



Economic Review - First Quarter 2021

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Summary

The state of the general economy can help or hinder a business' prospects by influencing the demand for its goods and services. The economy also affects the availability and price of inputs such as capital and labor. The prevailing economic conditions therefore directly affect the value of a business at a specific point in time. The 128-month economic expansion from June 2009 to February 2020 was the longest since the 1850s.¹ However, the COVID-19 global pandemic has suddenly and severely affected economies and markets around the world, and the U.S. economy entered a recession in February 2020.²

The Federal Open Market Committee (the "Committee") of the Federal Reserve held two meetings during the first quarter of 2021; one in January and one in March to discuss the additional measures being taken to support the economy, which include:

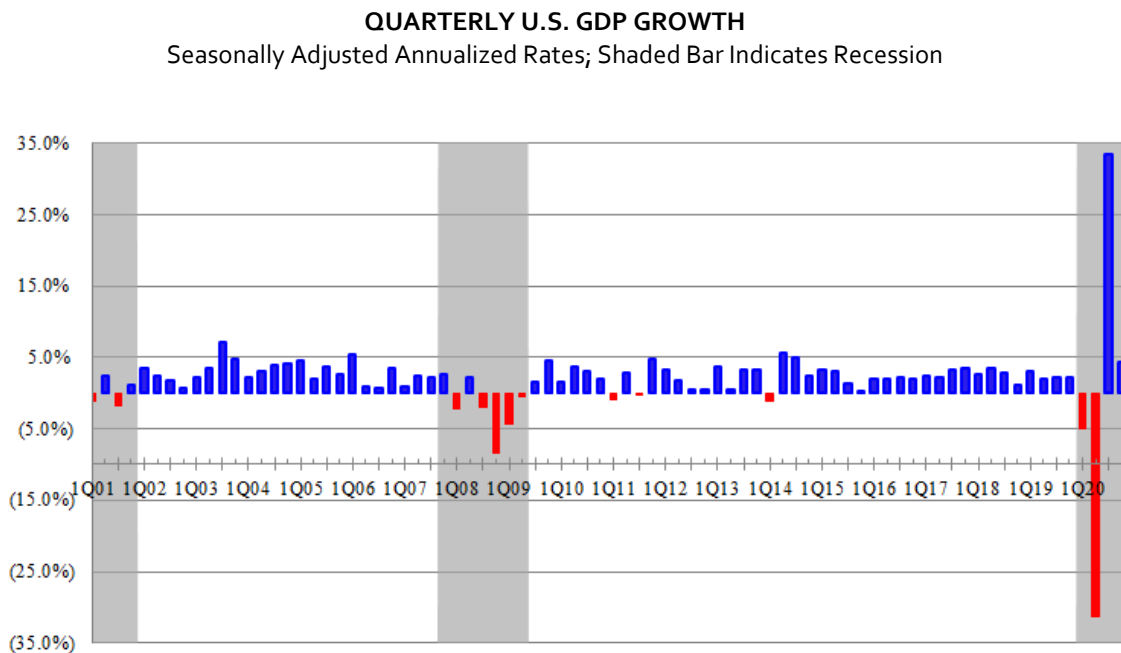
- Maintaining the target range for the federal funds rate at zero-to-0.25 percent.
- Continuing its purchases of Treasury and mortgage-backed securities (approximately \$80 billion per month and approximately \$40 billion per month, respectively), which combined with other supportive policies has brought the Federal Reserve's total assets to \$7.7 trillion at the end of the first quarter of 2021; an increase of approximately \$300 billion from \$7.4 trillion as of year-end 2020.
- Conducting repurchase agreement operations to provide support to the short-term U.S. dollar funding markets.



Gross Domestic Product

The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) — the output of goods and services produced by labor and property located in the United States — increased at an annual rate of 4.3 percent in the fourth quarter of 2020 following a 33.4 percent increase in GDP in the third quarter as the recovery from the coronavirus pandemic continued. In 2020, GDP declined by 3.5 percent for the year, compared to a 2.3 percent increase in 2019.

The Federal Reserve publishes estimates of GDP growth. It projects a relatively strong recovery from the pandemic in 2021, with GDP growth of 6.5 percent. Thereafter, it projects GDP growth rates of 3.3 percent and 2.2 percent in 2022 and 2023, respectively, before settling at 1.8 percent annual growth for the long-run. Quarterly GDP data for the preceding 20 years is shown in the following figure.



