Economy in Focus
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George Mokrzan, Ph.D., Director of Economics

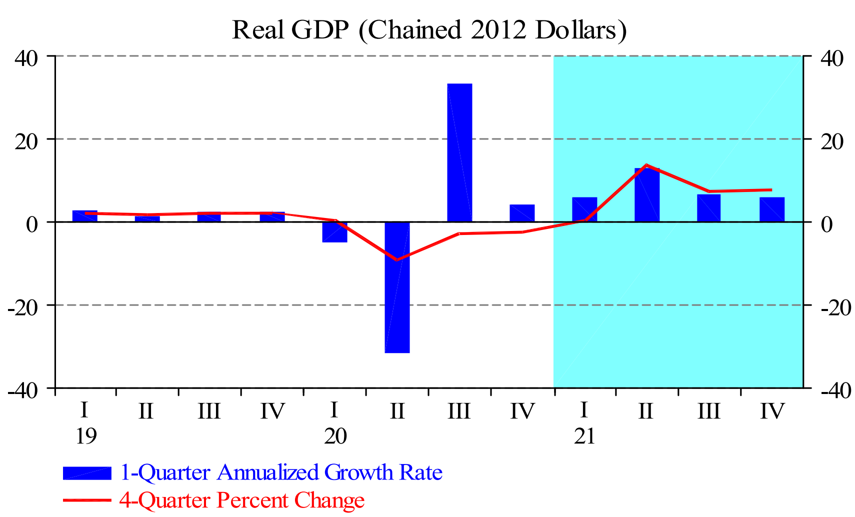
The Economic Outlook

The Economic Recovery Regains Steam in the Spring

The United States economic recovery accelerated and broadened in March after a COVID-19 winter lull. Real GDP growth is expected to achieve double-digit annualized growth rate gains of 13% in the second quarter, below the 33.4% growth in the third quarter of last year but on par with the strongest growth quarters in decades. Growth acceleration will be shared by all sectors of the economy; goods, services, and especially the battered Leisure and Hospitality industry where much of the employment and small business losses have occurred. The COVID-19 pandemic remains the largest risk to the forecast. However, the rising percentage of the population receiving vaccines countering COVID-19, coupled with continued high levels of policy support, is expected to generate gains in almost all sectors and industries, supporting workers, and businesses.

Real GDP is forecasted to grow at 7.2% in 2021, upwardly revised from 5.7% in the previous forecast upon passage of the $1.9 trillion American Rescue Plan (ARP). Most of the approved spending in the ARP will likely occur this year according to the Congressional Budget Office. The aid is broad-based and generates considerable increases to consumer and government spending in 2021. This new stimulus comes on top of already high levels of stimulus from the $908 billion Coronavirus Response and Relief Supplemental Appropriations Act, previous COVID-19 Acts approved in 2020 and monetary stimulus from the massive ongoing Federal Reserve response to the COVID-19 downturn. The full forecast can be found in the Forecast Summary Table at the end of this report.

Real GDP Forecasted to Accelerate Strongly in the Second Quarter



Most Recent Historical Data: Q4 2020

Consumer spending in service industries negatively impacted by the COVID-19 pandemic will likely accelerate broadly in 2021 after the distribution of vaccines reduces health risks, especially to the most vulnerable in the population. This spending will augment already strong consumer spending on goods and housing. Strong recoveries are also expected to continue in business equipment investment, international trade, and government spending. Despite near term challenges in vaccine supply, the global economy is generally recovering from COVID-19 related reductions in economic activity.

After a slowdown in labor market recovery during the COVID-19 impacted winter months, employment is expected to resume brisk growth for the remainder of 2021, bringing the unemployment rate down to 4.5% by year-end. Inflation is expected to rise 2.9% for the year, upwardly revised from the previous forecast of 2.6%, as a historic rise in aggregate demand encounters increasing supply constraints. Inflation has emerged primarily in commodity and goods markets, with inflation in other areas such as rents and wages remaining relatively low. However, inflation risks are expected to remain to the upside this year, as economic activity continues towards normalization and economic stimulus continues to pour into the economy from historically high levels of monetary and fiscal policy.

The Fed Funds rate target is expected to reside in the 0.0% - 0.25% range throughout this year as the Federal Reserve will likely be cautious not to forestall the recovery. However, the outlook now incorporates the beginnings of gradual Fed Funds rate target increases in 2022. Central bank bond purchases are downward forces on government bond yields, thereby posing a constraint on long-term interest rate increases this year. However, with economic growth, inflation and deficit financing rising, the depressed 10-year Treasury yield is forecasted to climb to 2.00% by year-end, returning to levels prior to the COVID-19 crisis. Interest rates and inflation are likely to push higher in 2022 if highly accommodative monetary and fiscal policies become permanent. Although massive in size at $2.3 trillion, the proposed American Jobs Plan (AJP) includes stimulative spending on infrastructure financed by tax increases over many years. It is not incorporated in the current forecast as it has not yet been formally approved into law.

