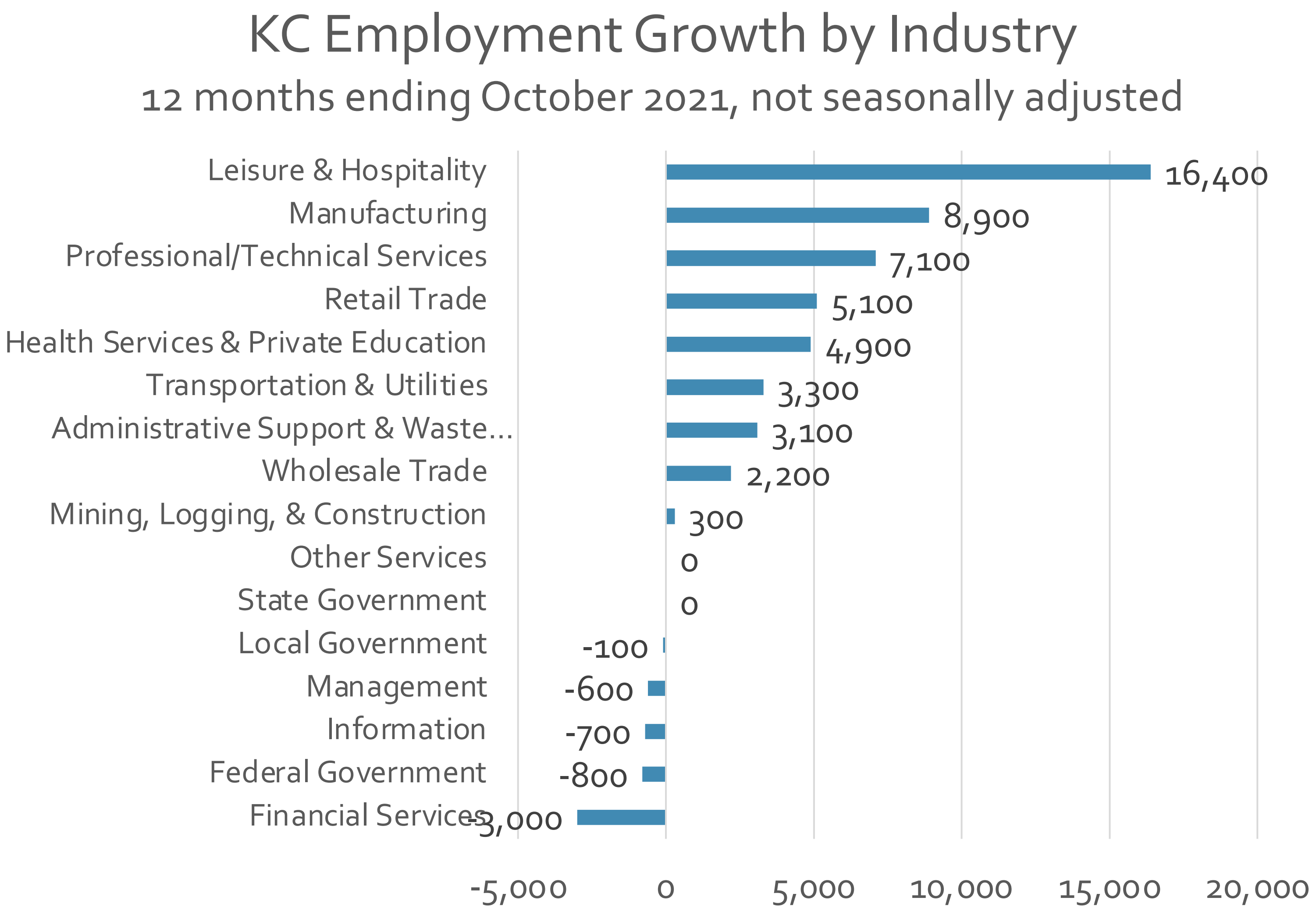
Source: JobsEQ, based on BLS QCEW series

KC's employment recovery puts it in the third group among the benchmark metros, performing similarly to Denver and Cincinnati but behind Indianapolis, Nashville and Columbus.



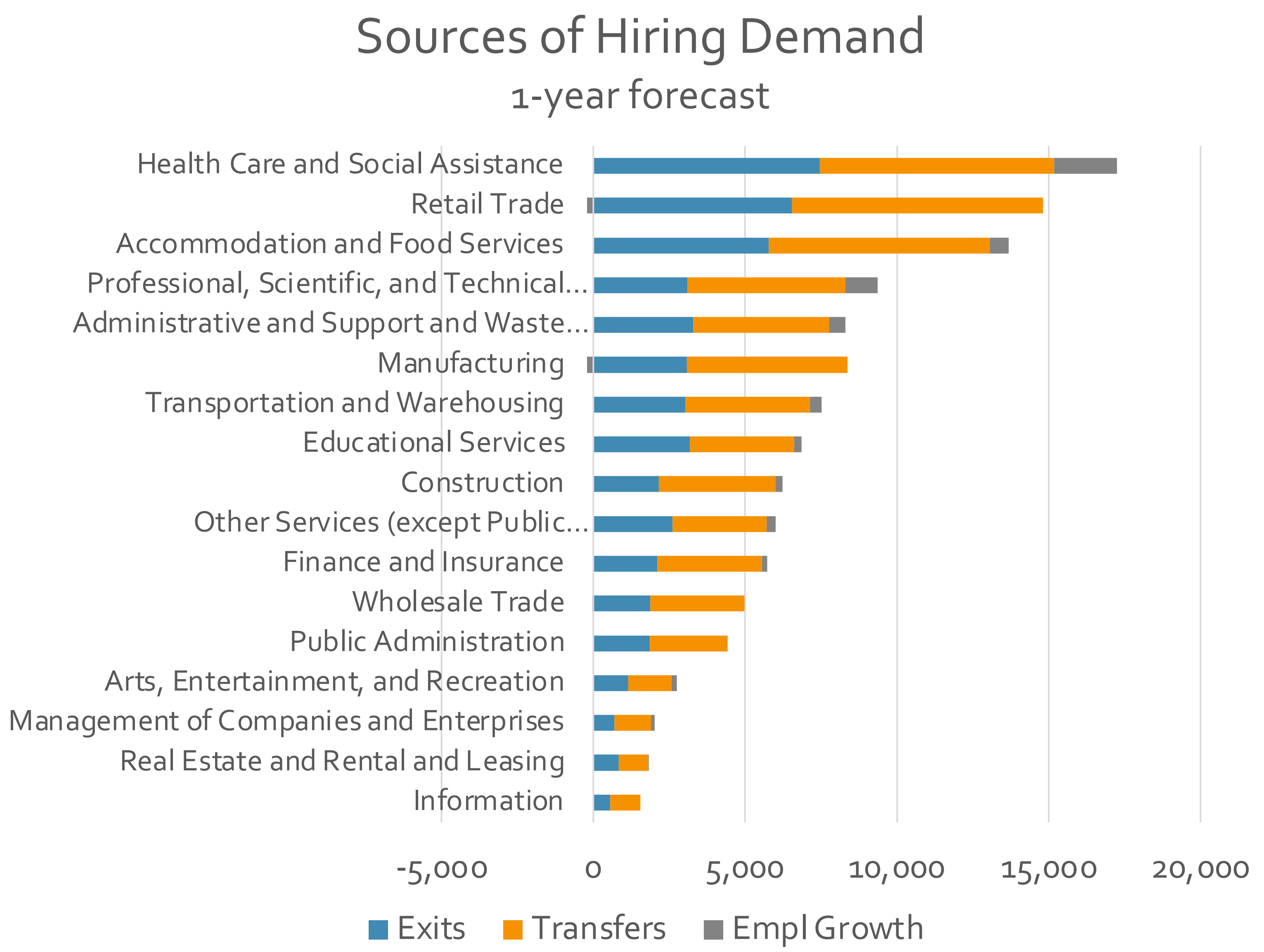
Source: JobsEQ, based on BLS QCEW series

