

A Light at the End of the Tunnel and the Road Ahead

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**You
are
here**

Questions I will attempt to answer today:

1. How did the economy get here?
2. What is the current economic situation?
3. Where is the economy headed this year? In the next 5 years?

A few considerations before I begin:

- Focus on the formal macroeconomy
 - There is an informal sector of the economy that is not captured in most economic statistics.¹
 - Household well-being is more than just jobs and money.
- Trend vs Cycle: National and regional economy
- People vs. Places: Defining the regional economy

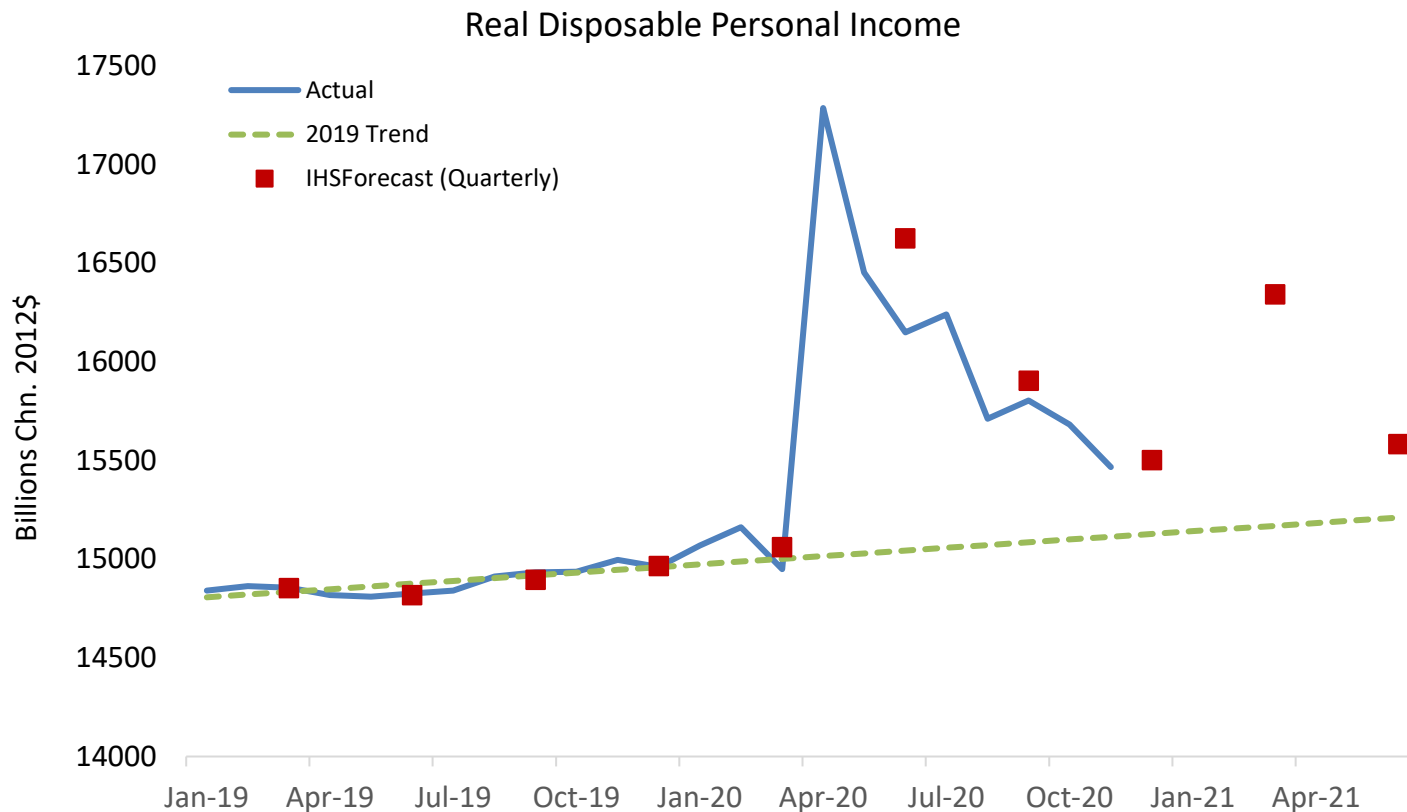
1. How Did the Economy Get Here?

