



## Economic Review - Second Quarter 2021

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. 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.

### 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.<sup>1</sup> 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.<sup>2</sup>

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

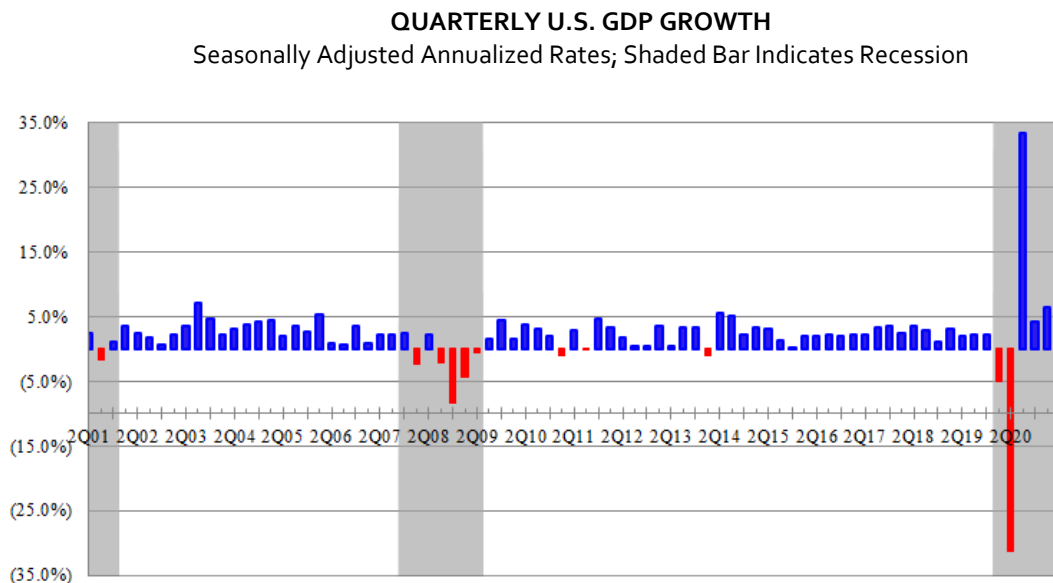
- Maintaining the target range for the federal funds rate at zero-to-0.25 percent.
- Continuing its purchases of Treasury and mortgage-backed securities (approximately \$80 billion per month and approximately \$40 billion per month, respectively), which combined with other supportive policies has brought the Federal Reserve's total assets to \$8.1 trillion at the end of the second quarter of 2021; an increase of approximately \$400 billion from \$7.7 trillion as of March 31, 2021.
- 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 6.4 percent in the first quarter of 2021 as the recovery from the coronavirus pandemic continues. 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 7.0 percent. Thereafter, it projects GDP growth rates of 3.3 percent and 2.4 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.



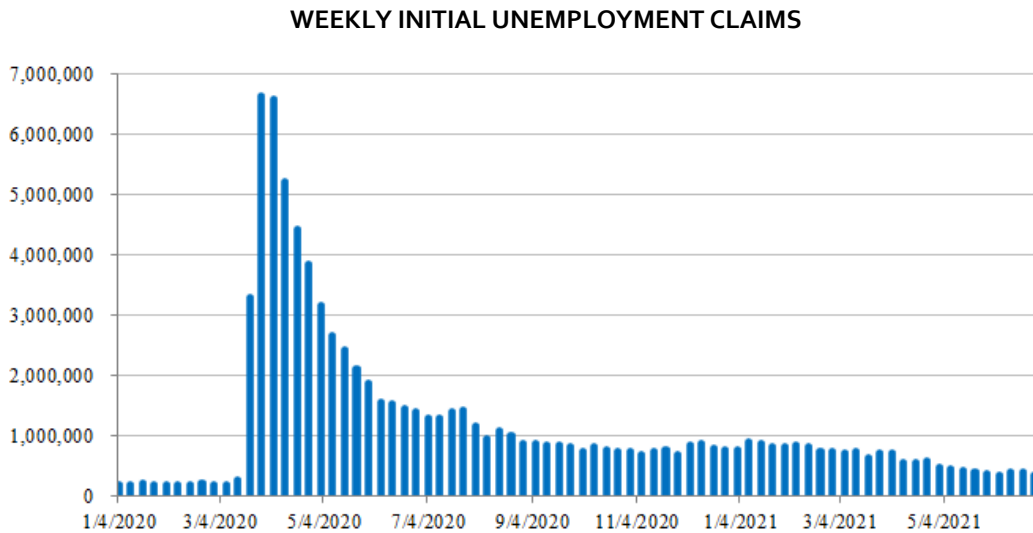
Sources: U.S. Bureau of Economic Analysis and National Bureau of Economic Research. GDP percent change is based on chained 2012 dollars.

