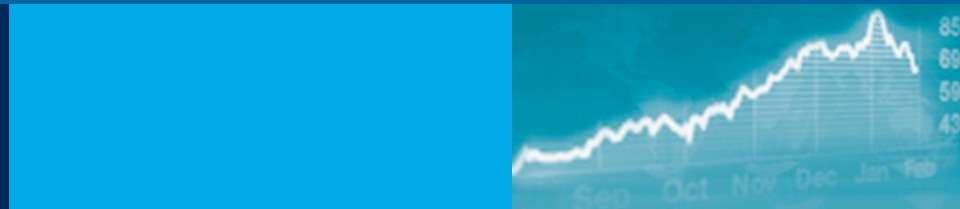




# Comments on the Economy

SC BEA  
October 14, 2021

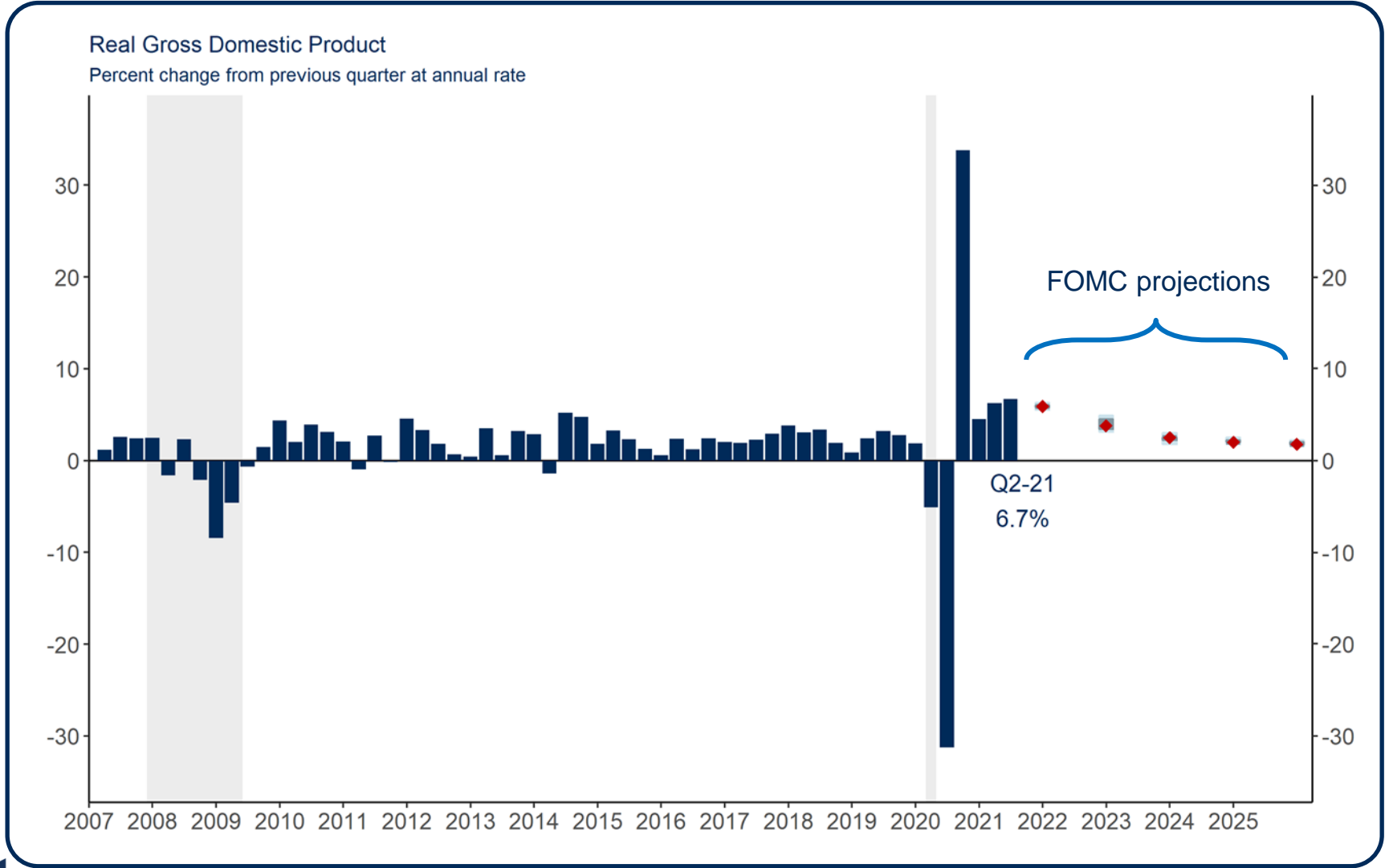


*Laura Dawson Ullrich, PhD  
Regional Economist  
Research Department  
Federal Reserve Bank of Richmond*