- Initial pandemic shock
- Financial crisis
- Fiscal Stimulus
- Pandemic effect versus shutdown policies
- Knowledge of COVID-19 (and testing) brought a divergence in virus trends and economic trends

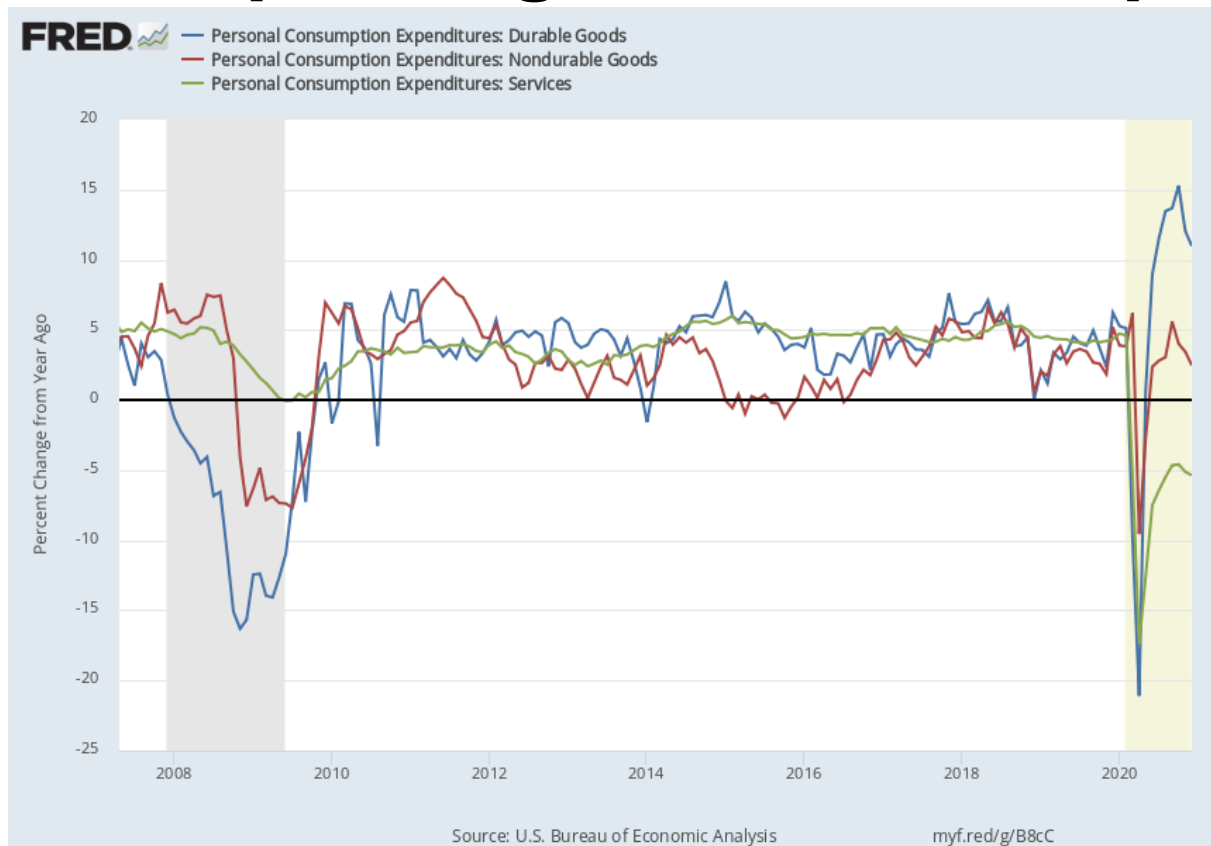
A Prolonged Financial Crisis was Averted