The rebound from from depths of the pandemic-induced recession has been strong. Many of the industries showing the greatest net growth over the last 12 months were those hurt most in the beginning.



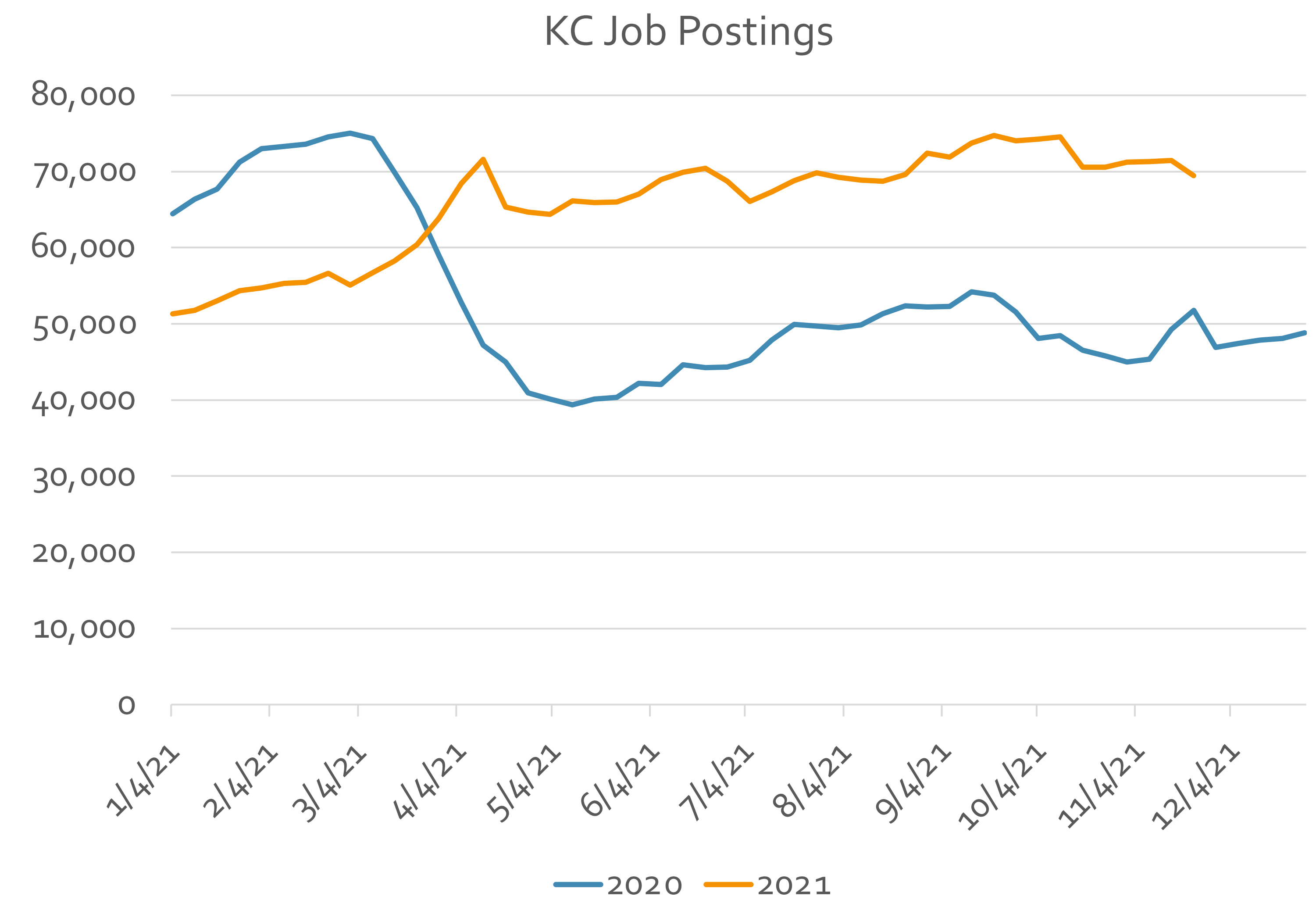
Source: BLS CES series

Net growth is only one part of overall hiring demand, however, and typically the smallest part



Source: JobsEQ

Job postings in KC, like those nationwide, are near record highs because of all the exits and transfers in addition to the rapid rebound from the trough of the recession.