Job Growth Increases Strongly in March

Payroll employment surged by 916,000 in March on broad-based gains in private sector and government jobs. The unemployment rate decreased from 6.2% to 6.0%.

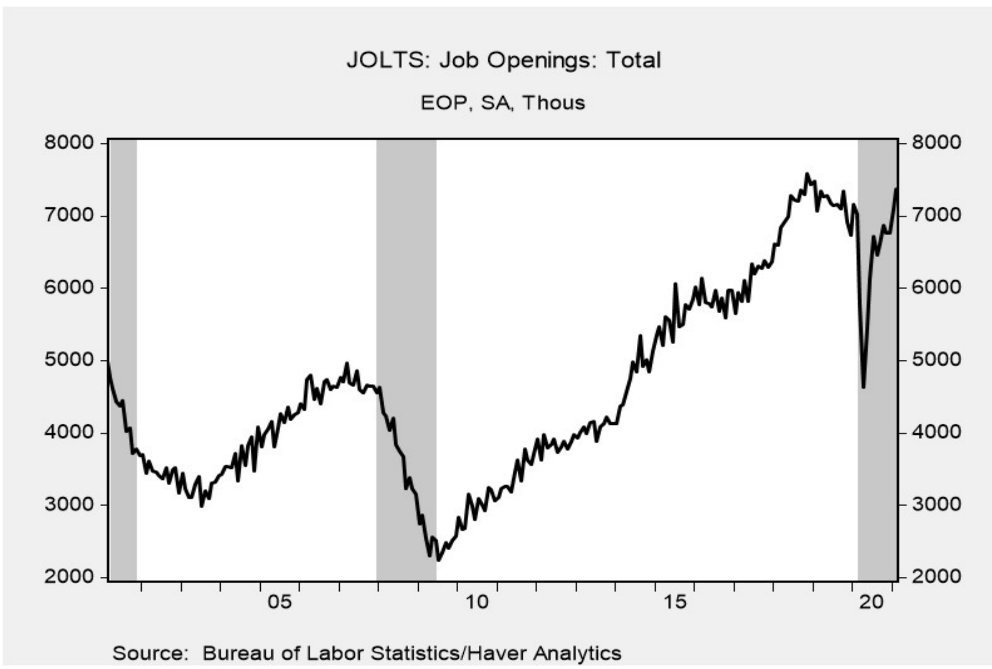
Private sector employment rose 788,000 in March after strong growth of 558,000 in February. In contrast to February, almost all sectors shared in the payroll gains in March. Construction jobs rose by 110,000. Manufacturing employment rose 53,000 with growth in both durable goods and nondurable goods employment. Trade, Transportation, and Utilities rose by 94,000 jobs, spread through retail, wholesale, and transportation services. Highly impacted by the COVID-19 crisis, the Leisure & Hospitality industry added 280,000 jobs after 384,000 in February. Professional and Business services added 66,000 jobs, Financial Activities added 16,000 jobs, and Other Services added 42,000 jobs. At -2,000 jobs, Information was the only major private sector not to add jobs in March.

Augmenting the signs of recovery from the COVID-19 shutdowns, Government jobs grew by 136,000 on welcome growth in educational employment. Employment grew in state educational services by 49,000 jobs and in local educational services by 76,000 jobs. In addition to the vital services that education provides, the return of traditional classroom instruction in many areas restores associated economic activities towards pre-COVID-19 normalcy. Parents of school age children will benefit from fewer strains on time and other costs associated with distance learning.

How is the overall Labor Market Recovery Proceeding?