Fiscal Stimulus More Than Offset Lost Income



Consumer Spending on Goods Is Up Sharply



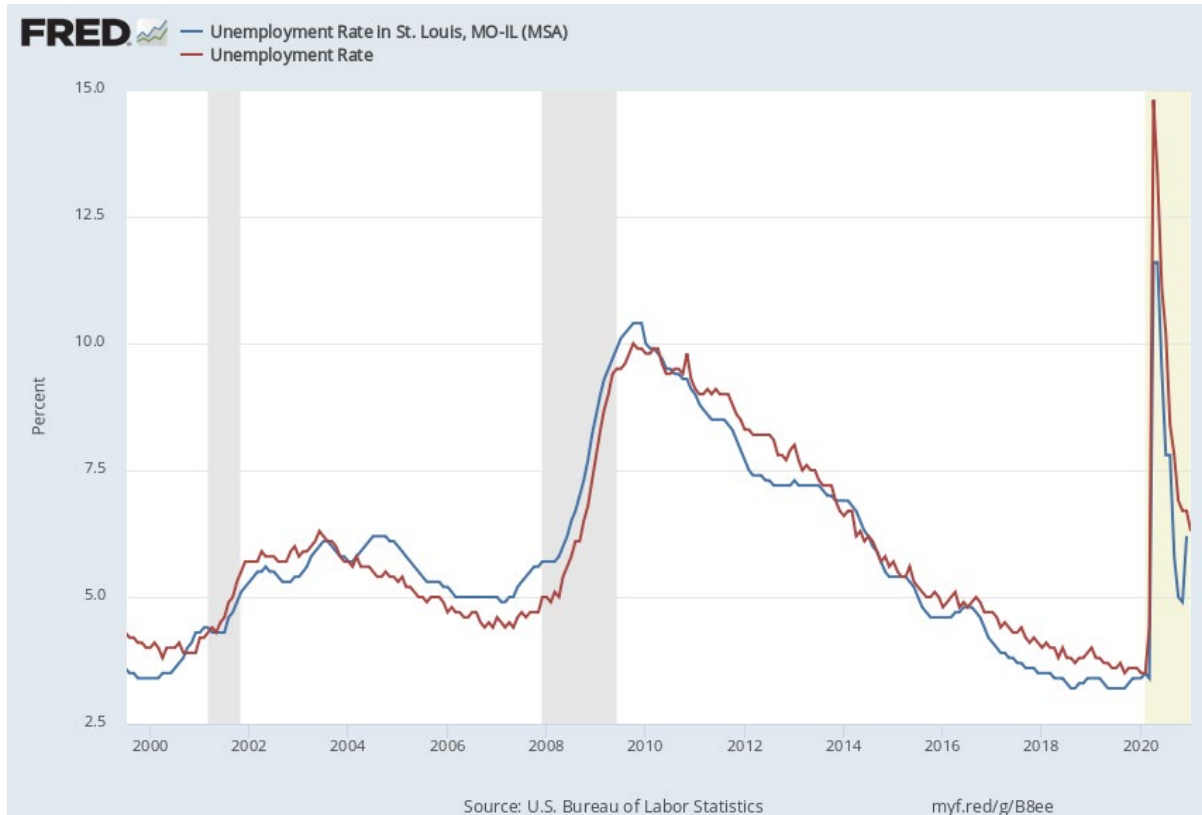
Pandemic Effect vs. Government Shutdowns

- Policies are created in response to an event, or an expected event. They also reflect preferences of households. The impact is difficult to identify, a few academic papers have tried and found the following:
- While overall consumer traffic fell by 60 percentage points, legal restrictions explain only 7 percentage points of this. Individual choices were far more important and seem tied to fears of infection.¹
- Of the 17 million Unemployment Insurance claims made (between March 14 and April 4) 4 million were attributable to the Stay-at-Home orders.²
- Households living in counties that went into lockdown earlier formed more pessimistic outlook. The imposition of lockdowns can account for much of the decline in employment as well as declines in consumer spending.³