Sources: U.S. Bureau of Economic Analysis and National Bureau of Economic Research. GDP percent change is based on chained 2012 dollars.

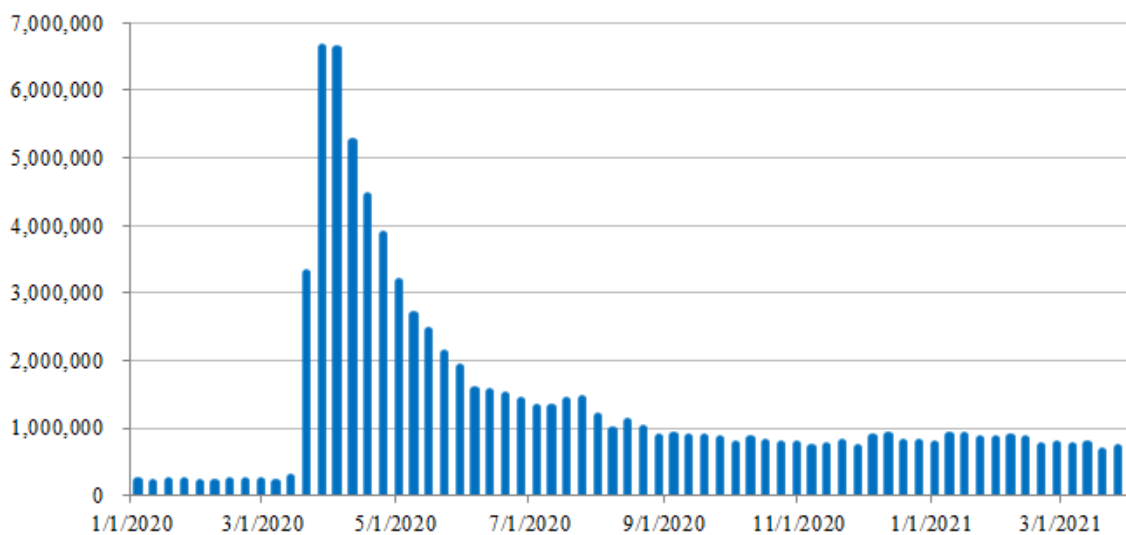
Employment

From March 2010 (the end of the 2008–2009 recession) to February 2020, 23.2 million net non-farm jobs were created.³ As recently as February 2020, the unemployment rate of 3.5 percent was near an all-time low. A more expansive measure of labor underutilization, including discouraged workers who have left the workforce and part-time workers who would prefer full-time work, was at a 20-year low of 6.7 percent in December 2019.⁴



Beginning in March 2020, national, state, and local governments began instituting lockdowns that forced the closures of many businesses and restricted the free movement of citizens, and a wave of layoffs and furloughs began. Initial unemployment claims, which had averaged 218,000 per week in 2020 prior to the COVID-19 pandemic, spiked to a high of 6,648,000 for the week ending March 28, 2020, and were 719,000 for the week ending March 27, 2021 (the latest available as of March 31, 2021). Although initial claims have subsided from the extreme levels in the first half of 2020, they are still significantly above pre-pandemic levels. Weekly initial unemployment claims for the last 12 months are shown in the following figure.

WEEKLY INITIAL UNEMPLOYMENT CLAIMS



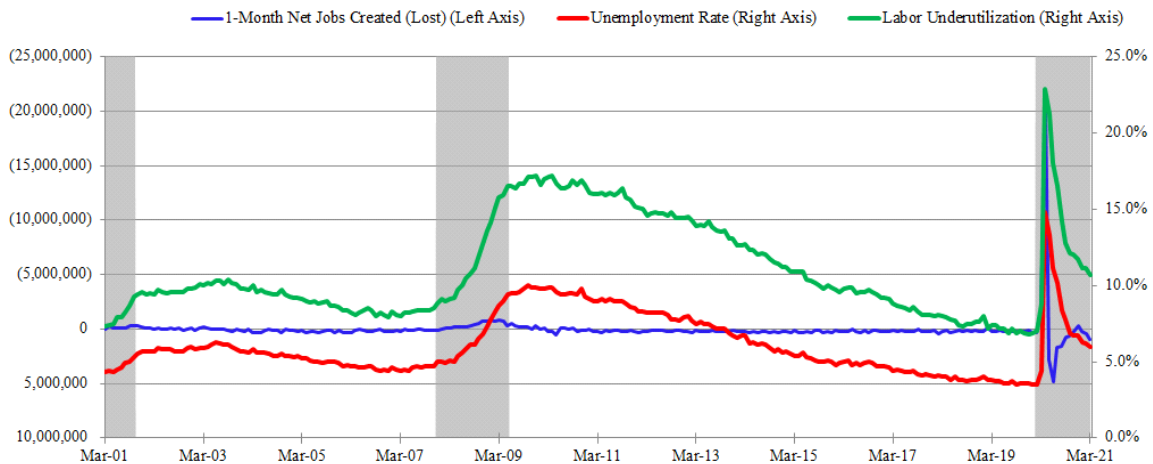
Source: Federal Reserve Bank of St. Louis.