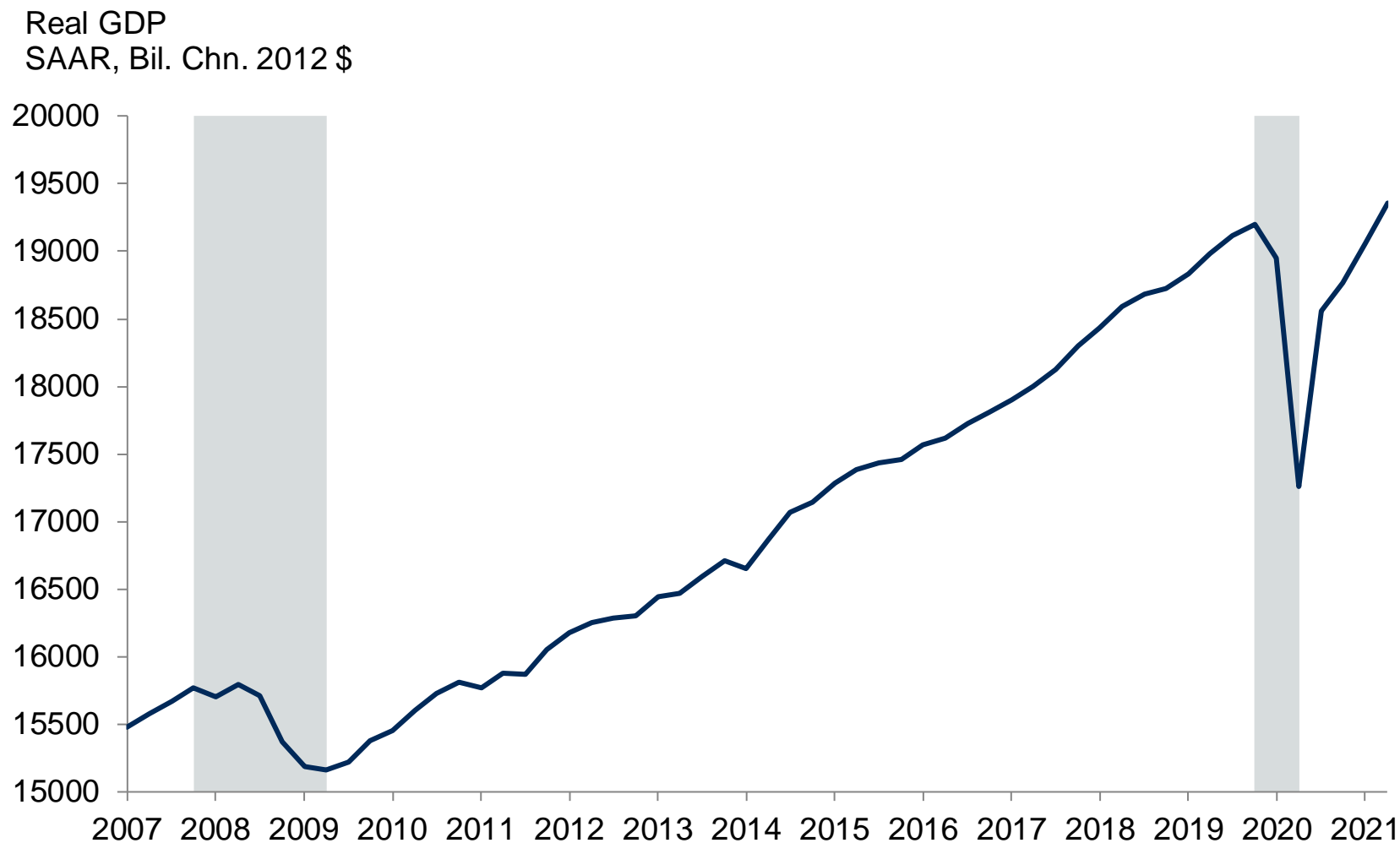
The views and opinions expressed herein are those of the author. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.

# Strong growth in real GDP is expected in 2021 after a volatile 2020



Source: Bureau of Economic Analysis/Haver Analytics, Federal Reserve Board

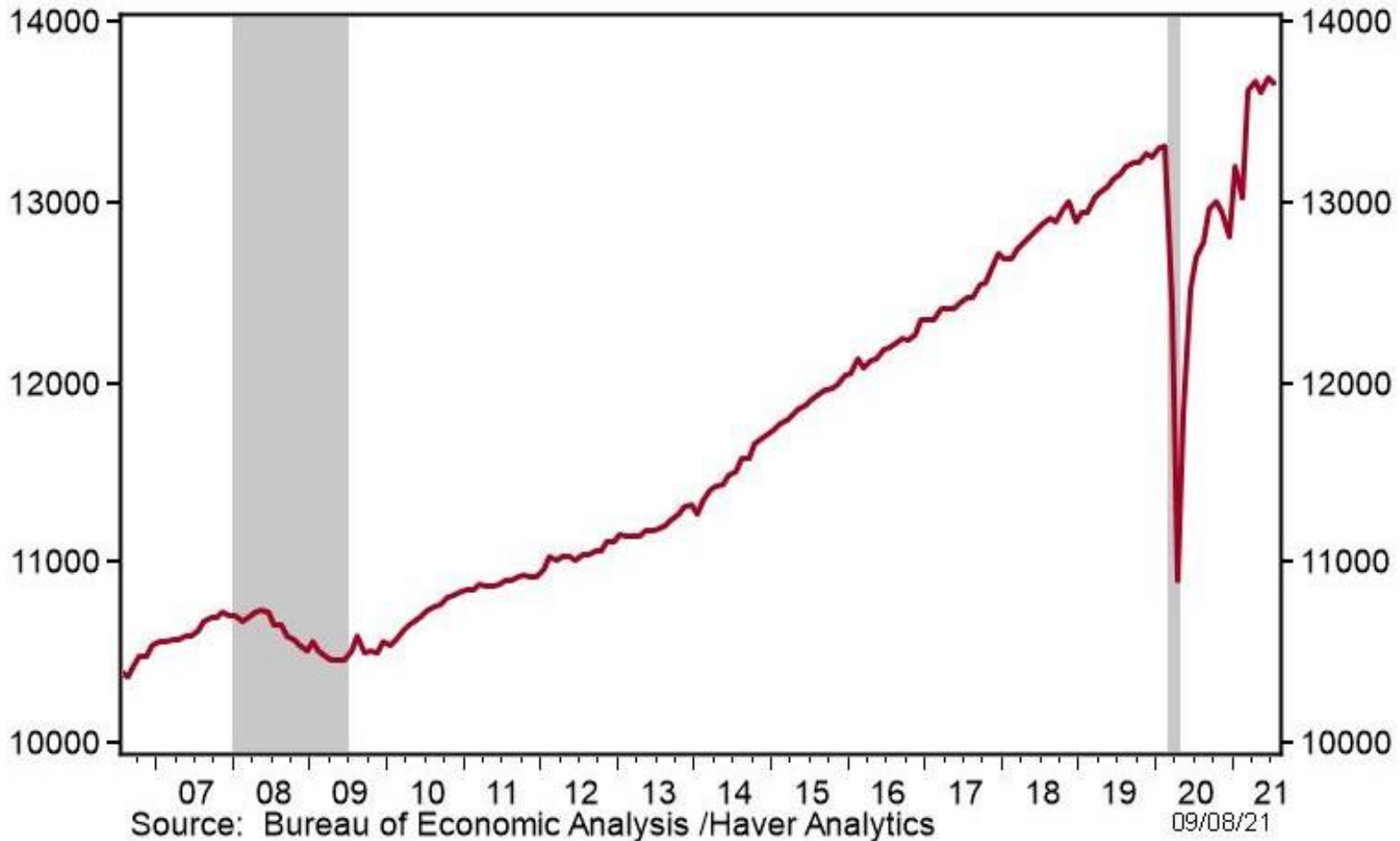
# The level of economic activity has recovered to pre-pandemic levels