2. What Is the Current Economic Situation?

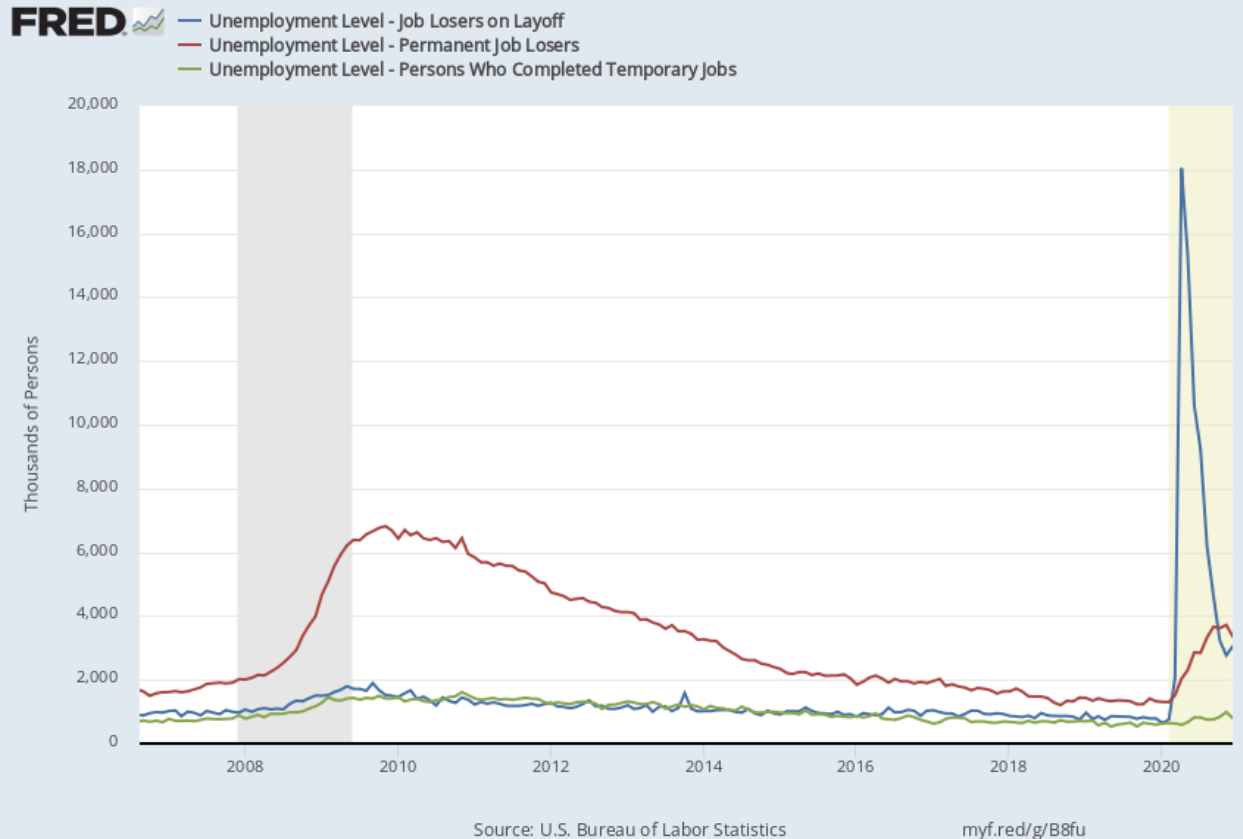
- The recession was the shortest and deepest on record, we're now in recovery.
- Two economic narratives
 - Story A: A quick rebound
 - Story B: A long way to go
- The current situation depends on who you are, not where you are.

A Quick Rebound: Look at the Unemployment Rate!