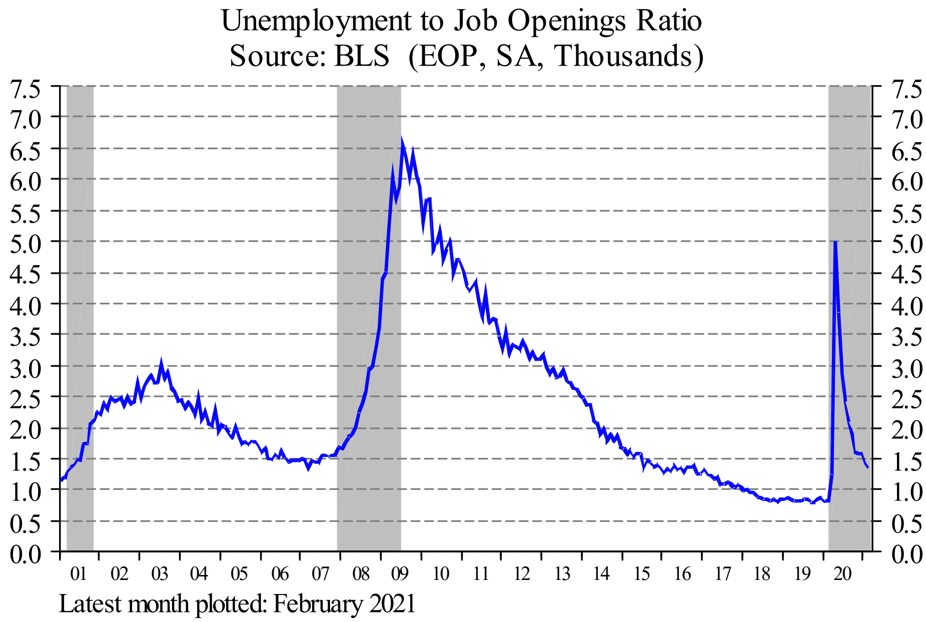
Unemployment has come down significantly from 23,109,000 at the height of the shutdowns in April 2020 to 9,710,000 in March. Overall, 62.4% of payroll cuts in the nation were restored. For those still unemployed, job openings in February were at 7,367,000 – the highest since January 2019. Hence, aggregate job openings have recovered fully from the COVID-19 recession.

Total Job Openings return to Pre-COVID-19 levels



Rising job openings and declining unemployment have significantly reduced a key measure of labor market health – the Unemployment to Job Openings ratio. At 1.35 in February, this measure reflects a quantum improvement from the 5.0 peak in the ratio in April 2020. Although it has not yet recovered to its reading below 1.0 prior to the recession (more job openings than unemployed), the ratio is in line with 2016, and well below its average during most of the last 2 decades, as evident in the following chart.

The Unemployment to Job Openings Ratio: Declining Quickly



Despite this significant overall improvement in labor markets, the recovery has been unusually uneven by sector. Sectors directly impacted by COVID-19 have generally had higher unemployment and fewer job openings than sectors that have been less dependent on social interaction. This is reflected in the following Table One that shows the total Jobs Lost versus Jobs Openings by major sector in the U.S. economy. The ratios of Jobs Lost/Jobs Openings indicate Jobs Openings are increasingly matching Jobs Lost in most sectors of the economy. Financial Activities at 0.32; Professional & Business Services at 0.54; Trade, Transportation & Utilities at 0.57; Education & Health at 0.81; Manufacturing at 1.06; and Mining & Construction at 1.38; have all showed strong jobs openings relative to remaining unemployment. The major remaining area of weakness has been the Leisure & Hospitality sector, with over 3 million workers without jobs during February. Information at 2.52; Government at 2.14; and Other Services at 1.59 also had relatively high jobs lost relative to jobs openings in February. As the percentage of the population receiving vaccines rises in the coming months, and mobility increases accordingly, the labor-intensive Leisure and Hospitality sector is likely to experience significant jobs openings, jobs growth, and reduced sector specific unemployment. Employment increases within this sector alone will have significant positive impacts on labor markets overall in the nation. The return of jobs in the Leisure and Hospitality industry, including workers in thousands of restaurants and other associated small businesses, will likely represent the single most important force driving the expected decline in the national unemployment rate this year.

Table One
Jobs Lost versus Jobs Openings by Sector
Seasonally Adjusted in Thousands
Payroll Employment and JOLTS Survey
As of February 2021

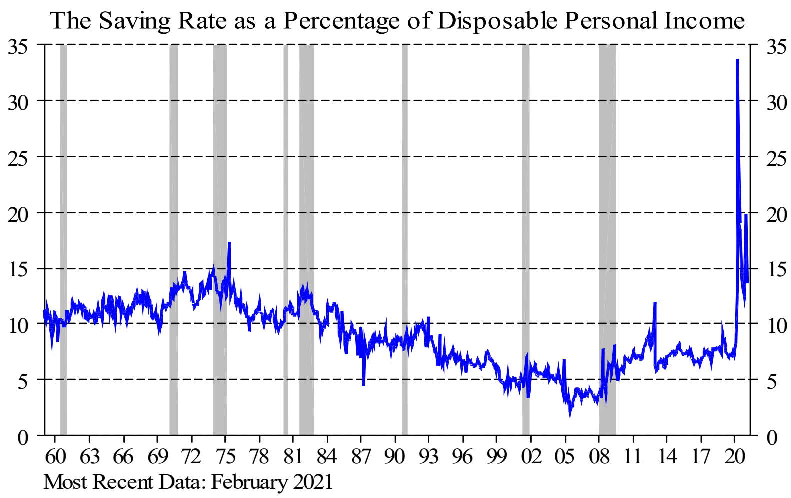
United States Sector Thousands of Workers	Jobs Lost to date*	Jobs Openings	Jobs Lost / Jobs Openings Ratio
	Feb-21	Feb-21	Feb-21
Mining & Construction	-392	284	1.38
Manufacturing	-568	538	1.06
Trade, Transportation & Utilities	-783	1364	0.57
Information	-239	95	2.52
Financial Activities	-103	321	0.32
Professional & Business Services	-751	1390	0.54
Education and Health	-1273	1565	0.81
Leisure and Hospitality	-3414	898	3.80
Other Services	-438	275	1.59
Government	-1358	635	2.14
Total Non-Farm Employment	-9319	7367	1.26