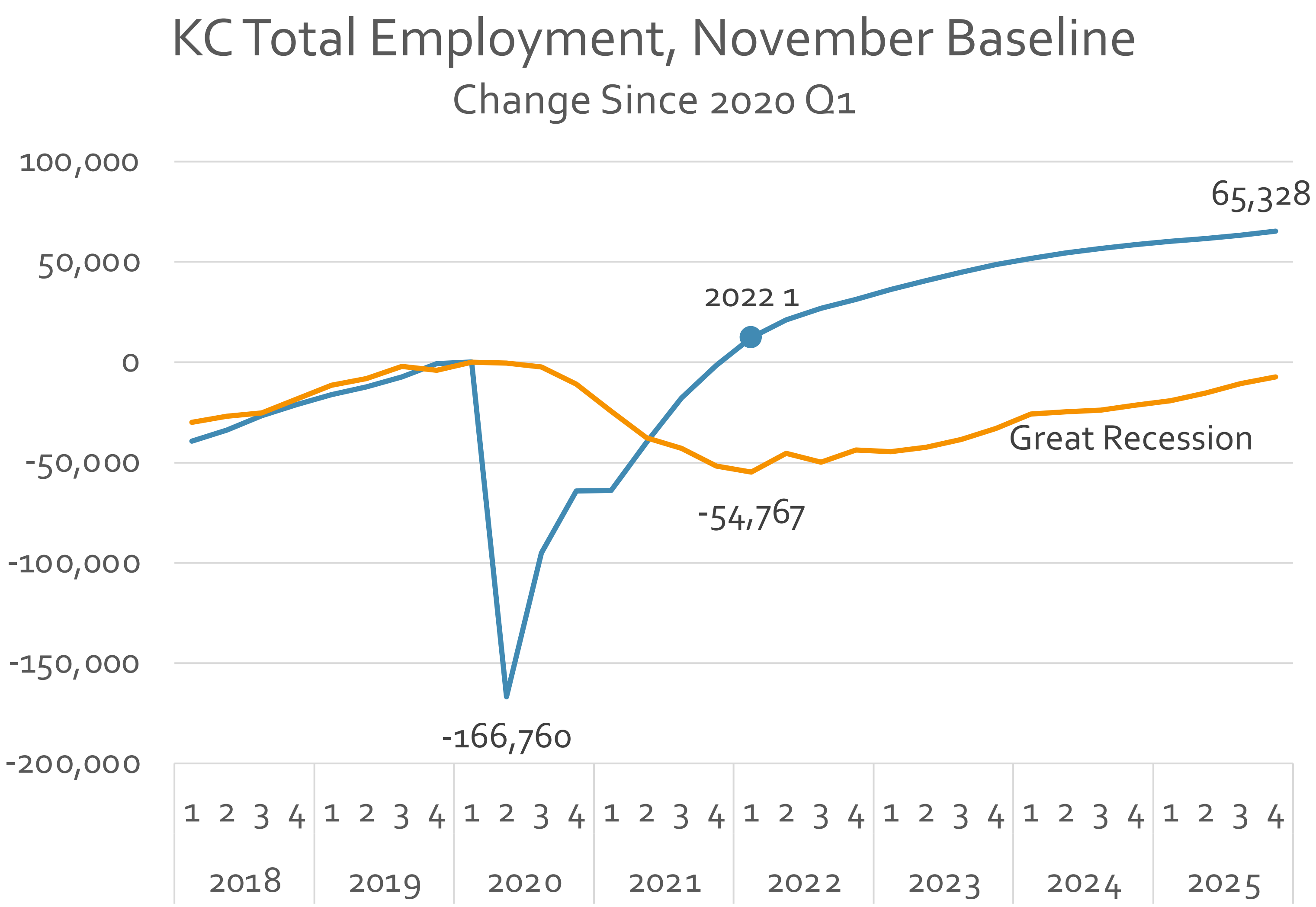


Source: JobsEQ

KC Economy – Forecast

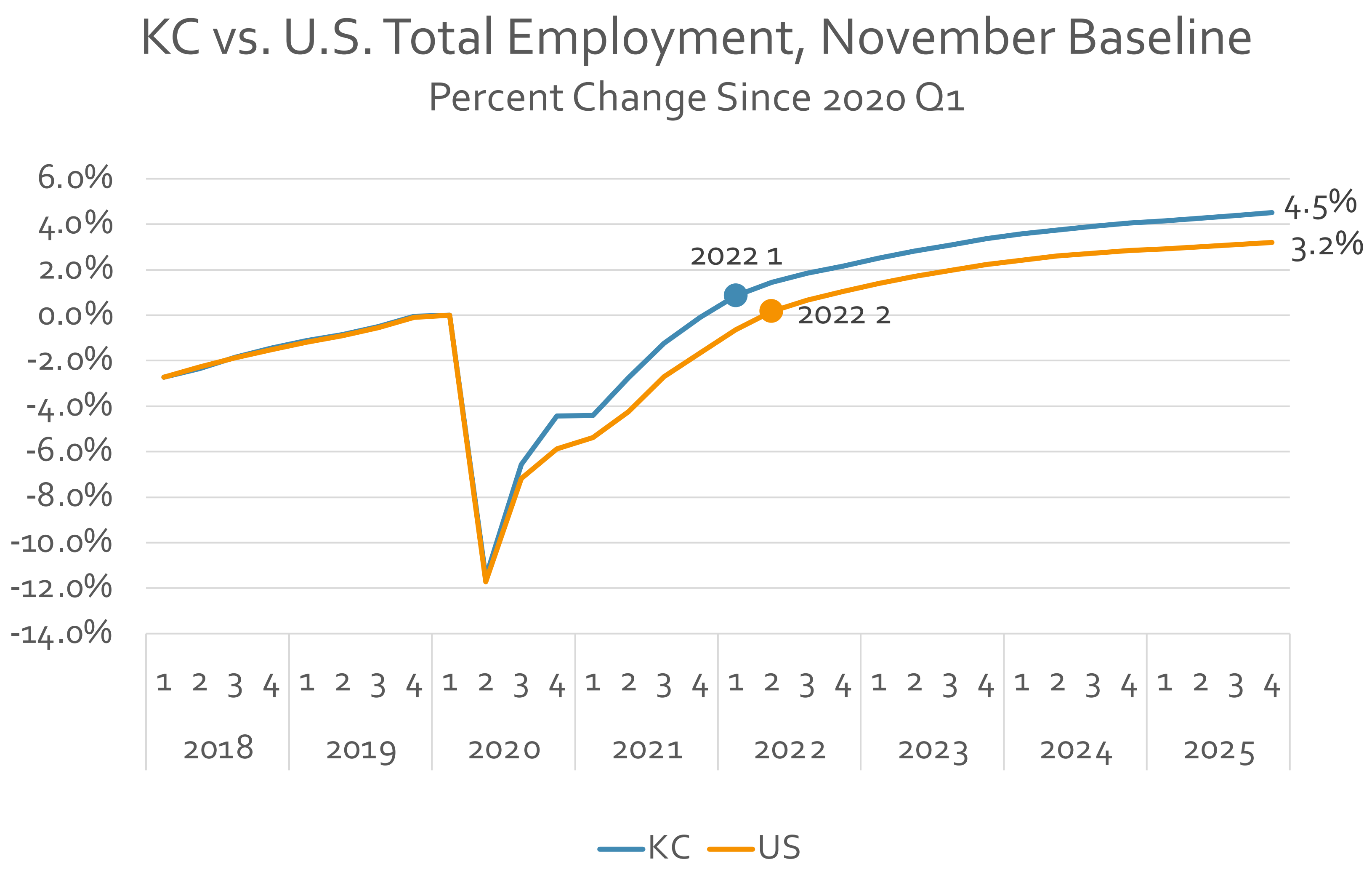
Photo by Jake Fagan on Unsplash

While much deeper job losses occurred than during the Great Recession, the recovery time for this pandemic-induced recession is expected to be nearly 3 times faster, thanks largely to the more aggressive federal policy response. As