## Employment

From March 2010 (the end of the 2008–2009 recession) to February 2020, 23.2 million net non-farm jobs were created.<sup>3</sup> 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 6.8 percent in December 2019.<sup>4</sup>



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. However, initial unemployment claims fell to 364,000 for the week ending June 26, 2021 (the latest available as of June 30, 2021), their lowest level since the beginning of the pandemic. Initial claims have subsided from the extreme levels in the first half of 2020 and are beginning to approach their pre-pandemic levels. Weekly initial unemployment claims since the beginning of 2020 are shown in the following figure.



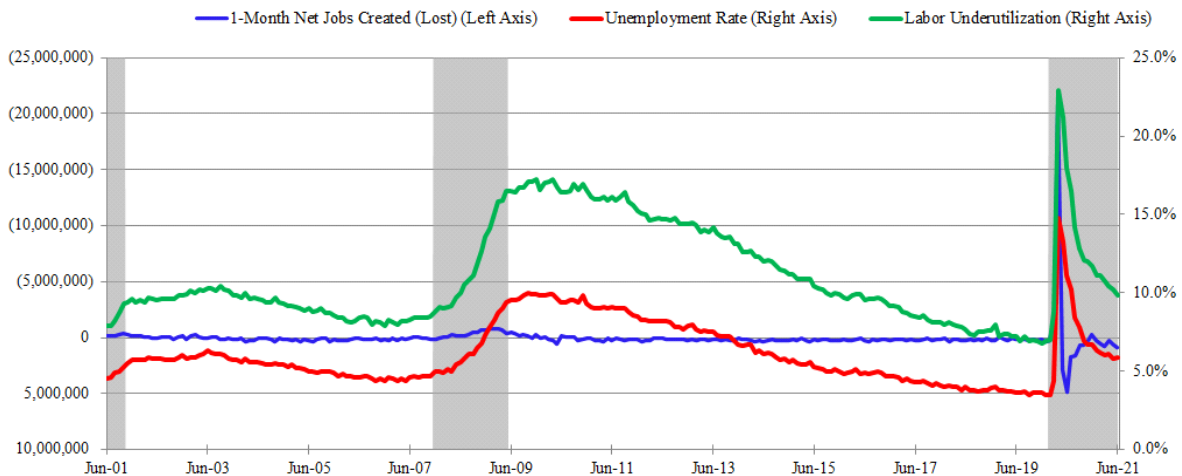
Source: Federal Reserve Bank of St. Louis.

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

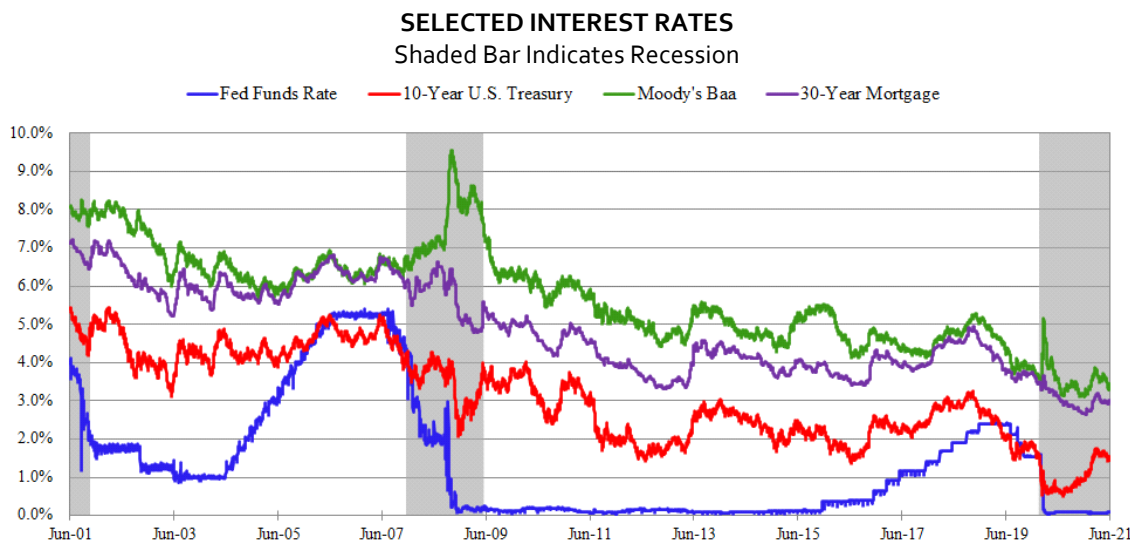


Sources: Department of Labor, Bureau of Labor Statistics, and National Bureau of Economic Research. Data represents non-farm payrolls.