December
2020
6.7
6.2

A Quick Rebound: Most Layoffs Were Temporary

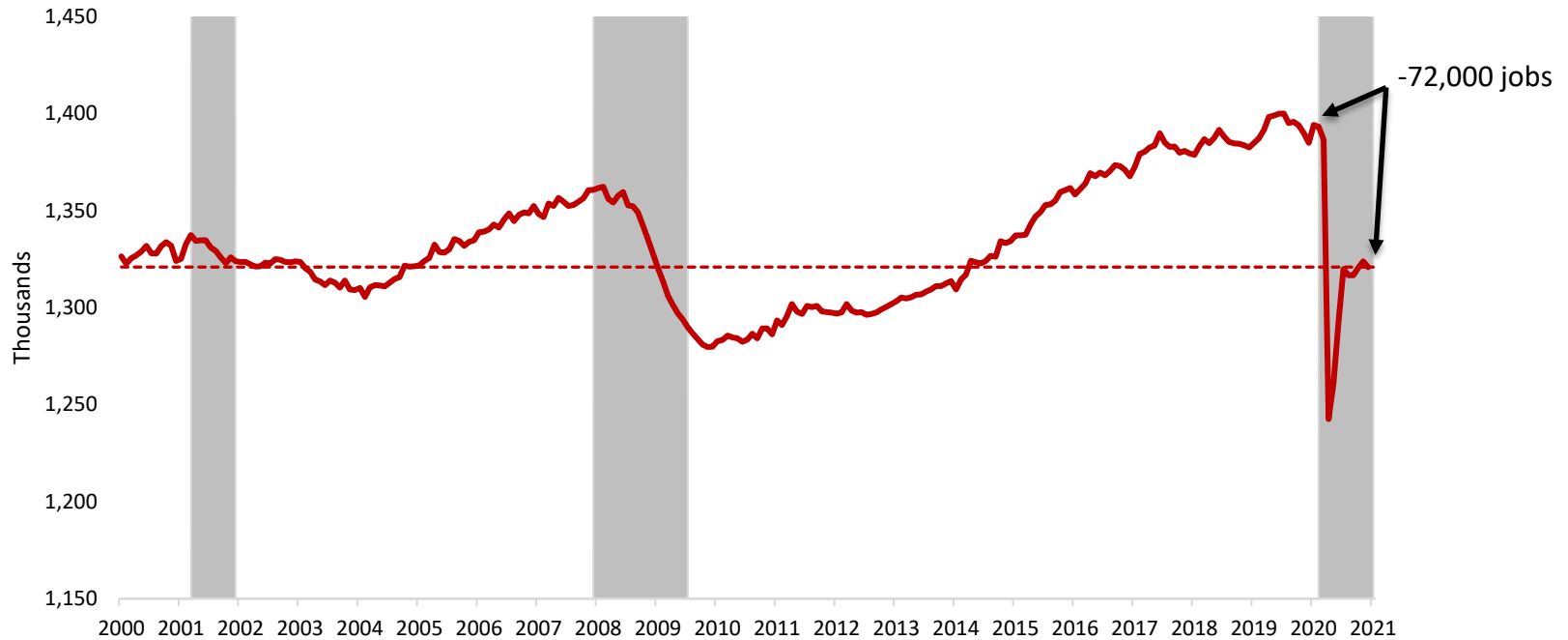


	Temp. Layoff %
US	38%
Missouri	30%
St. Louis, MSA	34%

Average over last six months of 2020, not seasonally adjusted

A Long Way to Go: Job Losses Are About the Same as the Great Recession

Nonfarm Payroll Employment, St. Louis MSA



A Long Way to Go ...

	US	Missouri	St. Louis, MSA
2008 Recession	-6.0	-4.8	-5.9
2020: Feb. to April	-14.7	-11.3	-10.8
2020: Feb. to Dec.	-6.5	-4.0	-5.2

Where you work matters more than where you are

Summary of Employment Changes across 350 US Metro

	February to April	April to December
Average	-13.2	9.0
Min	-33.5	-0.5
Max	-4.5	28.7
Std. Dev	3.9	3.9

Summary of Employment Changes across 22 US Major Sectors (2-digit NACIS)

	February to April	April to December
Average	-13.0	9.1
Min	-53.3	-3.5
Max	-0.7	51.3
Std. Dev	13.5	14.4

... Historically, Many Jobs Have Not Come Back

St. Louis, MSA
2001 Recession and Recovery

-40 -20 0 20 40

Others
Hospitality
Retail

Edu. And Health
Manufacturing

Construction

Thousands of Jobs

■ Net ■ Recovery ■ Recession

St. Louis, MSA
2008 Recession and Recovery

-40 -20 0 20 40 60

Others
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St. Louis, MSA
2020 Recession and Recovery

-100 -50 0 50

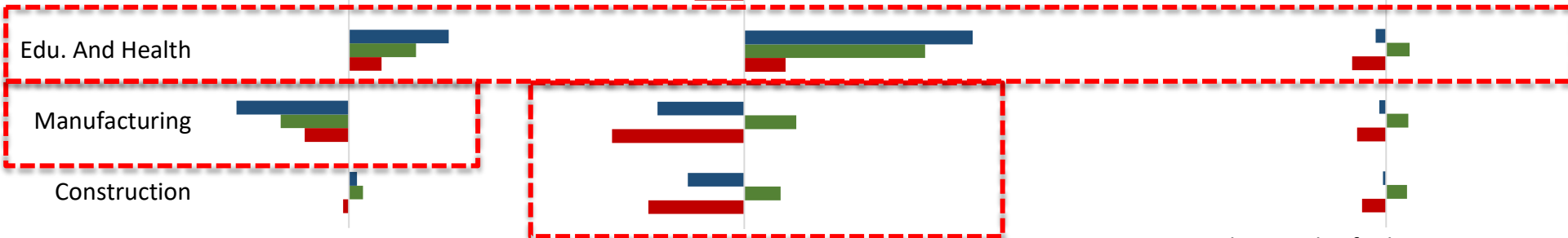
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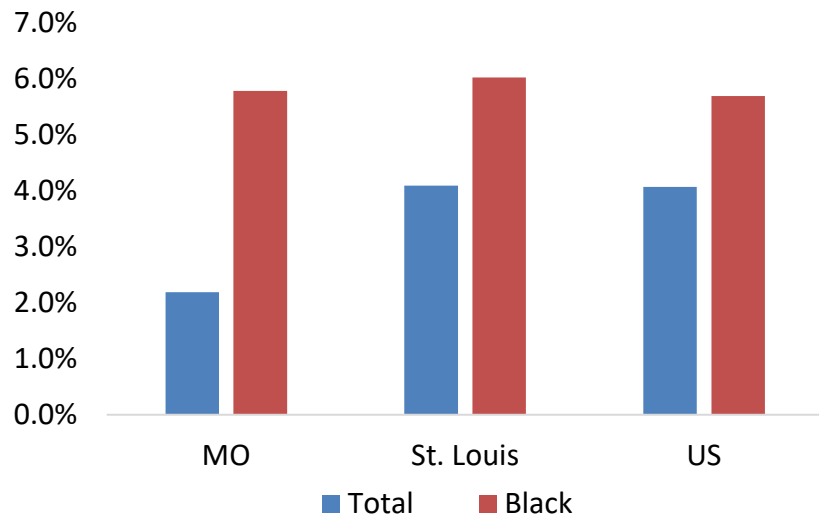
Thousands of Jobs