a result, regional employment recovers to pre-pandemic levels by 1Q 2022.



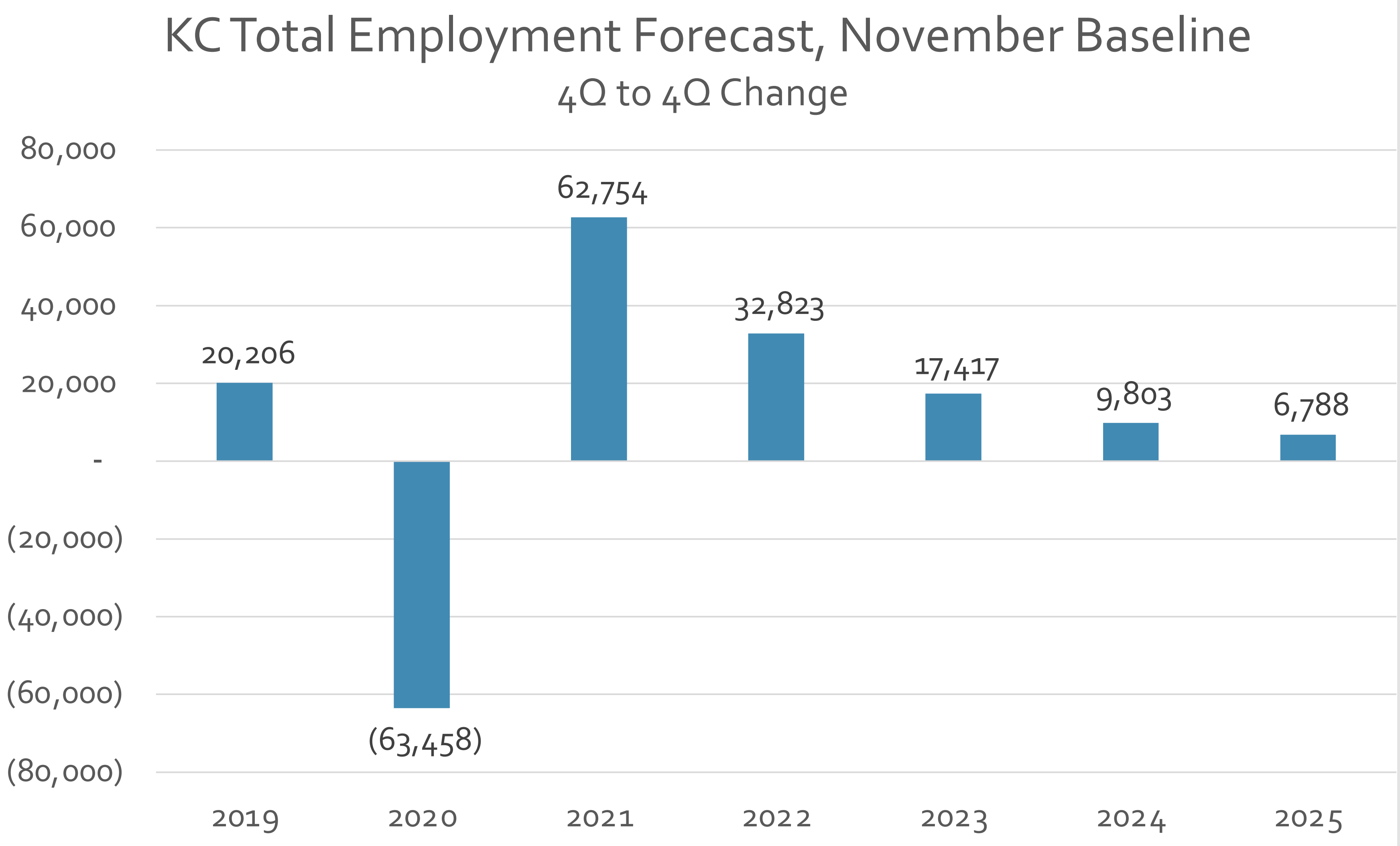
Source: MARC, using REMI model and Moody's national forecast

Under the baseline forecast, KC employment grows somewhat 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, this advantage leads to KC employment growing a little more than 1% faster than the U.S.



