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Economic Update

MARCH 5, 2021

CHANDAN ECONOMICS

1. MINIMUM WAGE

- One of the more publicized and contentious sticking points of the incoming-Biden Administration stimulus package is the potential inclusion of a $15/h minimum wage.
- According to the Congressional Budget Office, a strictly nonpartisan Agency, raising the minimum wage to $15/h would lead to a $54 billion cumulative increase of the budget deficit between 2021 and 2031. The cumulative pay of those affected by the legislation would increase by $333 billion over the same period.
- According to a Chandan Economics analysis, after adjusting for cost-of-living differences, the most spending power a minimum wage worker has ever made in the US was in February 1968 when the amount was raised to $1.60– $12.24 in December 2020 spending power.
- The Senate Parliamentarian, Elizabeth Macdonough, issued a ruling on February 25th that the proposal to gradually increase the minimum wage toward $15 violated the strict rules of inclusion for a budgetary measure. The ruling is significant in that it reduces the likelihood of passing the increase through reconciliation – a parliamentary maneuver that allows a bill to pass with just a simple majority and without the threat of a filibuster.

2. BANK LENDING PERFORMANCE

- According to the FDIC's Quarterly Banking Profile, default rates are ticking up across the board, though distress remains limited. For all real estate loans originated by bank lenders, the default rate stands at 1.65% through the fourth quarter, rising 5 bps quarter-over-quarter and 52 bps year-over-year.
- Default rates on loans secured by 1-4 family residential properties have risen by some of the widest margins of any sub-loan type. Through Q4, default rates are up 72 bps from one year ago, averaging 2.49%. Still, these levels of non-performance are low by historical standards. The last time default rates for 1-4 family homes stood above current levels was relatively recently memory (Q1 2018).
- Default rates for bank-originated multifamily, commercial, and construction loans remain exceptionally low, coming in at 0.26%, 1.00%, and 0.65%, respectively. The relative lack of distress on bank balance sheets is a partial function of post-Great Financial Crisis regulatory reforms, which have transferred more risky lending to outside the commercial banking system.

3. INITIAL & CONTINUING CLAIMS

- People filing first-time claims for unemployment benefits fell to 730K during the week ending on February 20th, down by 111K from the previous week.
- Some estimates had forecasted initial claims to be as high as 845K in the wake of a severe winter storm that crippled much of Texas for close to a week, so the shortfall is a welcome surprise to many. Still,

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some economists note that the blackout and other adverse conditions of the Texas storm prevented or discouraged many from filing such claims, suggesting that a lag in claims may materialize in the weeks ahead.

- Continuing claims dropped by 101K to a pandemic-low of 4.42M, but still well above pre-pandemic levels.
- While unemployment claims fell this week, claims on the Pandemic Emergency Program, a supplemental benefit for those who have seen other benefits expire, surpassed 1M people in February. This brought the total number of workers receiving jobless benefits to roughly 19M people through February 6th.

4. TEMPORARY VS. PERMANENT UNEMPLOYMENT

- Temporary unemployment fell in January to 2.7M people, down by 300,000 from December. The number has steadily receded from its April 2020 high of 18.0M people, though it remains above the pre-pandemic low of 2.1M.
- The number of people on permanent layoff was little changed in January, remaining 2.2M above the pre-pandemic level of 1.3M.
- Roughly 4 million workers had been unemployed for more than six weeks in the most recent report, accounting for 39.5% of all jobless workers in January.
- While both temporary and permanent joblessness has trended down in recent months, job gains have not reflected a full absorption of these workers, suggesting that a significant portion has dropped out of the labor force. The labor force participation rate fell by 10 bps in January to 61.4%, decreasing by 160K workers.

5. S&P/CASE-SHILLER U.S. NATIONAL HOME PRICE INDEX

- The S&P's Case-Shiller index rose to an all-time high of 234.4 in January, a 1.3% increase from December. Prices are up by 10.4% over January 2020 levels.
- Home prices have surged to new heights during the pandemic, driven by record-low interest rates and an increased flow of migration out of dense urban areas. The pace of annual home-price appreciation has now accelerated for eight straight months.
- Home-price momentum slumped through mid-2018 and into mid-2019. Annual home-price growth fell as low as 3.1% in August 2019. In the lead-up to the pandemic, a more bullish housing market was already forming; prices were accelerating for six consecutive months already in February 2020.
- The COVID recession is the first economic downturn in the life of the index (starts January 1988) that home prices have not either fallen or started a period of lower growth.