Unemployment and underemployment restrain economic growth as consumers are unable or hesitant to spend. The past 20 years of job creation, employment, and underemployment data are presented in the following figure.



MEASURES OF STRESS IN THE LABOR MARKET

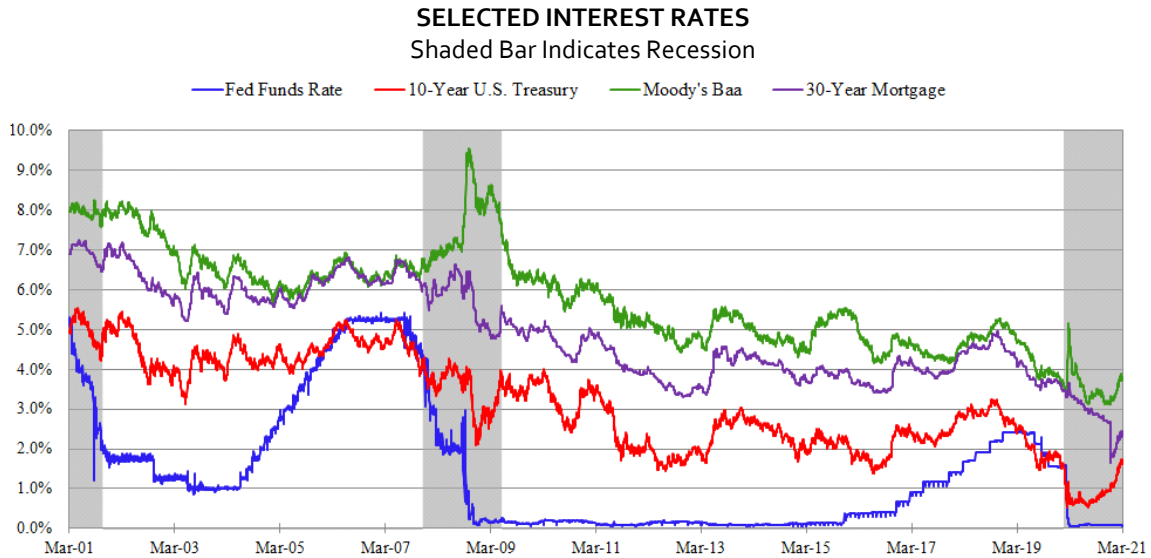
Shaded Bar Indicates Recession



Sources: Department of Labor, Bureau of Labor Statistics, and National Bureau of Economic Research. Data represents non-farm payrolls.

Interest Rates

Interest rates increased modestly in the first quarter of 2021 from their historic lows experienced in 2020, after dropping sharply since the onset of the pandemic. Investors reduced their purchases of U.S. Treasury securities, prompting the 10-year U.S. Treasury to rise over 80 basis points in the first quarter of 2021 and reach its highest level since the pandemic began. The Moody's Baa rate increased over 60 basis points as well. The 30-year fixed home mortgage rate fluctuated throughout the first quarter of 2021 and remained near its historic low. The past 20 years of historical interest rate data are shown in the following figure.



Source: Federal Reserve Statistical Release H.15 (519) Selected Interest Rates.

Stock Market Activity

All major indices posted positive returns in the first quarter of 2021, following up on a robust performance in the fourth quarter of 2020. Outside of a few episodic spikes, volatility continued to subside during the first quarter of 2021. The S&P MidCap 400 and Russell 2000 were the best performing indices in the first quarter, representing strong performance among small and mid-cap stocks. The NASDAQ Composite Index was the worst performing index in the first quarter, as the recent increase in the technology sector moderated. Total returns for U.S. stock indices are shown in the following figure.