Source: Bureau of Economic Analysis, Haver Analytics

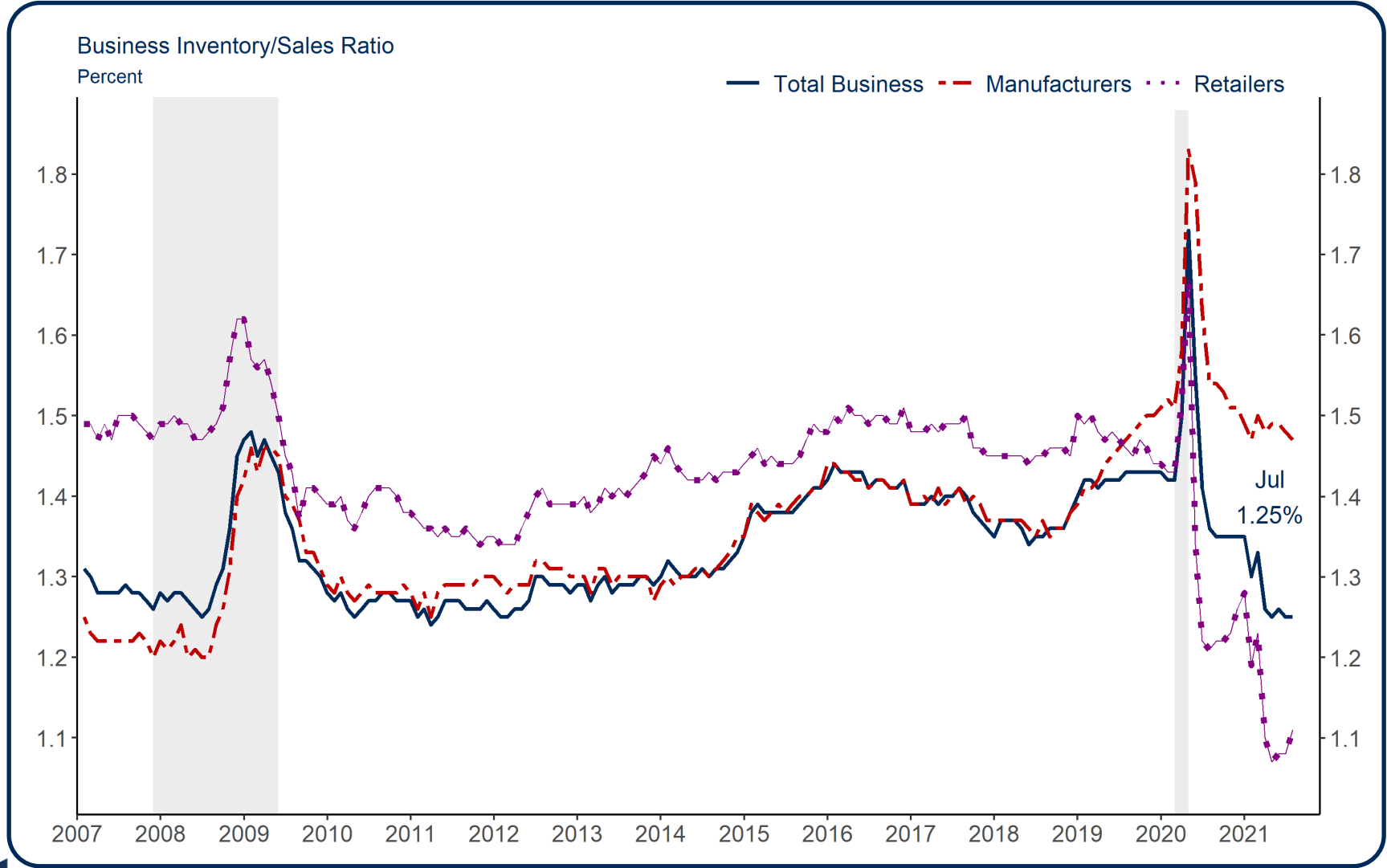
# Consumption spending has more than recovered, fueled by recovery and fiscal support...

Real Personal Consumption Expenditures, \$2012



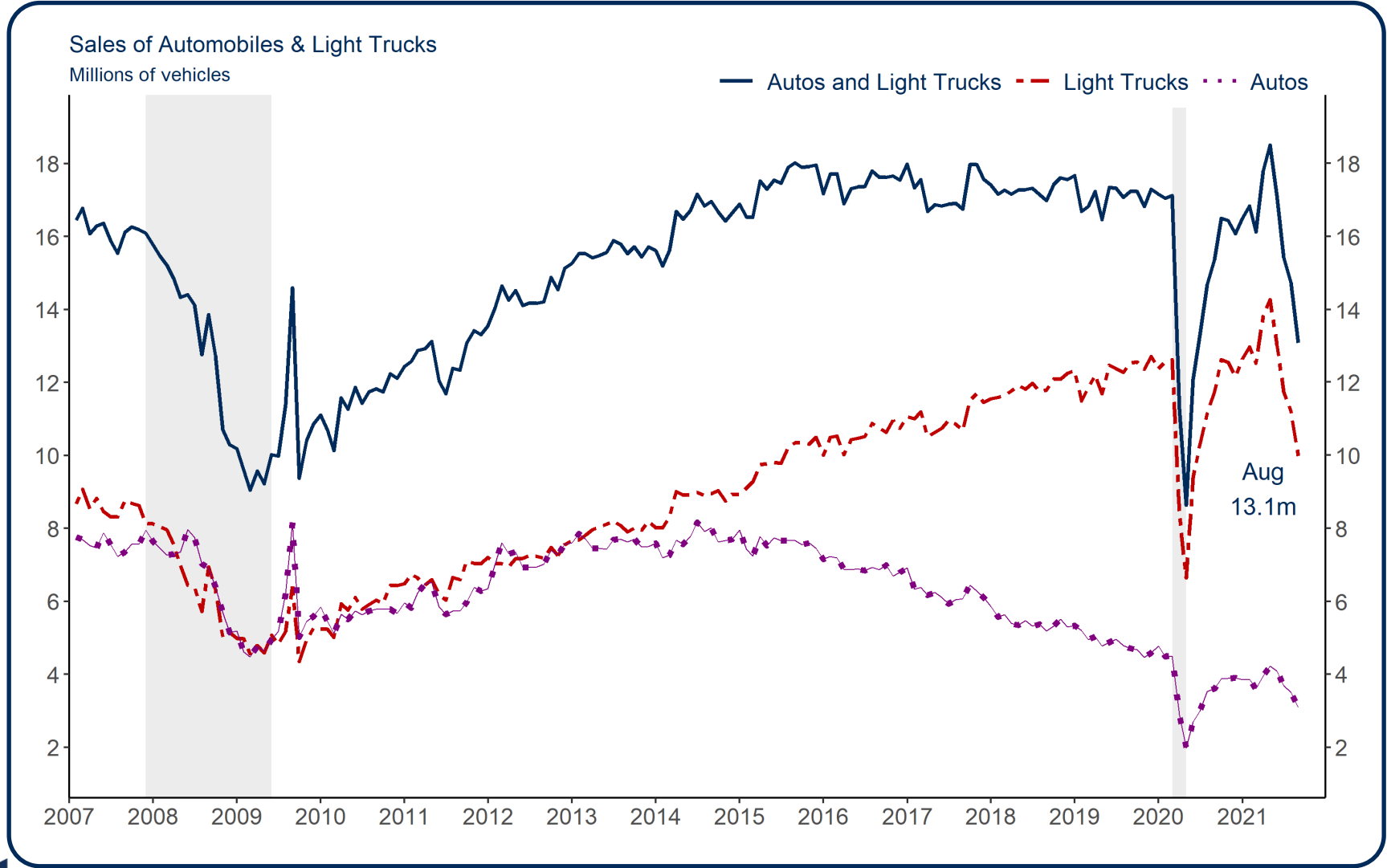
Source: Bureau of Economic Analysis/Haver Analytics

...but there are some concerns moving forward, mostly due to supply chain and labor issues...