Data Source: BLS, Haver Analytics
* Jobs Lost from pre-COVID-19 peak payroll employment in Feb. 2020

The Consumer Blossoms in Spring

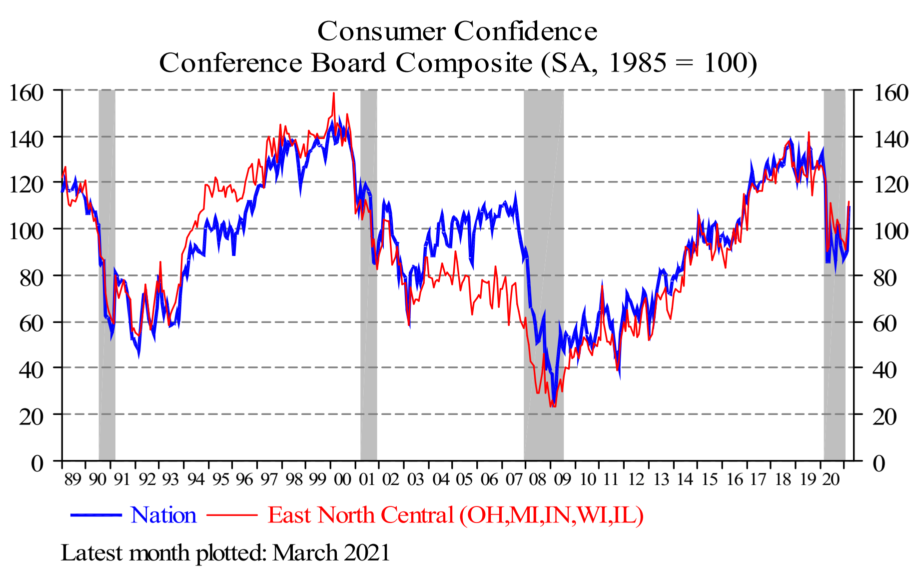
The average consumer was fundamentally sound prior to the COVID-19 downturn. The recovery in financial markets and conservative debt accumulation during the last year, encouraged in part by the COVID-19 restrictions on activities, have kept household balance sheets fundamentally sound. In addition, consumers are now armed with plentiful liquidity built up during a year of reduced opportunities to spend. Stimulus payments authorized by the three major financial relief Acts of the last year added further to the personal saving rate, which has been at high levels in the last year. Funded by the American Relief Plan, the $410 billion in stimulus checks in March will bolster the personal saving rate even further from 13.6% in February. Consumer purchases in March and the second quarter will likely be extremely strong, as households utilize historically high levels of liquidity to purchase goods, services, passenger vehicles, and housing. Sectors of the economy that were highly impaired by COVID-19 will likely obtain especially welcome releases of pent-up demand. Leisure and Hospitality will likely be one of the strongest areas of growth in 2021.

The Personal Saving Rate Rises to Historic Heights, Providing Potential Liquidity for Spending in 2021



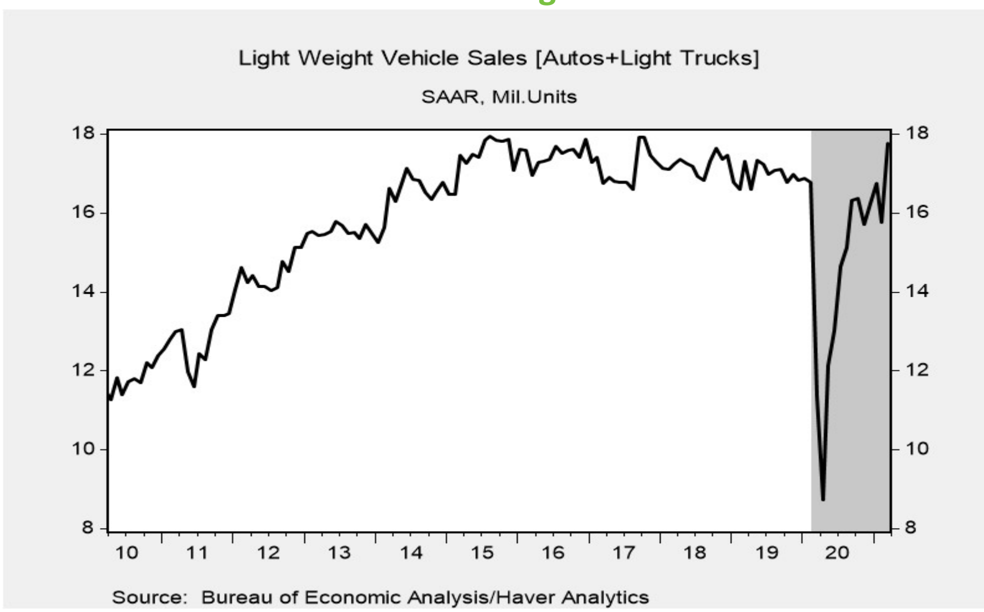
Consumer Confidence rose sharply in March to its highest level since March of last year (Source: Conference Board). This was especially the case in the East North Central states, which has consistently had higher confidence than the national average during the COVID-19 pandemic. As increasing parts of the economy normalize in the coming months and labor markets improve, overall consumer confidence is expected to rise further on a rising trend.