■ Net ■ Recovery ■ Recession



Racial Disparities in Unemployment Mirror National Trends

Change in Unemployment Rate 2019:H2 to
2020:H2



	Total UR	Black UR
US	7.6	11.4
Missouri	5.4	10.8
St. Louis, MSA	7.1	12.3

Average over last six months of 2020, not seasonally adjusted

3. Where Is the Economy Headed this Year?

- Additional rounds of stimulus will again boost incomes and drive spending (and pay down debt).
- Supply chain difficulties persist, retail inventories remain low, these factors could restrain growth.
- Pandemic will need to end *before* businesses shift gears to full recovery mode. July 1 seems like a key revaluation point.
- Expecting economy to grow above trend in 2021, but slower growth during first half of the year.

3. Where Is the Economy Headed this Year?

Model-Based Forecasts for 2021

	Real GDP Growth	Payroll Employment Growth	Unemployment Rate
US	5.7%	1.9%	5.7%
Missouri	5.8%	2.4%	4.5%
St. Louis	4.4%	2.8%	4.2%

Source: IHS/Markit

3. Where Is the Economy Headed this Year?

Upside Risks

- COVID-19 decline faster than expected.
- Pent up demand and additional saving creates quick rebound.
- Fiscal stimulus, just what is needed or too much?
- Productivity boom due to pandemic innovation
- Recession accelerated trends that were slowing growth.

Downside Risks

- COVID-19 slower decline or resurgence.
- Uncertainty restraining spending
- Fiscal stimulus, will it last long enough to get the economy back open?
- Structural changes to businesses take time to implement and realize gains.
- Long-term unemployed will need time to train and find jobs.

3. Where Is the Economy Headed in the Next Five Years?

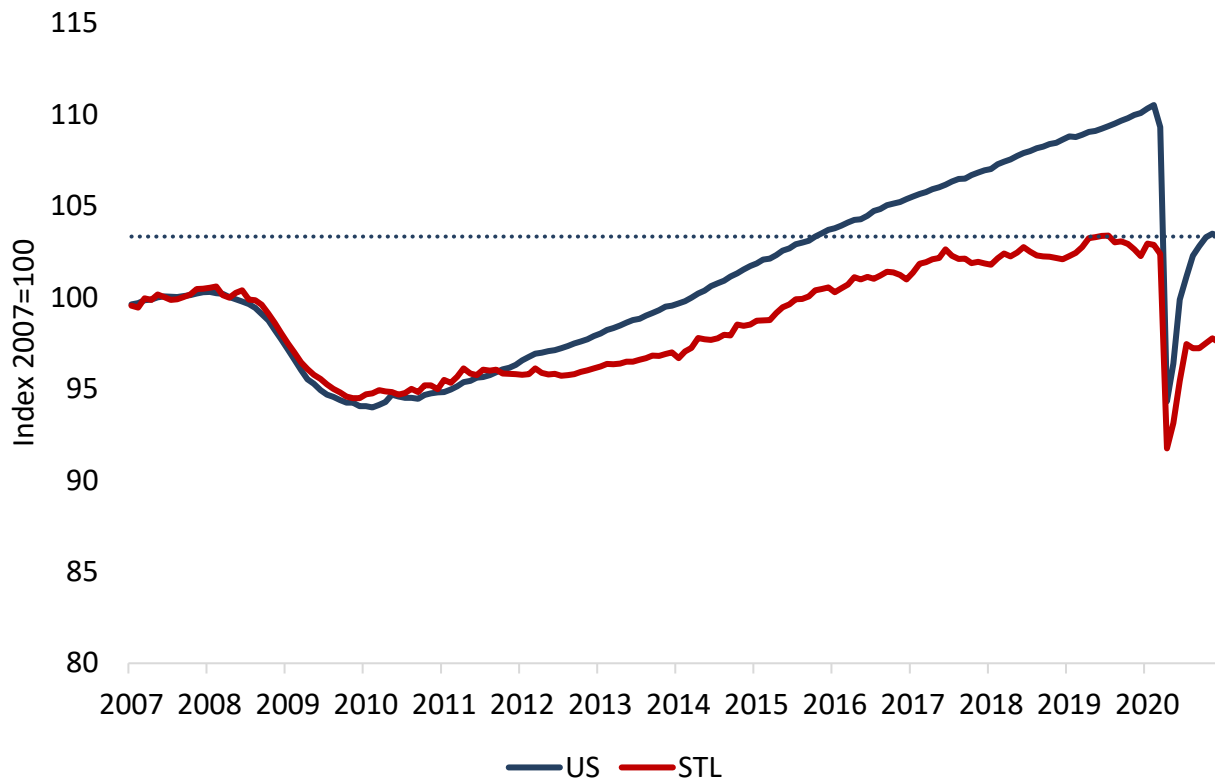
- Future of telework, what does it mean for cities?
- Look to trends and not the cycle
- Slow labor force growth on the horizon?
 - Aging population and low rates of immigration
 - Loss of human capital from no school and declines in labor force participation are concerning⁵
 - Focus on economic equity and inclusive growth could expand labor force