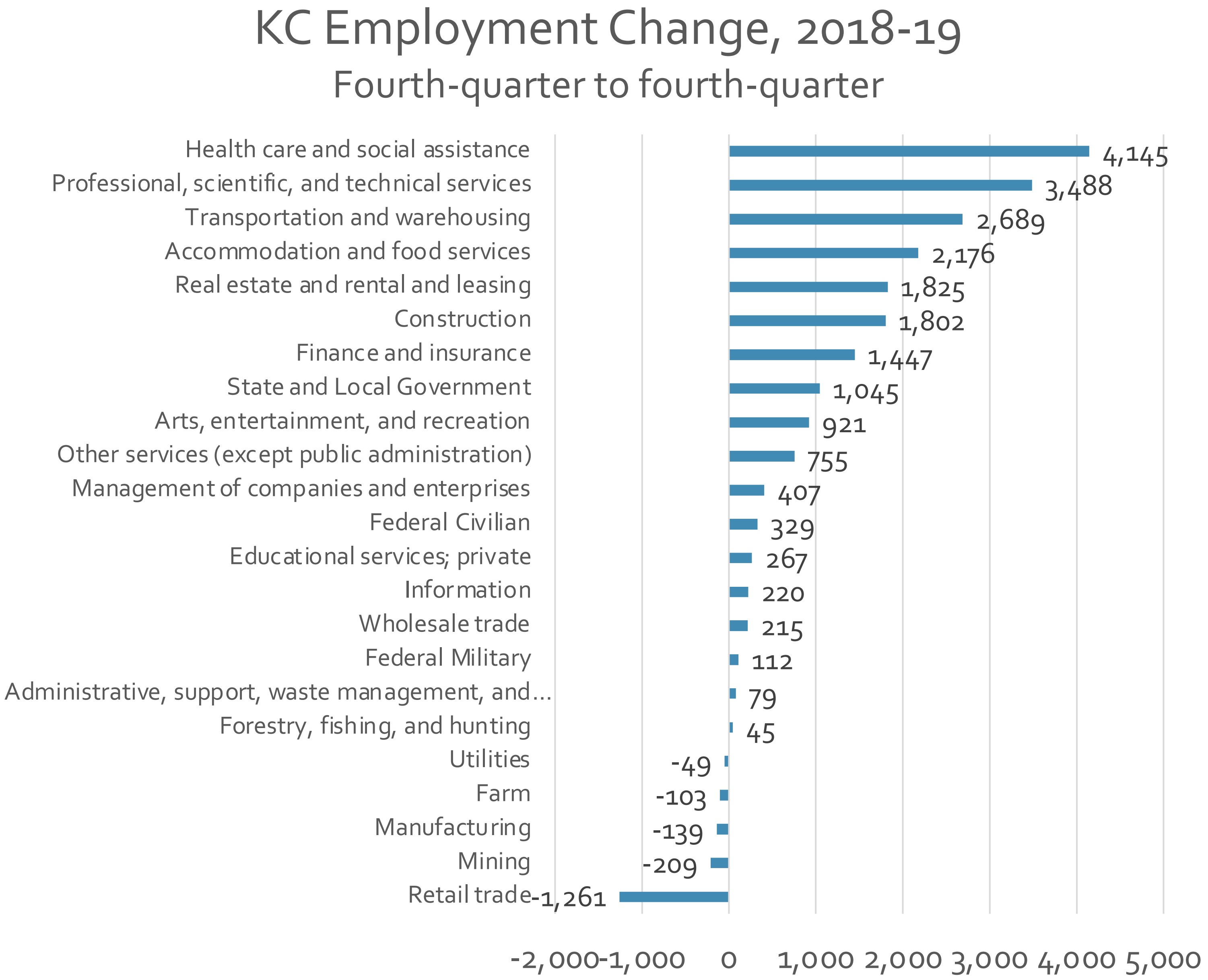
Source: MARC, using REMI model and Moody’s national forecast

After having grown by 20,600 during 2019, the region is expected to have lost a net of 63,000 jobs in 2020, viewed on a fourth-quarter to fourth-quarter basis. Nearly all of that loss is recovered this year, in part reflecting the burst of entrepreneurship. Employment growth then slows to the expected pace of working-age population growth.