Consumer Confidence Rebounds Strongly in March



The acceleration in consumer spending has begun. Despite tight inventories among auto dealers, Vehicle Sales in March spiked to a seasonally adjusted annualized rate of 17.75 million – the highest since October 2017. Stimulus payments and rising vaccine inoculations should accelerate and broaden consumer spending to all areas of spending in the spring, including high contact consumer services. Consumers will likely also pay more for those goods and services than they did in the past. Bottlenecks and supply constraints are surfacing throughout the economy as demand returns before slumbering supply. The Service sector is also likely to experience challenges as rehiring past employees and training new hires will likely take valuable time and resources for many businesses. However, the return to normalcy should be in sight.

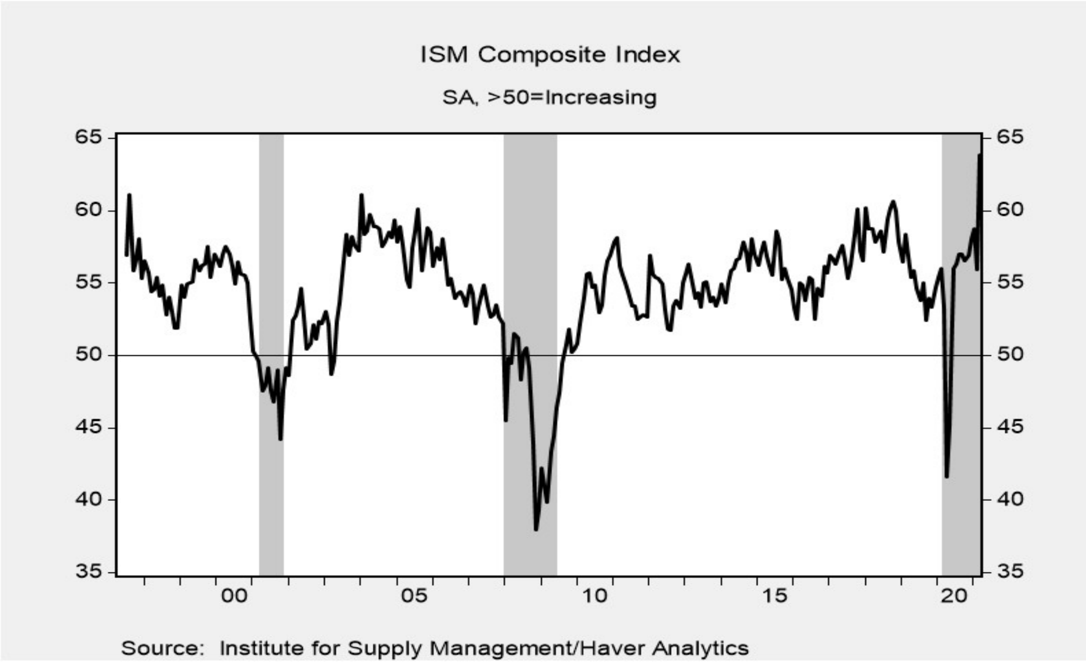
Vehicle Sales Surge in March



Economic Activity Soars in March

Economic activity according to the Institute for Supply Management survey of purchasing managers in both the manufacturing and services sectors of the economy soared in March to its highest level on record going back to the initiation of the index in 1997. Both Services and Manufacturing exhibited exceptionally high and accelerating growth in March according to the surveys.