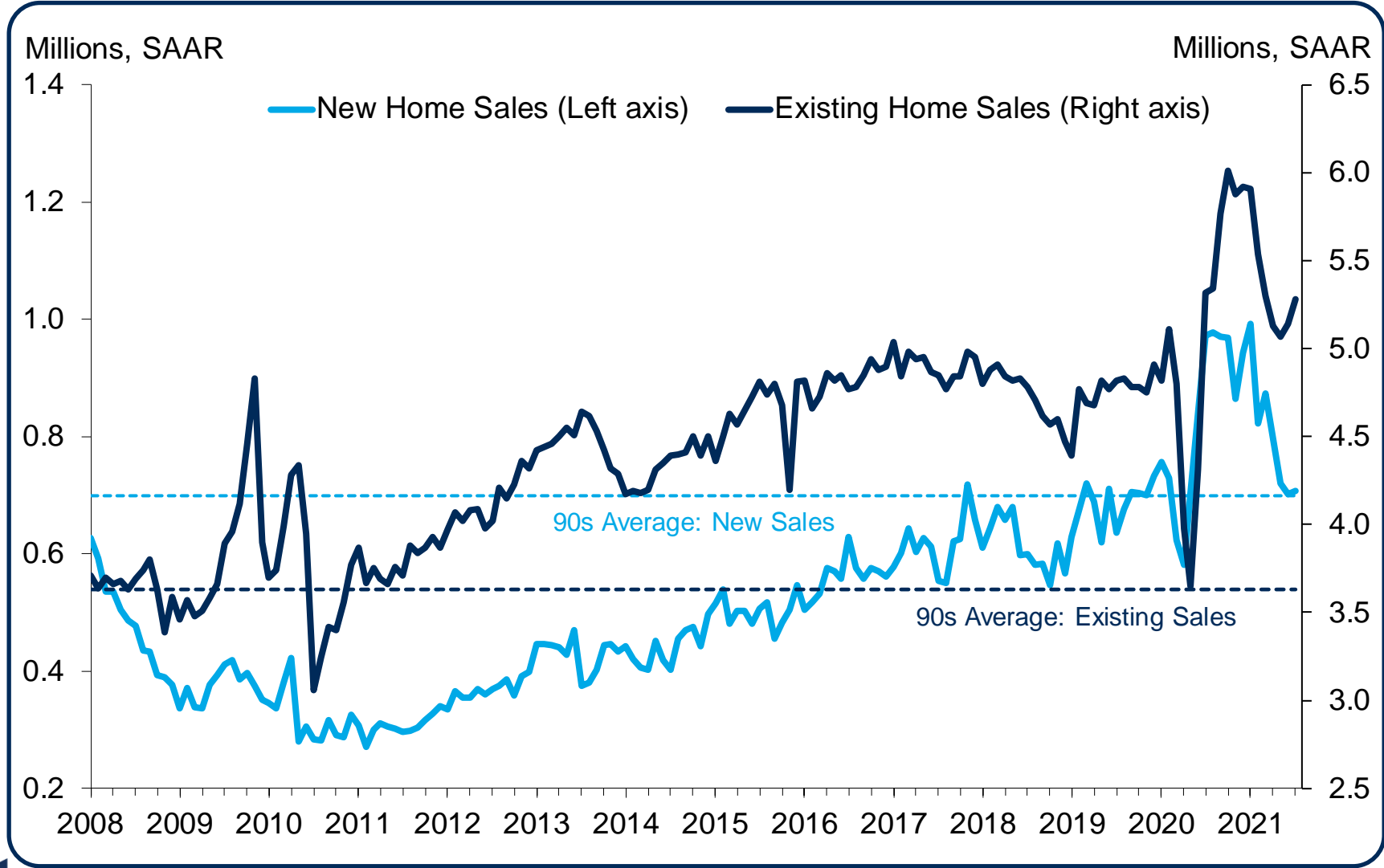
Source: Census Bureau via Haver Analytics

...and sales of some products, including autos, have already fallen due to inventory constraints...