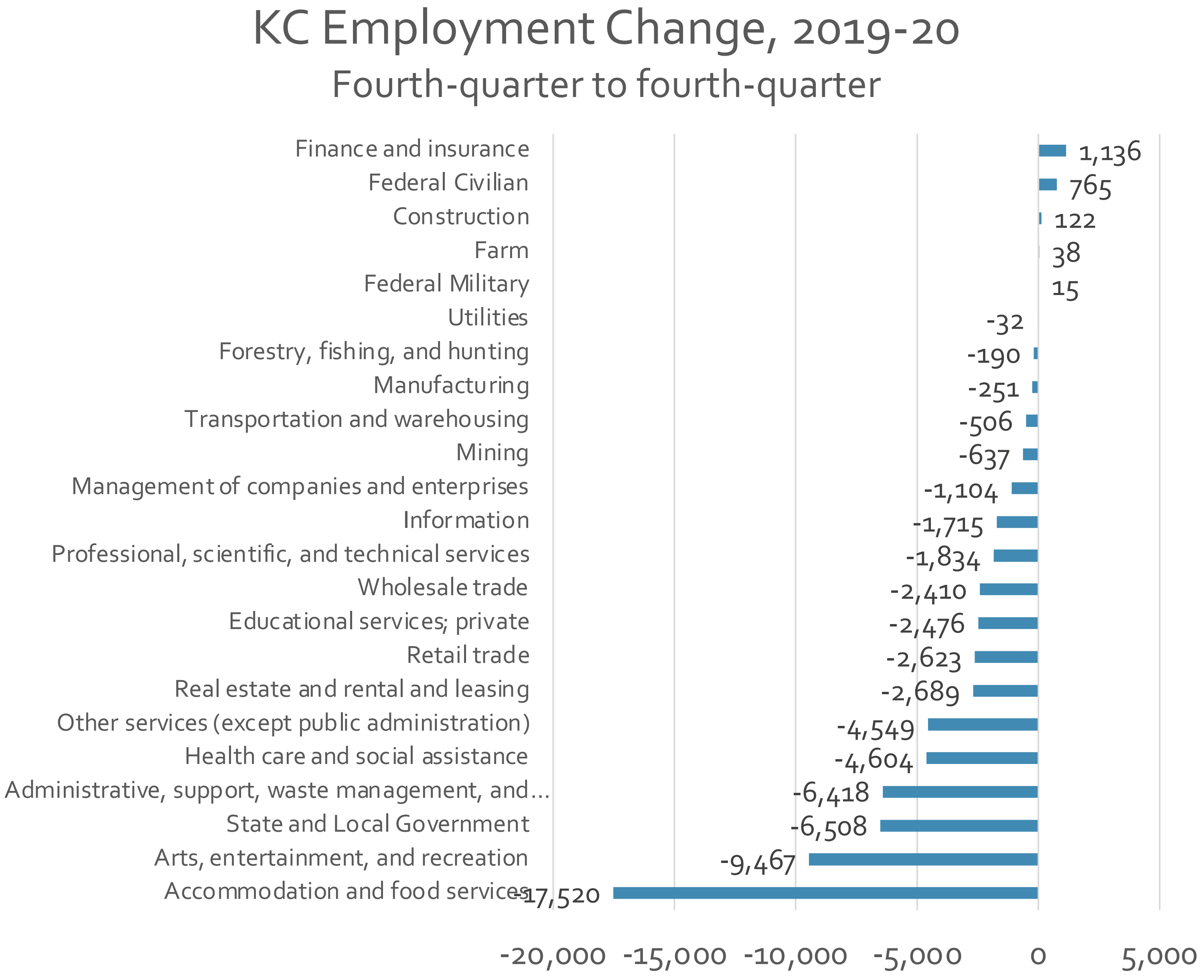


Source: MARC, using REMI model and Moody's national forecast

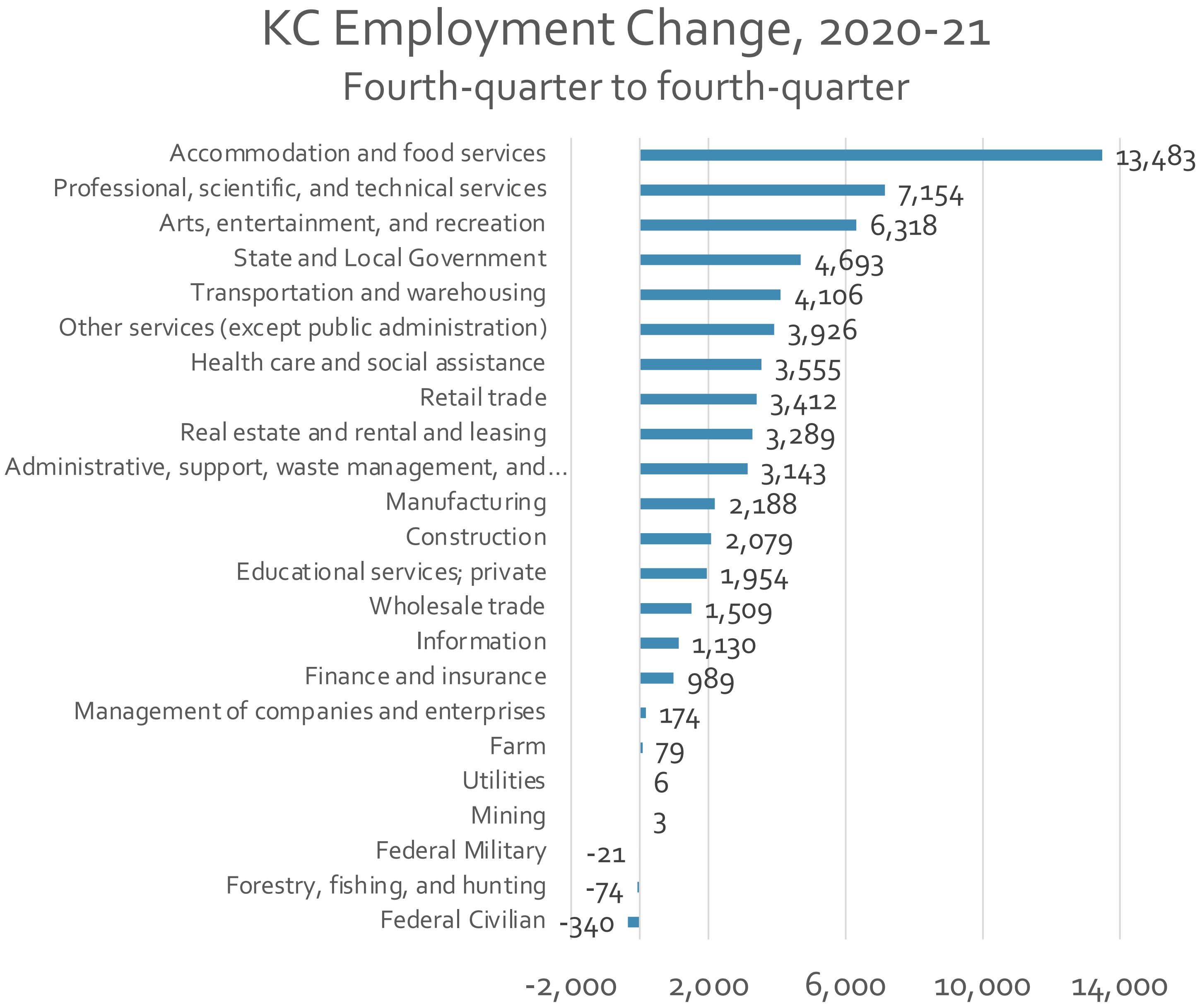
Pre-pandemic, health care, professional services, transportation and warehousing, as well as accommodation and food service, were the industries adding the most jobs.