6. WEEKLY HOUSING TRENDS

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- According to the Weekly Housing Trends report produced by Realtor.com, median listing prices grew by 14.5% over the past year, charting the 28th straight week of double-digit annual gains. The report notes that the persisting gap between supply and demand should continue to support upward price pressure in the coming months. The impact of the recent winter storm in Texas is expected to reinforce this trend over the next several weeks.
- According to the report's estimates, active inventory is on the decline, dropping by a whopping 49% year-over-year. Pent-up demand from early-2020 bottlenecked amid the Spring shutdown and sprung onto the market once lockdown restrictions lifted, fueling a jump in home sales and a decline in available supply.
- The report also notes that the average time-on-market was seven days below the mark set one year ago, reflecting a more competitive and liquid market than before the pandemic.

7. COVID CASES & VACCINATIONS

- The 7-day moving average of COVID-19 cases in the US fell to 68,478 on February 27. Since February 19th, the 7-day average has remained below 70,000 cases, a level it hasn't fallen to since October 25th. New cases have plateaued in recent weeks as the impact of the recent holiday surge has receded. Still, some experts have raised concerns arising from several COVID variants spreading throughout the US, most notably the UK variant and, more recently, mutations found in California and the New York City area.
- Through February 27th, 48.4M Americans have received at least one dose of the vaccine, with 23.7M people fully vaccinated. This represents 14.8% and 7.2% of the civilian population, respectively.
- On Saturday, February 27th, the FDA approved a third vaccine candidate for the US, a single-dose treatment produced by Johnson & Johnson, which is estimated to have an efficacy rate of 74% against asymptomatic infections. The Johnson & Johnson vaccine joins the Pfizer-BioNTech and Moderna vaccines as available treatment options for Americans.

8. STIMULUS PAYMENT USAGE

- According to the Census Bureau's Household Pulse Survey (HPS), 27% of people who have received their stimulus check in the past seven days had used the additional funds for consumption.
- An estimated 21% of survey respondents report having "mostly saved" their stimulus checks.
- According to the report, more than half of recent recipients (52%) have opted to use the payment to pay down existing debt.
- These data reflect some deterioration of household finances as the economic effects of the pandemic remain severe. According to HPS, when the first round of stimulus checks was released as part of the CARES Act, 46% of households spent the money on consumption/household expenses, 22% saved the money, and just 32% used it to pay down indebtedness.

9. CDC EVICTION MORATORIUM

- On Friday, February 26th, a federal judge ruled that the CDC enacted moratorium on evictions was unconstitutional. Initially instituted during the Trump Administration in the Fall, the moratorium was extended through September by President Biden via executive action on March 31st.
- The measure had been criticized by many landlord advocates, arguing that the CDC had overstepped its authority in issuing the moratorium, while some economists questioned the effectiveness of it as a relief tool for renters. Tenant advocates who criticize the recent ruling argue that it will trigger a flood of evictions and is ill-timed given the recent winter storm that has imperiled millions across the State of Texas.
- According to a report released by the Urban Institute in January, an estimated 3.3m people, which represents 4.7% of all renters, reported receiving an eviction notice or threat of one since the beginning of March 2020.

10. REITs

- In the roughly one-year since financial markets started to show signs of distress, Equity REITs have continued to make progress toward returning to pre-COVID valuations, albeit more slowly than most other public equities. Measured by NAREIT's All Equity REIT Index, Equity REITs are down 4.1% year-over-year across all property types through February 25th.
- REITs focusing on diversified portfolios, free-standing retail, and offices continue to see share prices the furthest below year prior levels, with valuations falling year-over-year by 15.6%, 14.7%, and 14.6%, respectively.
- Timber and Self-Storage REITs have posted the most robust annual returns over the past twelve months, registering 25.9% and 18.3% gains, respectively.

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SUMMARY OF SOURCES

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