What Does Telework Mean for Cities?

- The US experienced a net-flow of people out of US urban areas during 2020. This wasn't due to urban flight, rather a sharp drop in in-migration.⁶
- A survey of 22k Americans found 22% of all workdays would be supplied from home after the pandemic. Up from 5% pre-pandemic.⁷
- Economic models find that when WFH increases, jobs move to the core of cities and residents move toward the suburbs.⁸
- Housing prices near city center should grow slowly, while suburban housing prices would grow faster.
- Impact on congestion is unclear: commutes per week decline, weekly commuting miles may not change, and non-work commuting would likely increase.

Don't Lose Sight of the Trend During the Cycle

Nonfarm Payroll Employment



Slower Labor Force Growth on the Horizon

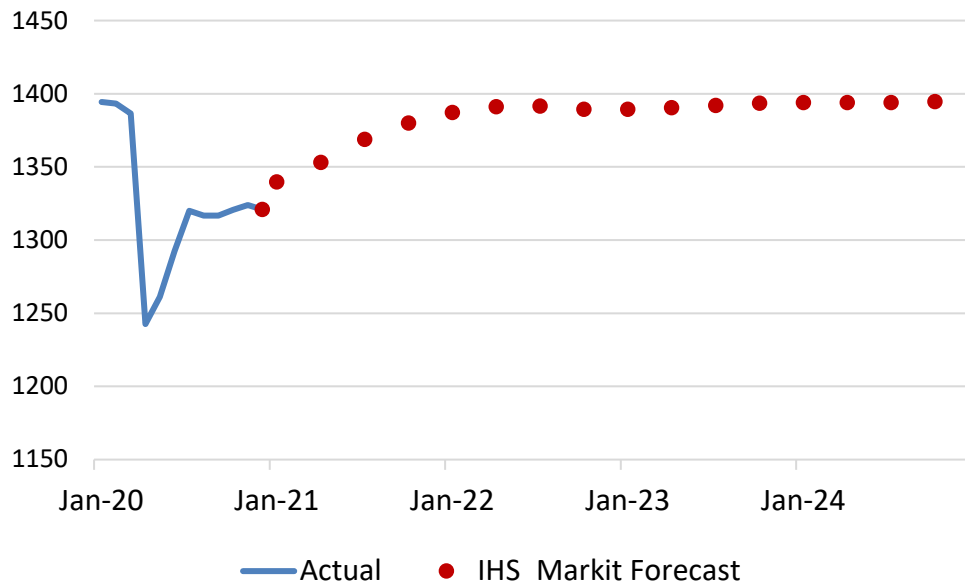
Model-based forecast: Change from 2019 to 2025

	Population Age 25-54 (% Chg.)	Population Age 25-54 (Chg.)	Labor Force (% Chg.)	Labor Force (Chg.)
US	1.9	2.4 mil.	3.9	6.3 mil.
Missouri	1.0	24,027	2.4	74,298
St. Louis, MSA	-0.4	-4,350	-0.2	-2,629

Source: IHS/Markit

Will St. Louis Regain all Jobs from the Pandemic?