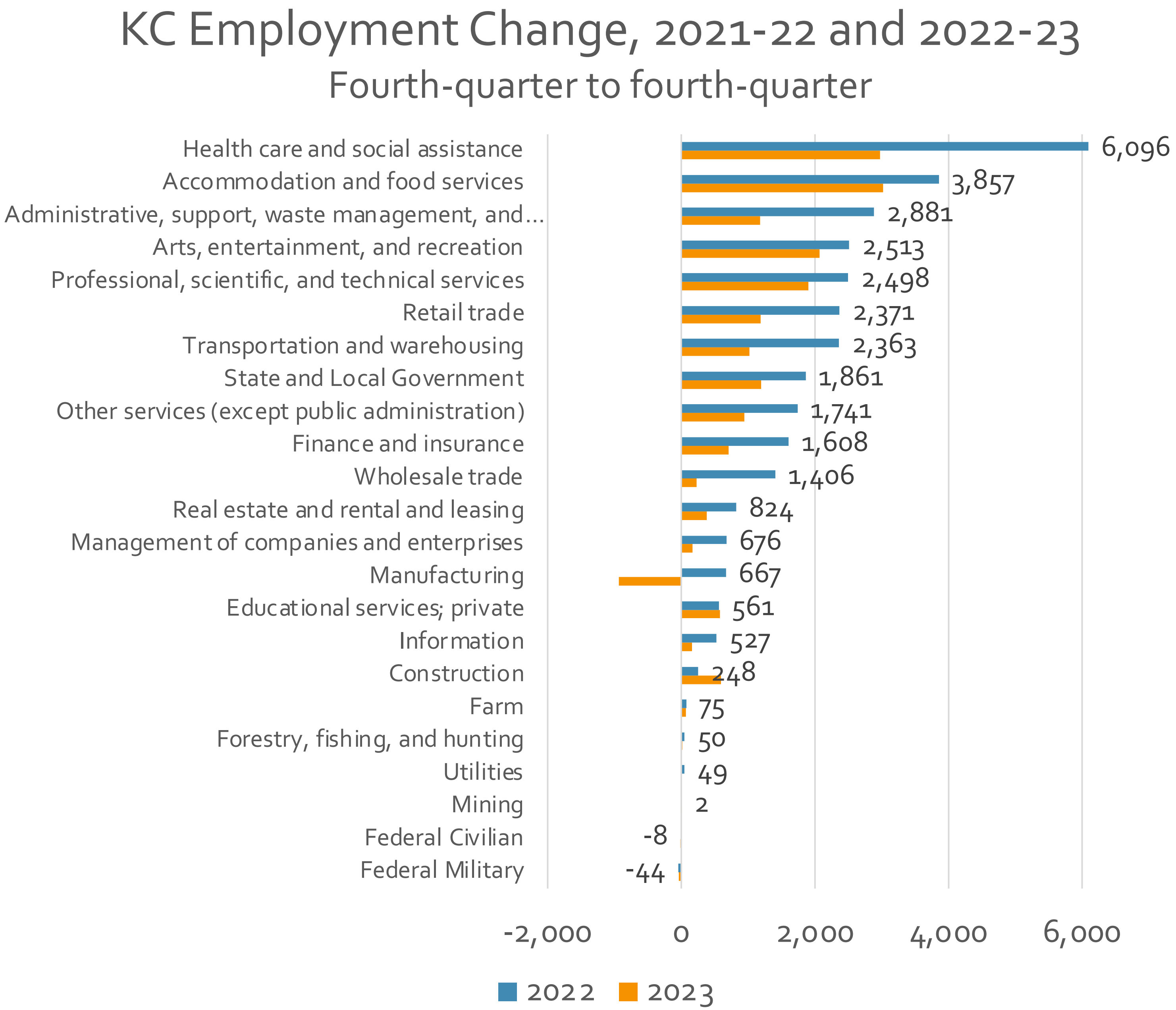
As COVID-19 caused people to stay home, those industries catering to the public were hurt worst.



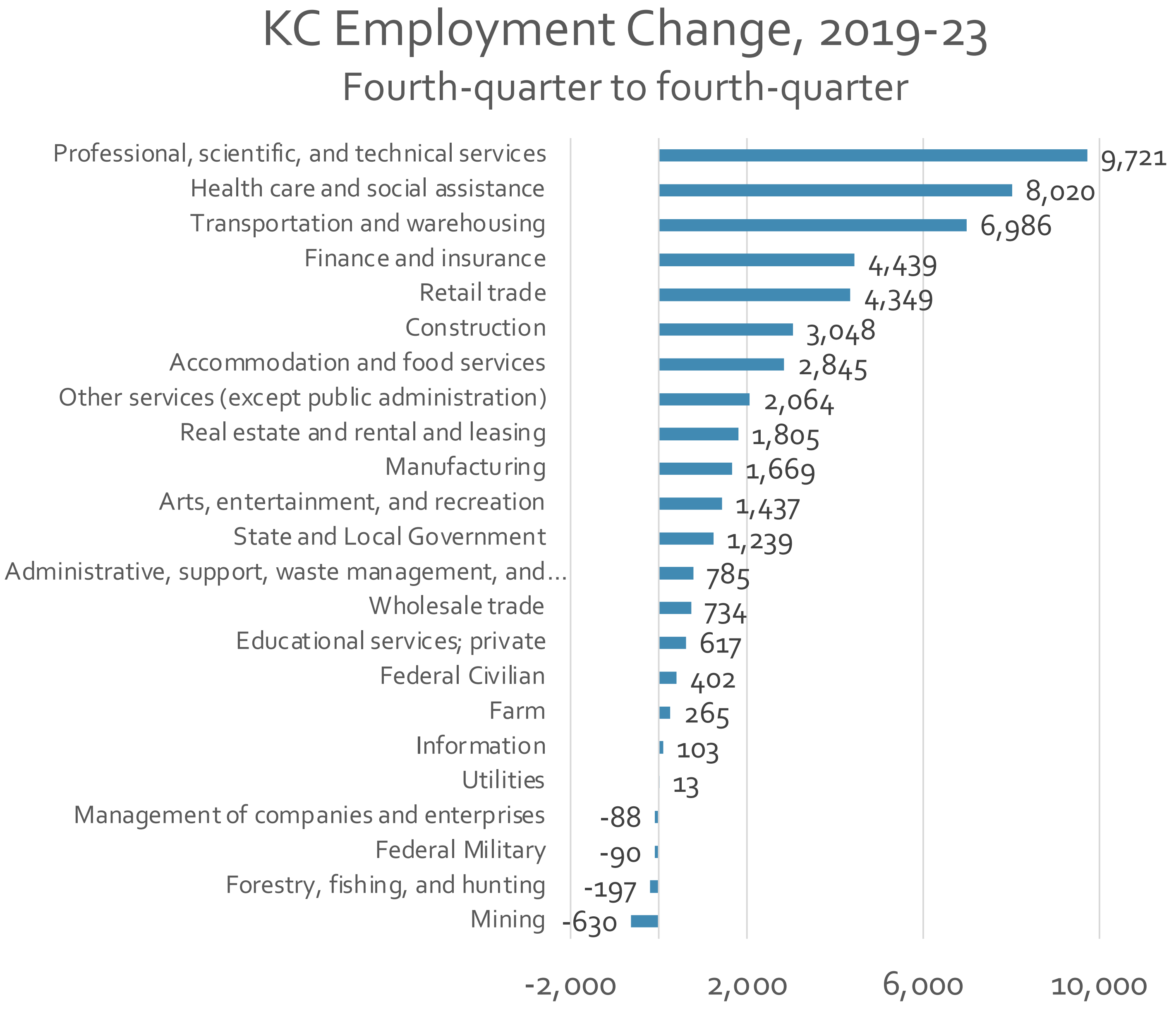
But those same industries also seemed to bounce back the strongest. Additionally, transportation and warehousing, as well as professional services also grew strongly.