TOTAL RETURNS OF MAJOR U.S. STOCK INDICES

Index	First Quarter 2021
S&P 500	6.2%
Dow Jones Industrial Average	8.3%
NASDAQ Composite (1)	2.8%
S&P MidCap 400	13.5%
Russell 2000	12.7%

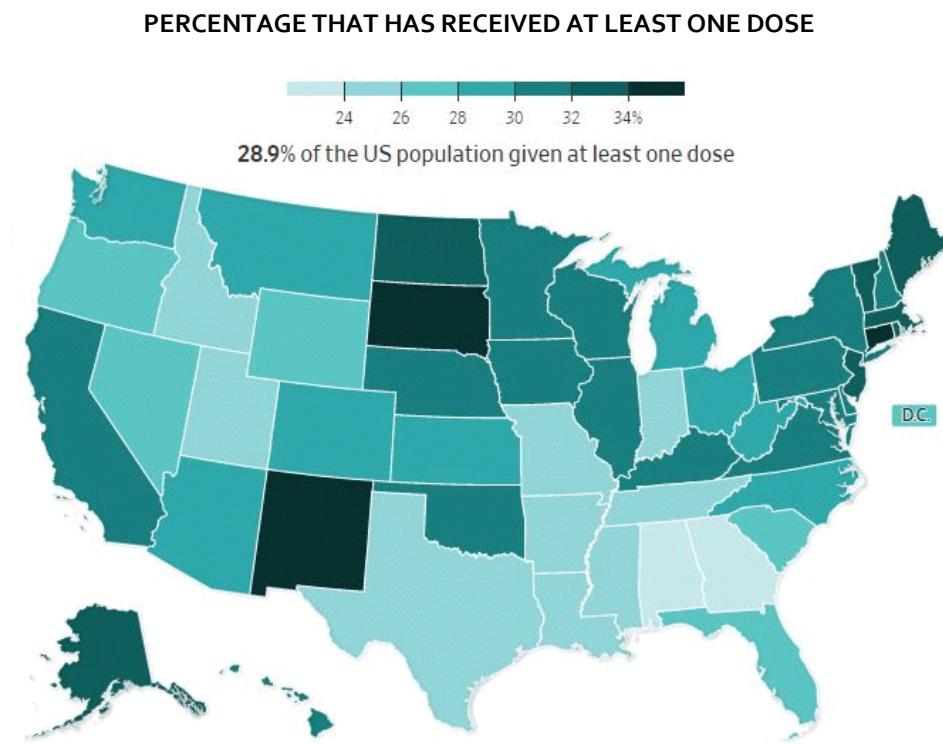
Note:

(1) Return represents principal only.



Coronavirus Pandemic and Government Response

- The coronavirus continued to impact the United States and the global economy throughout the first quarter of 2021, and the United States has not yet exited the recession it entered in February 2020.
- As of March 28, 2021, COVID-19 confirmed cases have surpassed 126 million people and caused over 2.7 million deaths globally.⁵
- In March, Congress passed another stimulus bill in response to the pandemic: the American Rescue Plan Act of 2021. Among the key components of the \$1.9 trillion bill include: (i) an additional round of \$1,400 checks to individuals making less than \$75,000; (ii) \$350 billion in aid to state and local governments; (iii) an extension to the previously expanded unemployment benefits; and (iv) \$120 billion to K-12 schools.⁶
- The percentage of Americans by state that have received at least one vaccine dose as of March 31, 2021, is shown in the following figure.



Source: Wall Street Journal.



Disclaimer: this article has content that is general and informational in nature. This document is not intended to be accounting, tax, legal, or investment advice. Data from third parties is believed to be reliable, but no assurance is made as to the accuracy or completeness.

Endnotes:

1. National Bureau of Economic Research.
<<https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions>>.
2. Ibid.
3. Bureau of Labor Statistics. "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)." <http://data.bls.gov/timeseries/CES000000001?output_view=net_1mth>.
4. "U-6 total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force." Reported on a seasonally adjusted basis.
5. World Health Organization, "COVID-19 Weekly Epidemiological Update," March 28, 2021.
<<https://www.who.int/publications/m/item/weekly-epidemiological-update-on-covid-19-31-march-2021>>.
6. CNBC, "House Passes \$1.9 Trillion Covid Relief Bill, Sends it to Biden to Sign," March 10, 2021.
<<https://www.cnbc.com/2021/03/10/stimulus-update-house-passes-1point9-trillion-covid-relief-bill-sends-to-biden.html>>.