While the labor market has certainly improved in recent quarters and is continuing to recover from the pandemic, there is still a large mismatch between employers and employees. As of May 2021, there were over 9 million workers who have been searching, but have been unable to find jobs. Meanwhile, employers have said they have approximately the same number of job openings, but have found it difficult to fill those positions.<sup>5</sup> One of the major reasons for the disconnect between workers and employers is that many people have moved during the pandemic, particularly out of the cities where many of these job openings are, and into suburban and rural areas. As long as this imbalance between workers and employers persists, it will undoubtedly hinder the economic recovery from the pandemic.

### Interest Rates

Interest rates decreased in the second quarter of 2021, remaining near the historically low levels experienced since the onset of the pandemic. After increasing over 80 basis points in the first quarter of 2021, the yield on the 10-year U.S. Treasury declined nearly 30 basis points in the second quarter. This was despite the recent data indicating that inflation spiked to new highs, which generally applies upward pressure on yields. The Moody's Baa rate decreased over 40 basis points in the second quarter of 2021, following an increase of over 60 basis points in the first quarter. The 30-year fixed home mortgage rate declined throughout the second 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 second quarter of 2021, following up on their strong performance in recent quarters. Volatility remained generally moot in the second quarter of 2021, as economic conditions continued to improve and the subsiding threat of the pandemic domestically. The NASDAQ Composite Index and S&P 500 were the best performing indices in the second quarter, representing strong performance among large-cap and technology stocks. Although the S&P MidCap 400 and Russell 2000 posted the lowest gains in the second quarter, they are still the best performing indices year-to-date in 2021 due to an exceptional performance in the first quarter. Total returns for U.S. stock indices are shown in the following figure.

### TOTAL RETURNS OF MAJOR U.S. STOCK INDICES

Index	Second Quarter 2021	Year to Date
S&P 500	8.5%	15.3%
Dow Jones Industrial Average	5.1%	13.8%
NASDAQ Composite (1)	9.5%	12.5%
S&P MidCap 400	3.6%	17.6%
Russell 2000	4.3%	17.5%

Note:

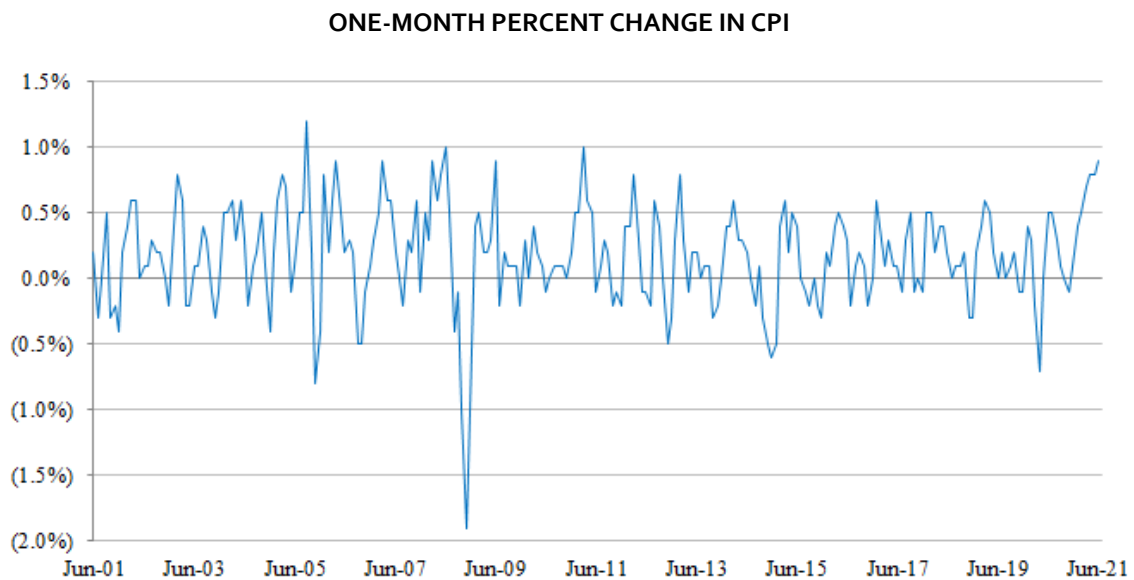
(1) Return represents principal only.



## Inflation

The consumer price index (“CPI”) rose at the highest rate in over a decade due to a number of, including: (i) the full economic reopening of key states such as California and New York; (ii) the surplus of disposable income made available due to expansionary fiscal policies; and (iii) improving employment conditions. The CPI rose 5.4 percent between June 2020 and June 2021, the largest annual increase in the CPI since August 2008. Core CPI, which excludes oil and food due to their volatility, increased by 4.5 percent over the same period, which was the largest annual increase since November 1991.<sup>6</sup>

Used vehicle prices increased by 10.5 percent in June and accounted for over one-third of the 0.9 percent increase in the CPI in the same month. Prices for food, energy, and gasoline rose considerably as well: increasing by 0.8 percent, 1.5 percent, and 2.5 percent, respectively, in June. Core CPI for the month of June also rose by 0.9 percent, mainly due to strong price increases in used vehicles, airline tickets, and apparel.<sup>7</sup> The one-month change in the CPI for the past 20 years is shown in the following figure.