Source: Census Bureau via Haver Analytics

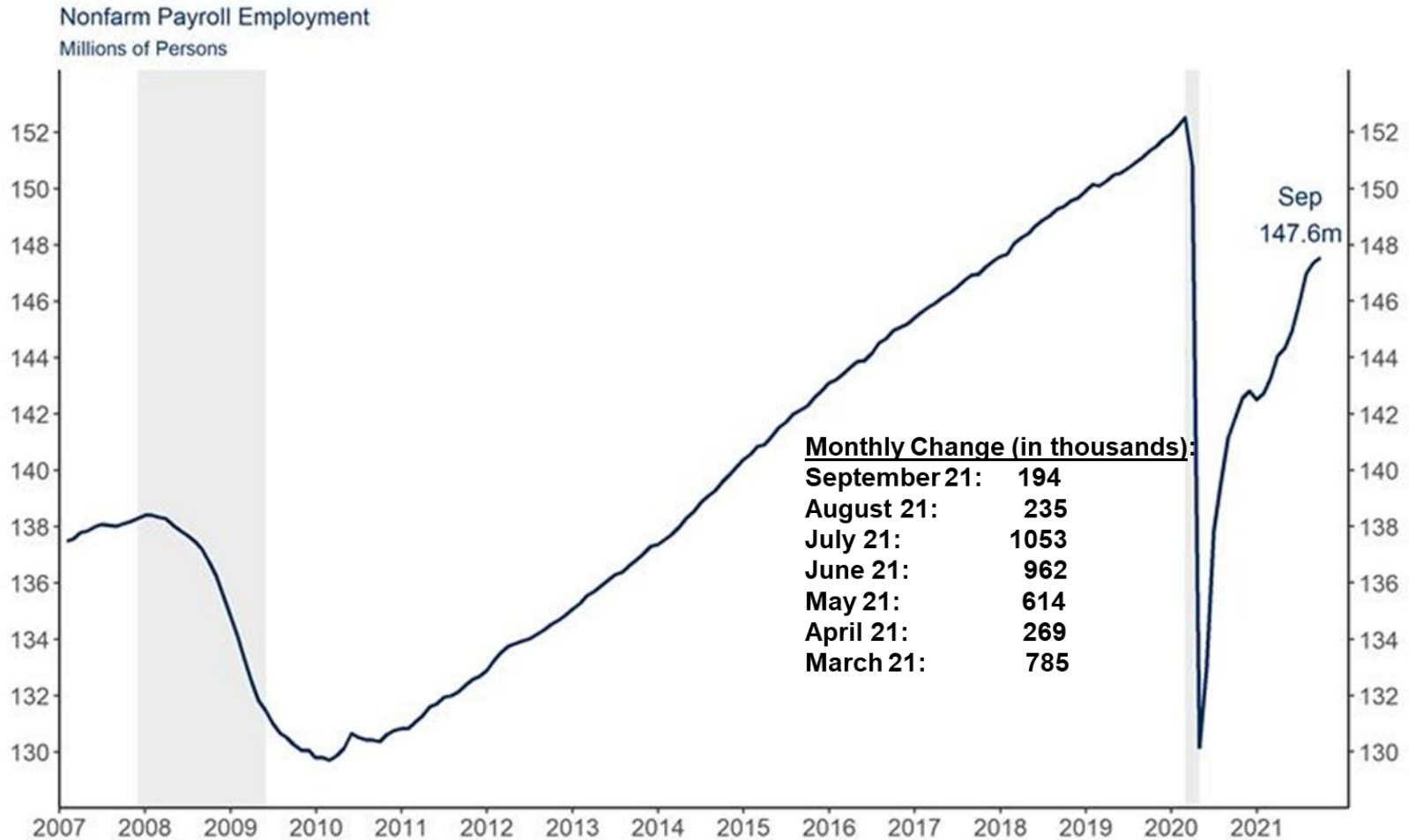
...as have home sales.



Source: Census Bureau via Haver Analytics



# Employment remains well below pre-pandemic levels and the September jobs report was disappointing



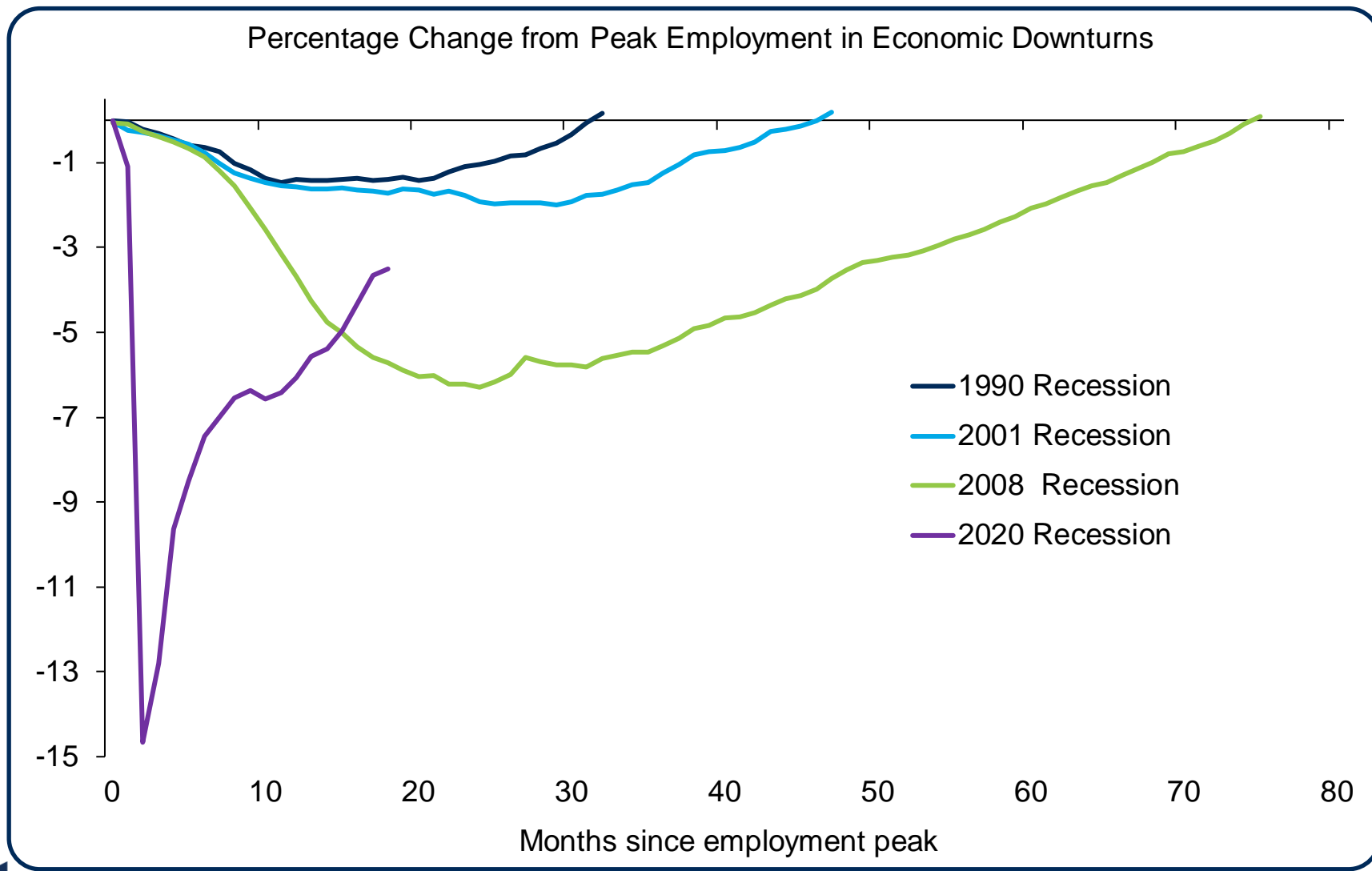
Source: Bureau of Labor Statistics/Haver Analytics