The Strongest Growth in Decades



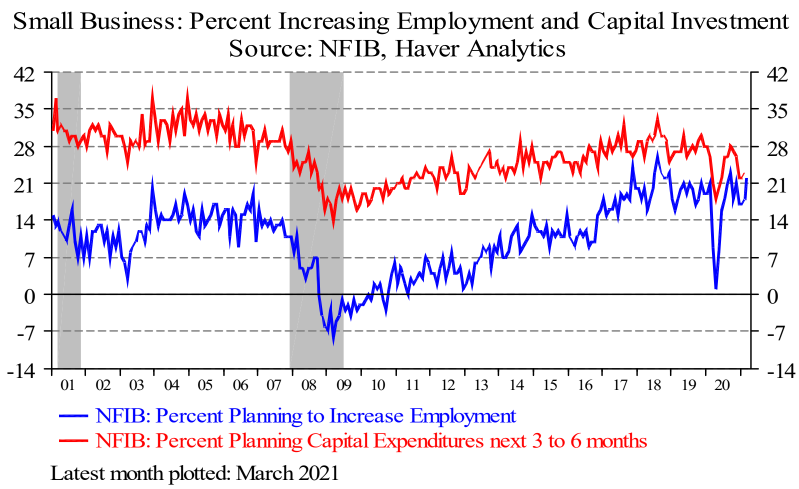
The Manufacturing sector of the economy has generally recovered quickly and fully from the COVID-19 downturn. Manufacturing continued to soar in March, albeit with multiple supply challenges and the leanest Business Inventory-to-Sales ratio since April 2012. As of February, new orders for durable goods according to the U.S. Census reflected this strength. New orders for durable goods were up 3.2% compared to February 2020, the peak month before the COVID-19 downturn began. Excluding transportation, they were up 8.2%. Non-defense capital equipment excluding aircraft rose 9.1% over February 2020 as firms continued to ramp up equipment investment.

While growth and demand were exceptionally strong in manufacturing and services sectors, not all is functioning smoothly. New Orders are rising strongly, but they are increasingly not being fulfilled, reflecting difficulties in supply meeting demand. Growing shortages of critical components such as semiconductors are creating bottlenecks and strains on supply chains throughout the economy. Auto factories have been forced to curtail production of vehicles at a time when inventories are at critically low levels. Prices paid are rising broadly as firms encounter broad-based shortages of key commodities and qualified labor. Congestion at ports on the West Coast and severe winter weather related production shutdowns of chemicals utilized to make plastic parts have compounded the supply chain woes. Most of these supply strains will be ameliorated as the year progresses, but in aggregate they will likely create price pressures that will raise consumer and business inflation in 2021. Please see the section “Inflation in the Spotlight.”

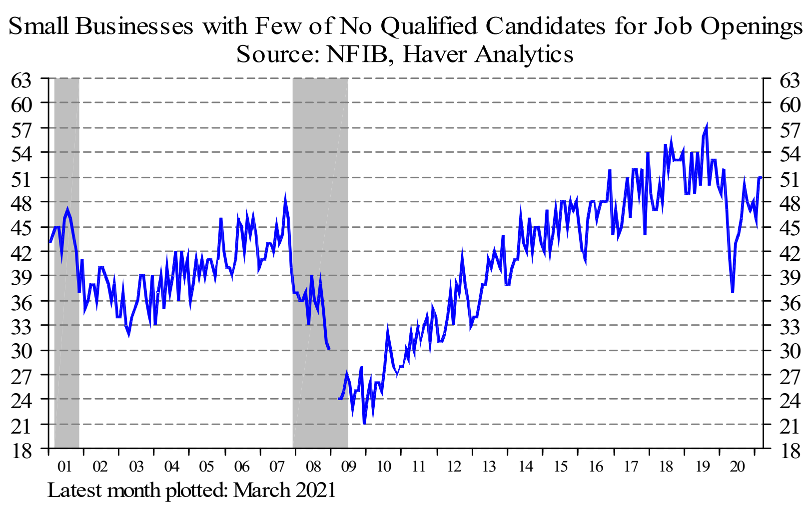
Small Businesses Getting Back on Track

Small Businesses are at the heart of the U.S. economy, and sadly they were some of the most negatively impacted by the COVID-19 crisis. However, small businesses are gradually returning towards more normal operations. They are hiring again at pre-COVID-19 rates, although they are also being challenged in finding qualified workers despite elevated unemployment. On net, small businesses are making less capital investment than they were prior to the COVID-19 crisis. This reduction in capital investment is counter to the national trend of higher investment, indicating small business recovery is probably behind the national average.