Source: Bureau of Labor Statistics.

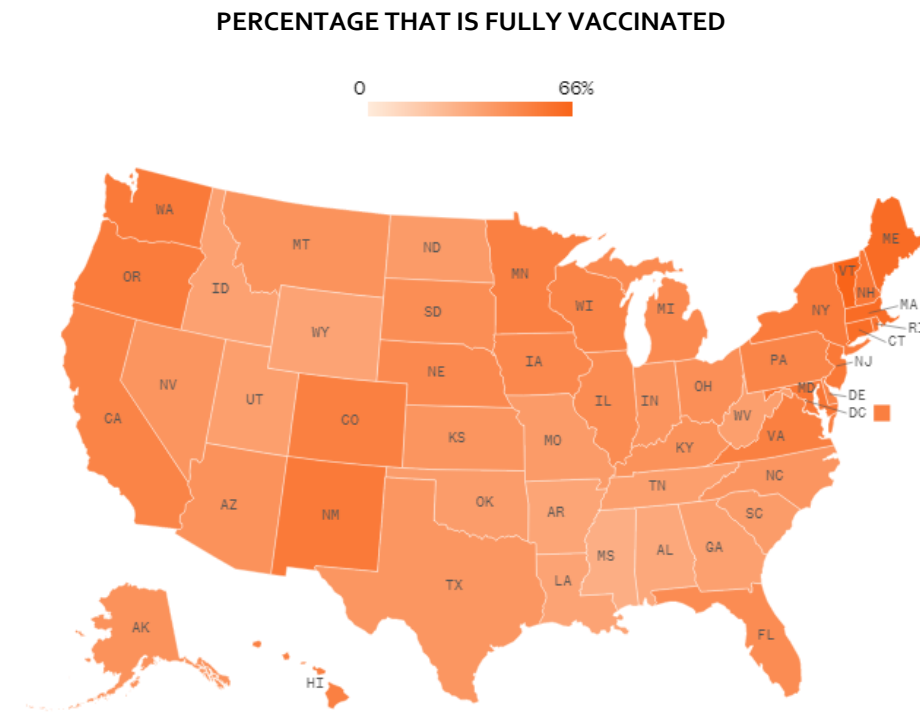
Despite these recent spikes in inflation, the Committee has maintained that it is not overly concerned that the rise in prices experienced over the past year is anything more than a short-term burst in consumer activity as the economy returns to its pre-pandemic levels. Moreover, the Committee has stated that it will tolerate moderate inflation above its long-term goal of 2 percent in the short-term, as inflation in the decade prior to the pandemic was generally below its long-term target of 2 percent. The Committee will accept short-term inflation as long as it supports the goal of achieving maximum employment and long-term inflation expectations do not appear to be escalating to damaging levels.



The Federal Reserve publishes estimates of personal consumption expenditures (“PCE”) inflation and Core PCE inflation. It projects modest inflation in 2021, with PCE inflation of 3.4 percent and Core PCE inflation of 3.0 percent. In the years following, it projects PCE and Core PCE inflation of approximately 2 percent annually, supporting its stance that the current inflationary environment will be temporary.

## Coronavirus Pandemic and Government Response

- The coronavirus continued to impact the United States and the global economy throughout the second quarter of 2021, and the United States has not yet exited the recession it entered in February 2020.
- As of June 27, 2021, COVID-19 confirmed cases have surpassed 180 million people and caused over 3.9 million deaths globally.<sup>8</sup>
- In May, the World Health Organization identified “Delta” as a new coronavirus variant of concern, due to its ease of transmissibility. The Delta variant is expected to be heavily transmitted in poorer countries that don’t have the resources or stockpile of vaccines available, as well as the states domestically that have lower vaccination rates.<sup>9</sup>
- The percentage of Americans by state that are fully vaccinated as of June 30, 2021, is shown in the following figure.



Source: NBC News.



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](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. Wall Street Journal, "Job Openings Are at Record Highs. Why Aren't Unemployed Americans Filling Them?," July 9, 2021.  
<<https://www.wsj.com/articles/job-openings-are-at-record-highs-why-arent-unemployed-americans-filling-them-11625823021>>.
6. Bureau of Labor Statistics, "Consumer Price Index - June 2021," June 10, 2021.  
<<https://www.bls.gov/cpi/>>.
7. Ibid.
8. World Health Organization, "COVID-19 Weekly Epidemiological Update," June 29, 2021.  
<<https://www.who.int/publications/m/item/weekly-epidemiological-update-on-covid-19---29-june-2021>>
9. Ibid.