# Many have not returned to the labor force and the recovery path of labor force participation remains uncertain



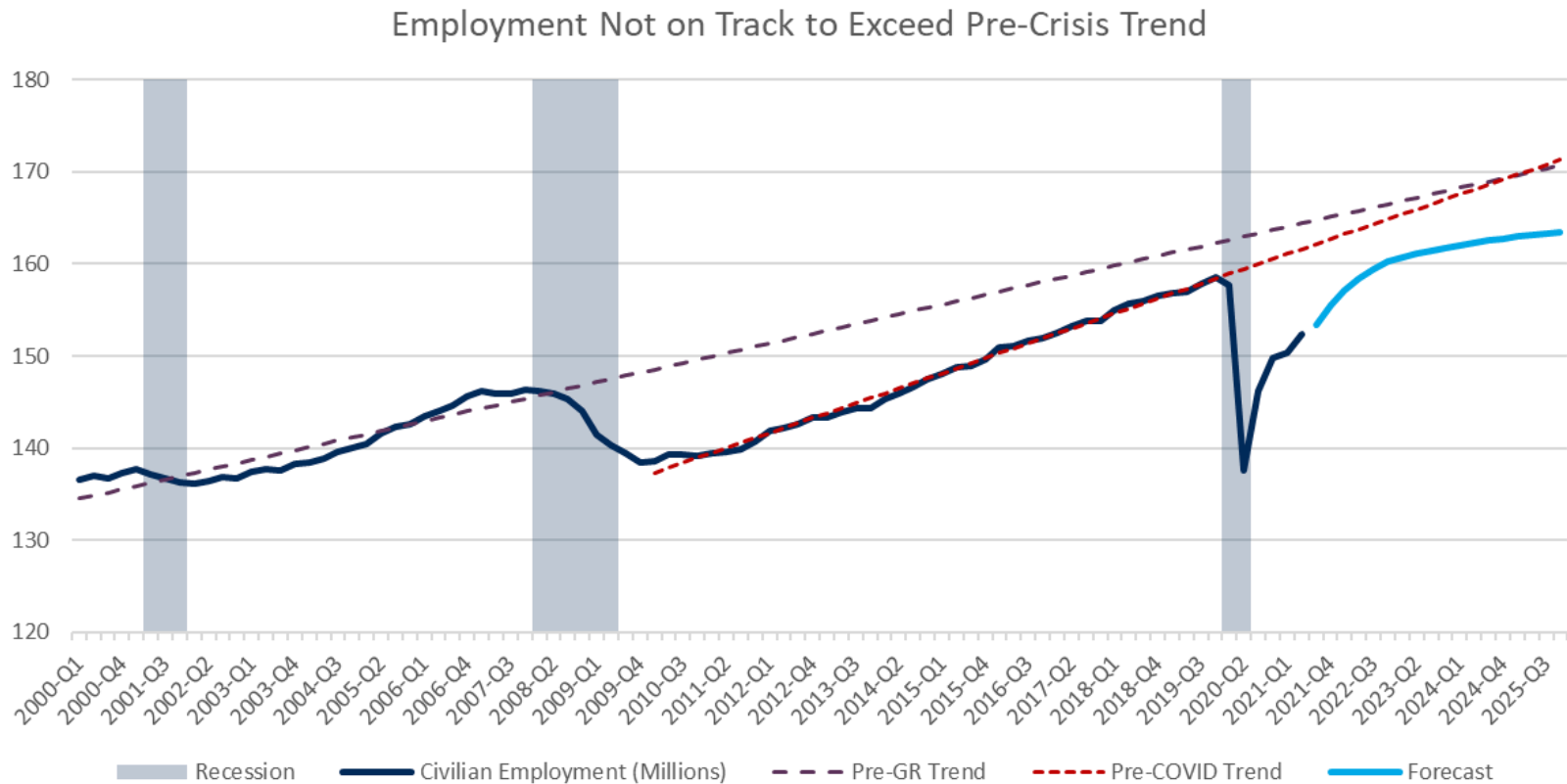
Source: Bureau of Labor Statistics

# The loss of jobs and the employment recovery is unique compared to other recessions...



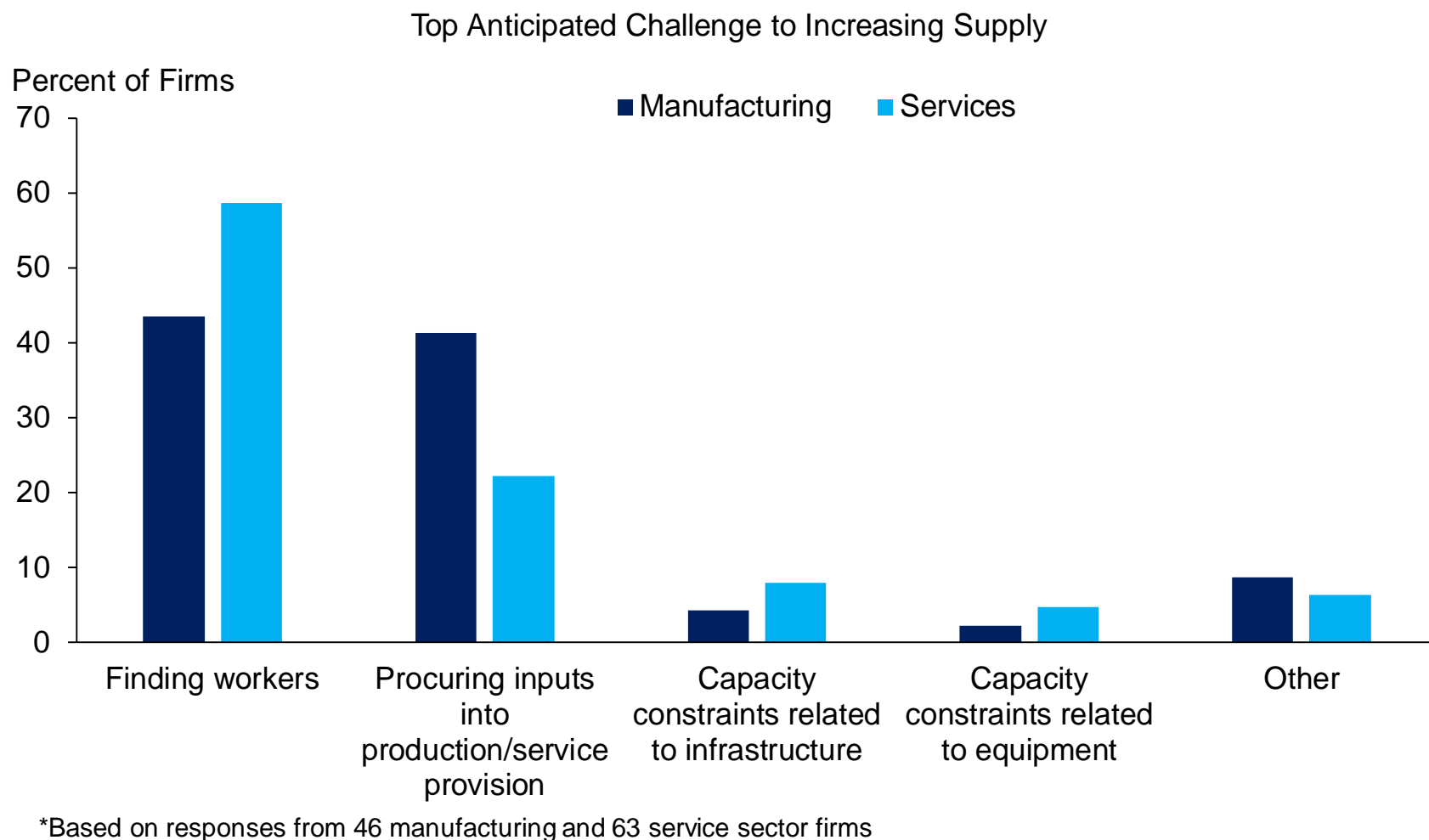
Source: Bureau of Labor Statistics/Haver Analytics