Small Businesses Hiring Again, but Making Fewer Capital Investments



Finding Qualified Workers Remains a Challenge



Inflation in the Spotlight

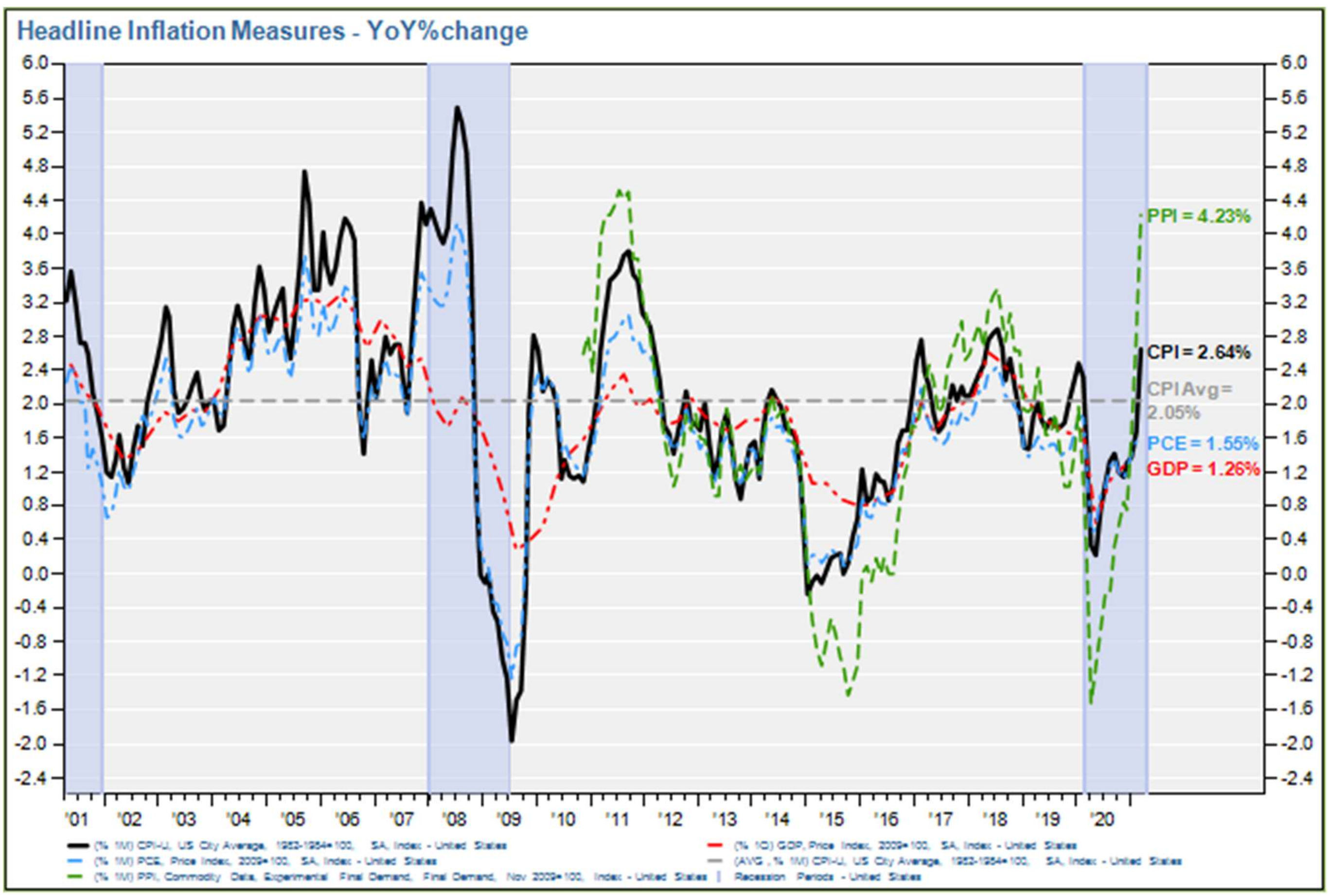
Inflation remains in focus as surging demand from a recovering economy is coming up against supply constraints created by COVID-19 related closures. Commodity prices have shown especially strong increases. At the end of March, the KR-CRB Commodity Price Index rose to 506.67 – its highest level since October 2011 on broad-based gains. Compared to the March 2020 low, the index was up 36.9%. Not included in the KR-CRB index, energy prices have also rebounded to pre-COVID-19 levels. The price of petroleum was $62.34 on March 31, 2021, up from $29.46, or 116% higher than the same day last year (Source: West Texas, Intermediate, Cushing (CME Group)). The wide swing in commodity prices from recession lows of a year ago reflects a so-called “base effect” whereby the annual percentage increase temporarily spikes due to an unusually low starting level. This “base effect” began to occur with Producer Prices in March. Producer prices rose 4.3% from COVID-19 recession lows in March 2020, with services prices rising 3.0% and goods prices rising 7.0% during the period. (Fueled by high demand, the strong recovery in goods markets has resulted in stronger price growth than in services to date). Other measures of inflation such as the CPI, the index of inflation in personal consumption expenditures (PCE), and the index of overall prices in GDP will likely follow similar patterns of sharp but temporary spikes in the second quarter. Overall, headline inflation measures will likely overstate ongoing inflation in the coming months.