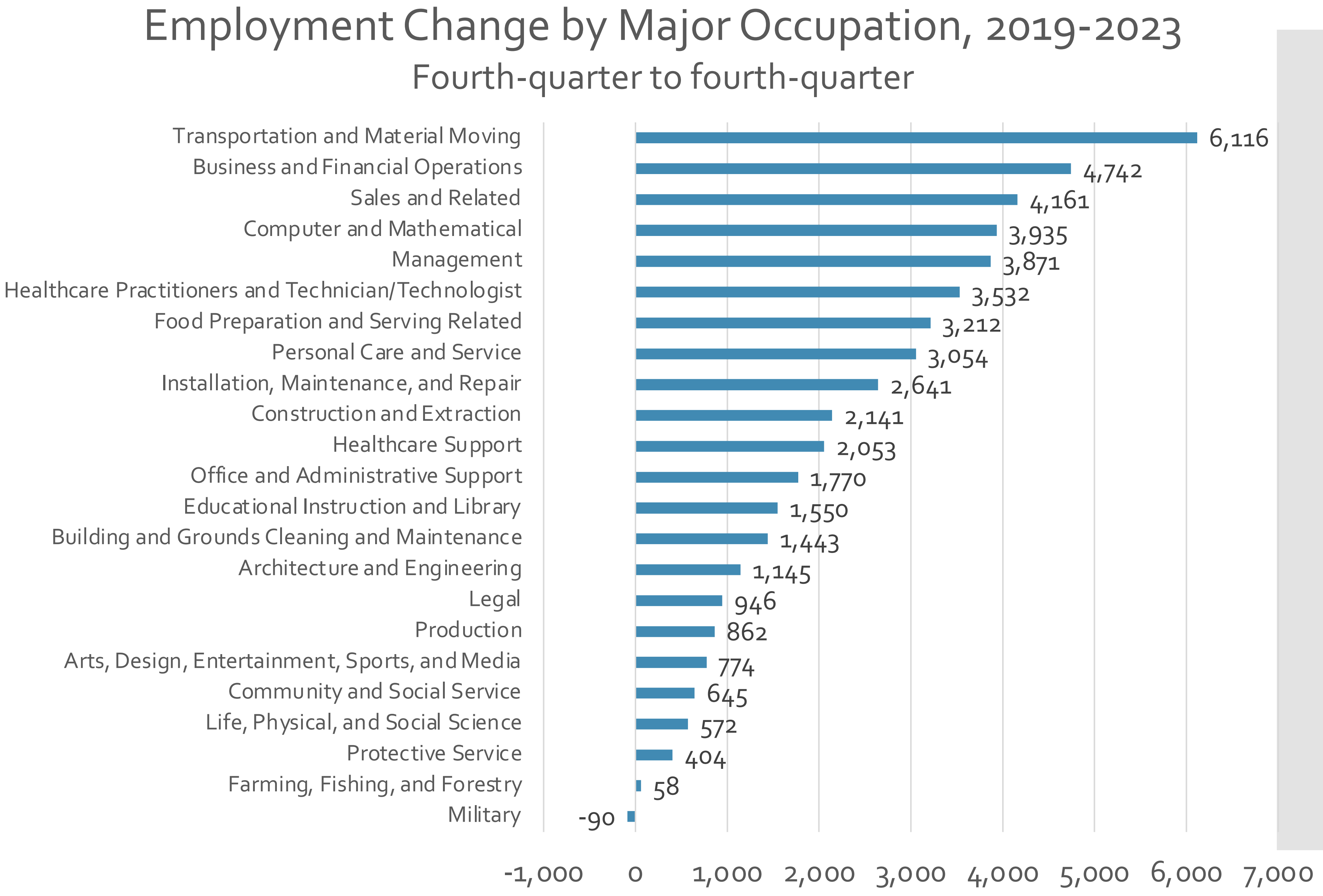
Moving forward, health care again rises to the top as staff shortages are assumed to alleviate. Customer-facing industries also do well, as do professional services and transportation and warehousing.



Comparing industries at the end of 2023 relative to their pre-pandemic levels takes out the volatility in the numbers. Professional services, health care and transportation are forecast to be the most resilient industries over the course of the pandemic.



Converting industry demands into occupational demands reveals the largest needs over the next few years are for workers in transportation and material moving, business and finance, sales, computer, management and health care.



Summary

- Given the depth of the recession, the recovery has exceeded expectations and is now moving into the expansion phase. Demand has snapped back faster than supply, however, creating upward price pressures. These should lessen over the next few months to a year.
- Nationally, there is still some slack in the labor market, with a million fewer prime-age workers in the labor force than would be expected. Still the labor market is tightening and most employers report difficulties finding workers.
- This apparent paradox is partly caused by the pandemic continuing to create hardships for caregivers. But also, there is an enormous amount of quitting going on.
- Quits naturally occur when demand for labor is high. But also, there appears to be a shift in worker attitudes – what kind of job they want to come back to and how much it will take to lure them back.
- With an aging population and limited immigration, even achieving historically normal growth rates will become difficult in later years.
- This makes unlocking the untapped potential of the existing working-age population a key strategy to increase the future growth, competitiveness and inclusiveness of the region's economy.

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December 9, 2021

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Current trends and a 2022 Economic Forecast

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