...and there may be reasons not to expect a full recovery.



Source: Bureau of Labor Statistics/Haver Analytics

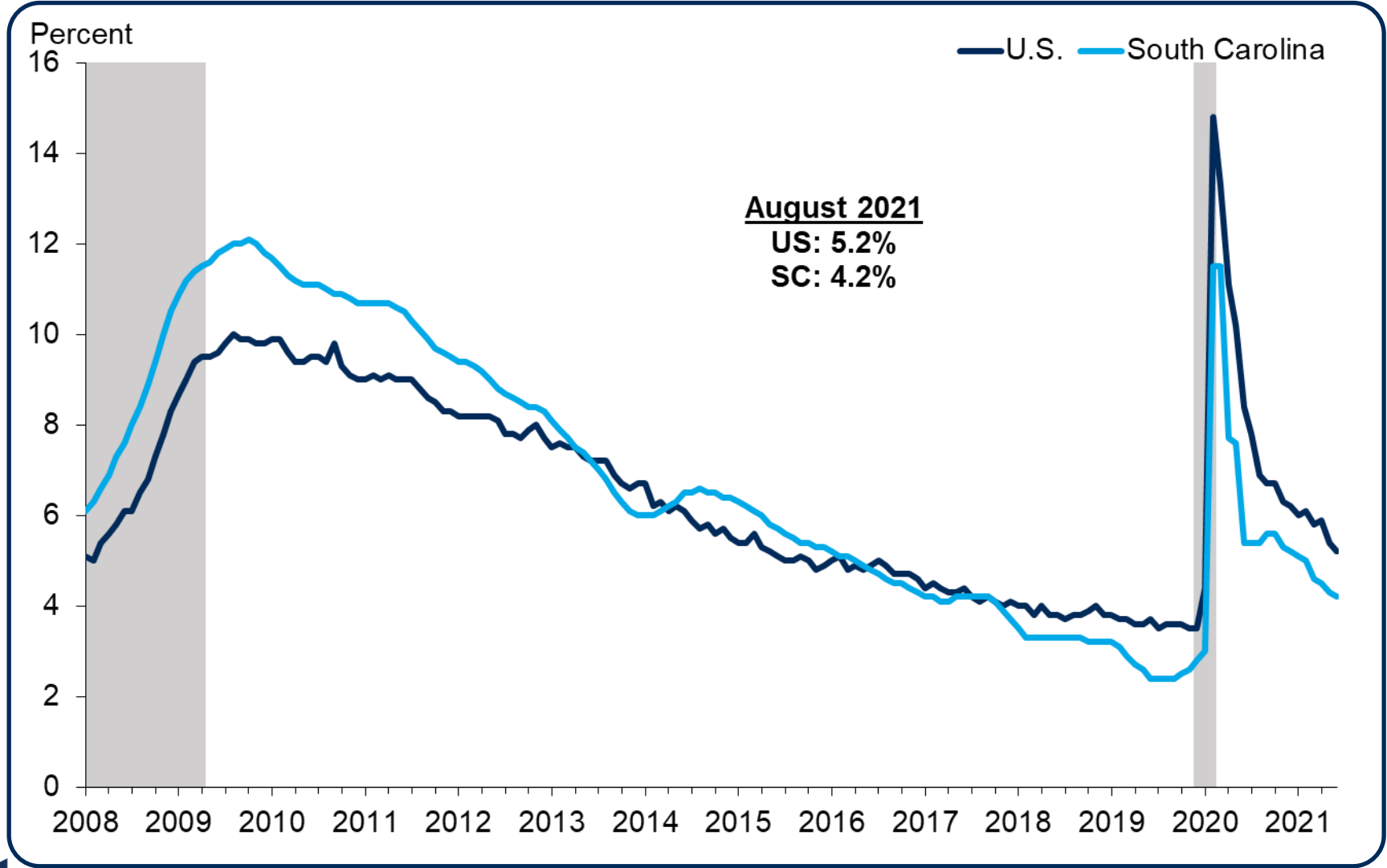
# Firms anticipate ongoing challenges in finding labor and inputs



