Economic Update

JANUARY 15, 2021

1. INTEREST RATES

- The yield on a 10-year US Treasury Bill rose to 1.13% as of Friday, January 8th, 2021– the highest level since March 18th, 2020.
- The yield curve, a measure of interest rate differences between short-dated and long-dated securities, has similarly continued along a path of recent recovery. A steep sloping yield curve is considered a market predictor of positive future economic growth, while a negatively sloping yield curve reflects recessionary expectations. The yield spread between the 10-year and 3-month Treasuries has risen to 1.07%, more than doubling the recent-low of 0.45% observed in August 2020.
- Despite rising Treasury yields, the average interest rate on a conventional fixed-rate 30-year mortgage has not started to see upward pressure. According to Freddie Mac, these mortgage rates remain down at 2.65% as of January 7th, 2021–their lowest rate on record.

2. SHORT-TERM ENERGY OUTLOOK

- According to the US Energy Information Administration (EIA), the pandemic caused both domestic supply and demand for energy to decline in 2020, with total consumption falling 7.8% from 2019 levels. EIA forecasts that annual consumption will rise by 2.6% in 2021 and 2.5% in 2022. Total energy consumption is forecast to still trail 2019 levels by 3% through 2022.
- Compared to an average price per barrel (b) of $42 in 2020, EIA forecasts that Brent crude oil's price will rise to an average of $53/b in both 2021 and 2022– a 26% jump.
- The retail price for a gallon (gal) of gasoline fell in 2020 by a little more than 16%, declining from an average of $2.60/gal in 2019 to $2.18 last year. For the year ahead, EIA forecasts that the price will rise by 10% to $2.40, then increase marginally in 2022 to $2.42.
- The report notes that the pandemic had an asymmetric impact on the electricity consumption of commercial and industrial sectors in 2020, with electricity sales to each group falling by 6.0% and 7.9%, respectively. In total, electricity consumption fell by 4.0%, as a higher usage by residential properties moderated the decline. In 2021, EIA forecasts that total electricity usage will rebound by 1.5%.

3. CONSTRUCTION SPENDING

- According to the Census Bureau, annualized total construction spending has recovered and surpassed pre-pandemic highs. Annualized spending reached $1.46 trillion in November 2020, up 3.8% from a year earlier and 1.3% from the pre-shutdown high set in February 2020.
- Nonresidential construction spending remains down by 4.7% year-over-year and 5.7% from its March 2020 peak. Digging into the subsets, annualized construction spending on lodging properties is down by a survey-

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worst 26.5% year-over-year. Other negatively impacted subsets include manufacturing (-15.1%), amusement and recreation (-14.9%), and conservation and development (-12.9%).
- Residential construction spending, meanwhile, is growing at a torrid pace. Annualized residential spending totaled $667 billion in November 2020, up 16.2% from one year ago.

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

- According to the S&P's Case-Shiller Home Price Index, home prices have continued to surge to new heights during the pandemic, driven by record-low interest rates and an increased occurrence of urban flight.
- Through October 2020, the index reached an all-time high of 229.9, representing a year-over-year increase of 8.4%. Moreover, since the start of the recession in February 2020 alone, home prices are up 7.8%.
- Home price appreciation before 2020, while remaining positive, was slowing, falling as low as 3.1% in August 2019.
- 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.

5. POPULATION GROWTH

- According to the Census Bureau, the US population grew by less than 0.4% in 2020, reaching an estimated 329.5 million people. Population growth has undergone a secular decline in recent decades. In 1992, population growth totaled 1.4%. Over the 28 years since, population growth has declined 22 times. Moreover, 2020's growth estimate marks the lowest annual increase on record.
- Regionally, the South and West added the most residents in 2020, with the population estimates for the two growing by 0.78% and 0.45%, respectively. The Midwest saw its population decline by a minuscule 0.03%, keeping it effectively unchanged from 2019. The Northeast, however, saw its population shrink by 0.27%.

6. JOB GROWTH

- Total nonfarm payroll employment declined by 140,000 workers in December.
- After a slight decline in March and a steep decline in April, employment in the US rebounded sharply in May and June before tapering off throughout the Summer and Fall. December's measure is the first month-over-month decline since April.
- Key industries behind December's decline include leisure & hospitality (-498,000), private education (-63,000), and government employment (-45,000).
- Professional & business services led all other sectors in December, adding a market-leading 161,000 jobs. Other sectors reporting strong job growth include retail trade and construction, which added 121,000 and

51,000 jobs, respectively.

7. UNEMPLOYMENT RATE

- The Civilian Unemployment Rate (U-3) remained unchanged at 6.7% in December. In April 2020, the U-3 hit a post-Great Depression high of 14.7% and then proceeded to fall as national lockdown restrictions eased through the Summer months. December's reading is the first since April not to show improvement.
- The U-6 Unemployment Rate, a measure that includes the headline U-3 measure in addition to marginally attached workers and laborers who are working part-time for economic reasons, declined by 2.5% through December to 11.7%.
- Discouraged workers, a subset of marginally attached laborers not classified as part of the labor force though would want a job, remained unchanged in December. However, more than 262K workers have become discouraged since the recession began in February, and the figure has only improved by a paltry 40k people since its high watermark in July.

8. INITIAL & CONTINUING JOBLESS CLAIMS

- According to the Department of Labor's most recent report, initial unemployment claims dropped by 3K to 787K during the week ending January 2nd. The four-week moving average fell to 819K, a decrease of 19K from the week before, and the first time the average has fallen since mid-November.
- In the entirety of the 2007-2009 recession, initial jobless claims totaled 39.5 million. Once the pandemic reached US shores in March, it took only 11-weeks to eclipse the GFC's total. Since the week ending March 14th, an unsightly 74.1 million initial claims have been filed.
- The number of continued unemployment claims stood at 5M during the week ending January 2nd, down by 126K from the week prior. The 4-week moving average dropped to 5.27M, a decrease of 177K from last week's revised average of 5.45M.

9. JOB OPENINGS LABOR TURNOVER SURVEY

- The number of nonfarm job openings reported by US employers fell by 105k between October and November, another sign that the labor market recovery is likely on pause for the Winter.
- Hiring ticked up marginally in November, rising by 67k to 6.0 million. Before the pandemic, monthly hires in the preceding 12-months sat in a narrow range between 5.7 million and 6.0 million. After falling as low as 4.0 million in April and surging as high as 7.2 million in May, the pace of hiring has re-settled back near pre-pandemic norms.
- The number of US workers quitting their jobs remained virtually unchanged in November, holding slightly

below 3.2 million. A higher number of quits is regarded as a welcome sign, as it would suggest that workers have confidence in testing the jobs market. The monthly total remains 419k below the pre-pandemic peak of 3.6 million from January 2020.

10. ISM PURCHASING MANAGERS INDEX (PMI)

- The ISM Purchasing Managers Index (PMI), a measure of manufacturing sentiment where a reading above 50 indicates expansionary expectations, increased by 3.2 points to 60.7 in December 2020, the biggest month-over-month increase since August 2018.
- December's month-over-month increase marks the metric's seventh consecutive month of improvement. Both improvements in new orders and production were noted in the ISM's release.
- According to the Institute of Supply Management, manufacturing continued to rebound in December as many firms and their suppliers adjust to new conditions, including operating in reconfigured factories. Still, respondents noted challenges in absenteeism, returning and hiring workers, and COVID safety-related shutdowns as impediments to growth.

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SUMMARY OF SOURCES

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