Nonfarm Employment, St. Louis, MSA



Forecast change from 2019 to 2025

	Chg.	Chg. %
Metro Area	30	0.0%
St. Louis	5,527	0.9%
St. Louis City	-8,632	-3.6%
St. Charles	14,475	9.1%
St. Clair	2,053	2.1%
Madison	1,363	1.3%

Source: IHS/Markit

Strategies for a Slow Growth Environment

- Population growth is a sign of regional (geographic) prosperity.
- A stable population with rising incomes, employment rates, and property values indicate of economic prosperity of current population. This could set foundation for regional prosperity and population growth.
- Telework creates a disconnect between location of jobs and households, particularly at the upper-income.
- A renewed focus on households and their decision-making process is important for regional economic growth post-pandemic.
- Attracting business and jobs to stimulate migration can place a burden on the existing population regardless of outcome.
- Investing in the local population and entrepreneurs can grow labor force, income, and overall demand in a sustainable manner.

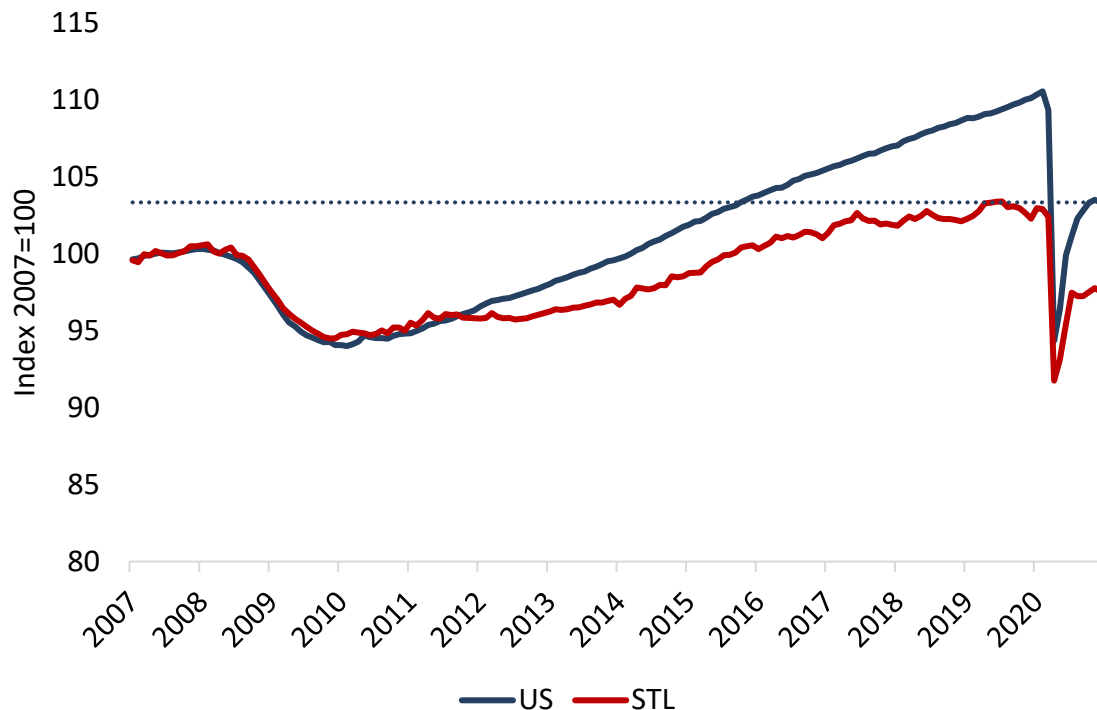
Key Takeaways

- COVID-19 impact was more similar than different across US Metro areas.
- 2021 is poised to be a strong year of economic growth but risks remain
- It's likely the recession accelerated trends already occurring, the goal is to move forward, not back.
- The St. Louis region baseline outlook of no population growth. This can be sustainable as long as income and employment rates rise.
- Growing from within involves by increasing educational attainment, labor force participation, and economic mobility.
- Absent opportunities for our existing population (particularly our youth) the future may look brighter elsewhere.

Difficult decisions ahead

Regional leaders must balance the desire to promote a quick recovery and making investments that promote sustainable trend growth.

Nonfarm Payroll Employment



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