Another source of rising prices in the near-term are the bottlenecks, inventory shortages, and other increased costs largely attributable to supply chain disturbances created directly and indirectly by COVID-19. The shortage of semiconductors that has challenged vehicle makers and other producers of durable goods was created by a worldwide surge in demand for this key electronic component relative to constrained supply. In addition, many domestic manufacturers depend on semiconductor imports from countries in Asia that were also negatively impacted by COVID-19 closures. Congestion bottlenecks at West Coast ports further strained supply chains for semis as well as other critical materials and products. The unusually cold February contributed to shortages of plastic components, as the large chemical and refining industries in Texas were shut down along with utilities during the month. Strong building demand has elevated the price of lumber to record highs, but labor supply constraints have also raised the costs of production and transportation. While most of the supply constraints to date have been concentrated in goods areas of the economy, the expected resurgence of demand in the services sector in 2021 will likely put pressures on many service providers in transportation, hospitality, restaurants, and other businesses that cut back sharply on both capital (such as aircraft) and labor capacity during the COVID-19 downturn. Ultimately, the supply of capital and labor will return, but supply is typically constrained in the short-term relative to increases in demand, causing prices to rise. This is a negative development for buyers of goods and services, but many small businesses and industries most impacted by the closures of the last year could also incur a welcome boost to profit margins in the near term.

The magnitude of the inflation surge in 2021 will likely be a function of the strength of the recovery in the overall global economy from the COVID-19 pandemic. Recent challenges in Europe and other parts of the globe in disseminating effective vaccines indicate that uneven containment of the COVID-19 pandemic could slow the recovery and concurrent inflationary pressures. In a month of mixed results in containing the virus globally, commodity price growth recently slowed. Led by a slowdown in metals, the KR-CRB Commodity Price index rose only 3.9% in March, somewhat off the 14.4% overall increase of the index during the first quarter. The strength of the recovery globally and the degree of inflation in 2021 will be interdependent.

While inflation in 2021 is driven primarily by recovery in 2021 from a COVID-19 recession in 2020, inflation in 2022 and the coming years will likely be impacted increasingly by the long-term impact of expansionary monetary and fiscal policies, and the path of those policies in the future. The Federal Reserve has signaled that it will maintain policy interest rates near zero and continue large monthly purchases of Treasury and Mortgage Backed Securities until labor markets have approached employment and unemployment levels attained before the COVID-19 downturn. As a result, money supply measures have grown at eyepopping rates of 27.1% for M2 and 357% for M1 in February Year-on-Year. The velocity of money has also declined, but the magnitude of the money supply increases dwarfs this offsetting effect. Fiscal policies in aggregate have aided economic recovery, but they have also been at historic levels exceeding $7 trillion to date, about a third of GDP. They add further to resurging demand from a reopening economy. Will inflation return to the U.S. economy as it did in the first decade of the new millennium, as evident in the chart below? The answer is still unknown, but we will be looking for clues in the days and months ahead.

Inflation Poised to Rise in the Near Term
Long-term Impact still Uncertain



Source: Factset and Huntington Private Bank Economic Breakfasts, February 2021

Forecast Summary Table

Key Economic Indicators

April 12, 2021

	2018	2019	2020	2021*
Total Real GDP Annual Growth Rates 2012 Chained Dollars	2.9%	2.3%	-3.5%	7.2%
Consumption	3.0%	2.6%	-3.9%	7.7%
Non-Residential Fixed Investment	6.4%	2.1%	-4.0%	7.6%
Residential Fixed Investment	-1.5%	-1.5%	6.1%	19.0%
Exports	3.0%	0.0%	-13.0%	9.4%
Imports	4.4%	1.0%	-9.3%	14.4%
Government Purchases	1.7%	2.3%	1.1%	6.0%
Change in Private Inventories (Billions 2012 Chained Dollars)	$48.1	$67.0	$-77.4	$46.3
Trade-Weighted Dollar Index (Jan. 2006 = 100) Year-End Source: Federal Reserve	115.6	114.7	111.56	109.0
Nominal GDP Current dollars	5.4%	4.1%	-2.3%	9.6%
Consumer Price Index for Urban Consumers (CPI-U) - Annual Rate	2.4%	1.8%	1.2%	2.9%
Federal Funds Rate Target Year-end range	2.25% to 2.50%	1.50% to 1.75%	0.00% to 0.25%	0.00% to 0.25%
10-year Treasury Note Year-end interest rate yield	2.69%	1.92%	0.93%	2.0%
National Income Pre-tax Corporate Profits Average annual growth rate	6.1%	0.3%	-5.8	12.6%
Net New Average Monthly Non-Farm Payrolls (Thousands of Workers)	193K	178K	-721K	+600K
Unemployment Rate – Year End	3.9%	3.5%	6.7%	4.5%

- Data Sources: Haver Analytics, Federal Reserve, Factset Inc., and other sources noted in text.

* Forecasts: Huntington Investment Management of the Private Bank, Division of Huntington National Bank