Source: Federal Reserve Bank of Richmond

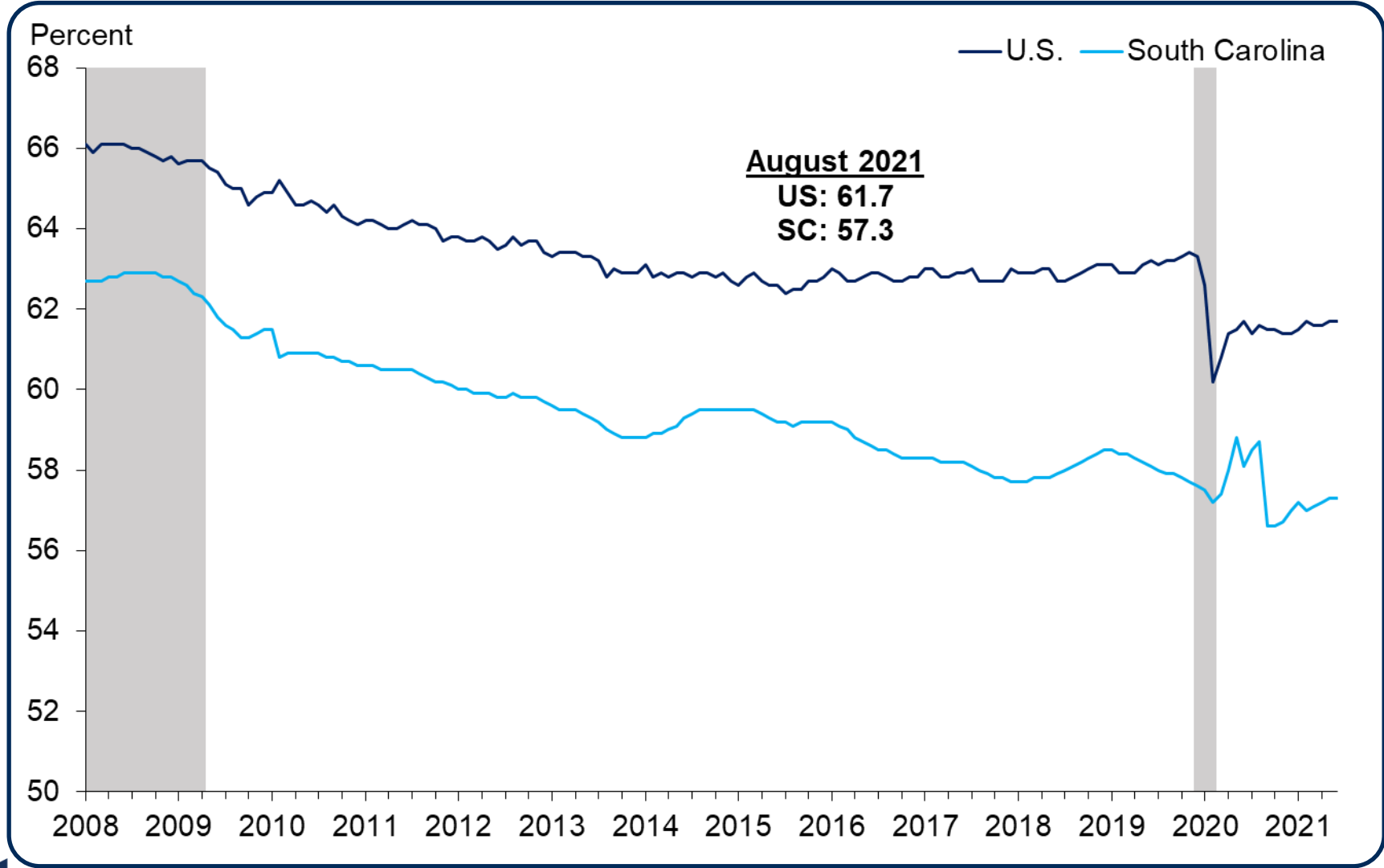
# What about South Carolina?

# Unemployment rates are coming down and SC has outpaced the US for the entirety of the pandemic...



Source: Bureau of Labor Statistics/Haver Analytics

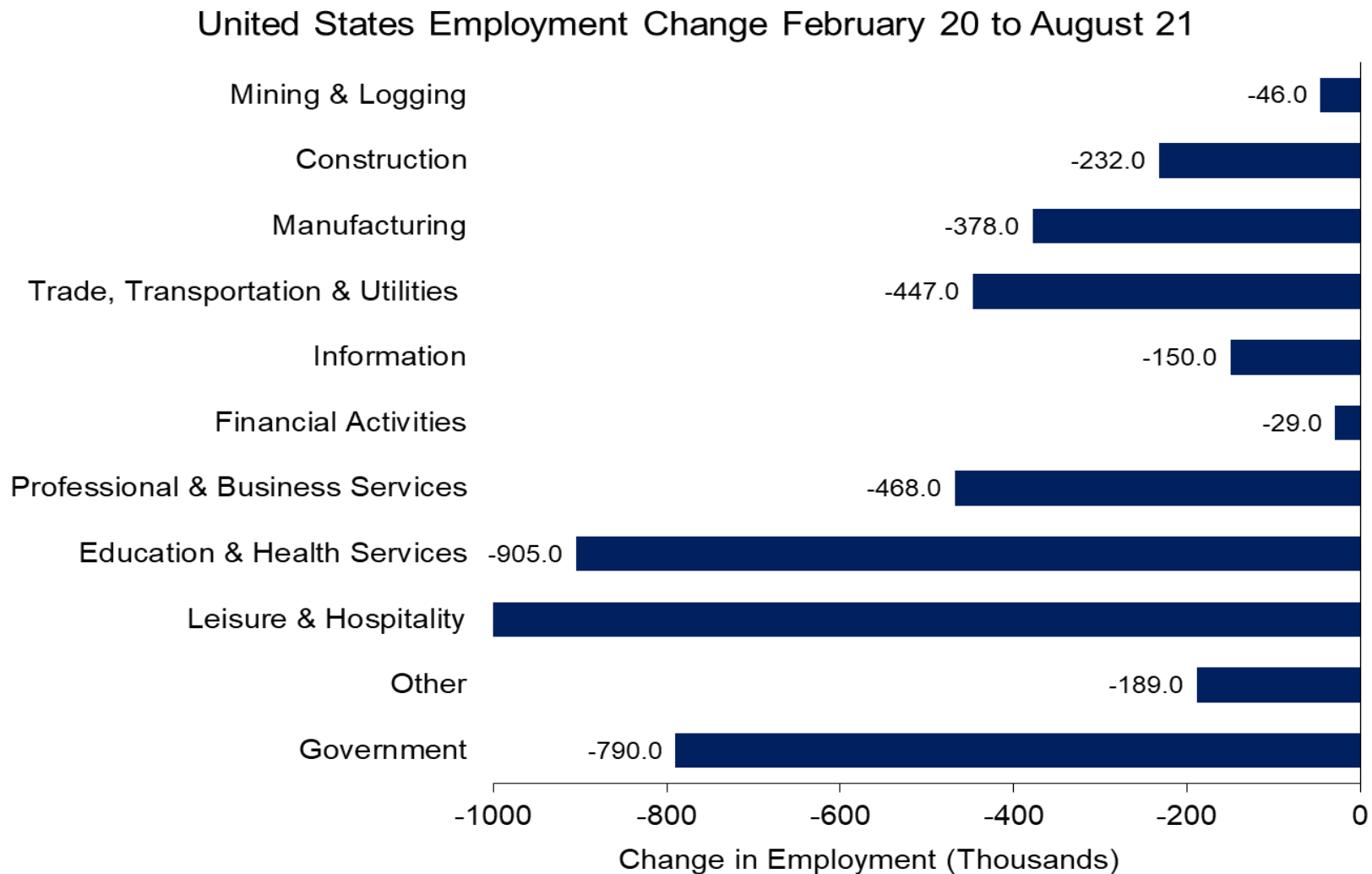
...but labor force participation remains an issue, as SC continues to lag the US as a whole



Source: Bureau of Labor Statistics/Haver Analytics



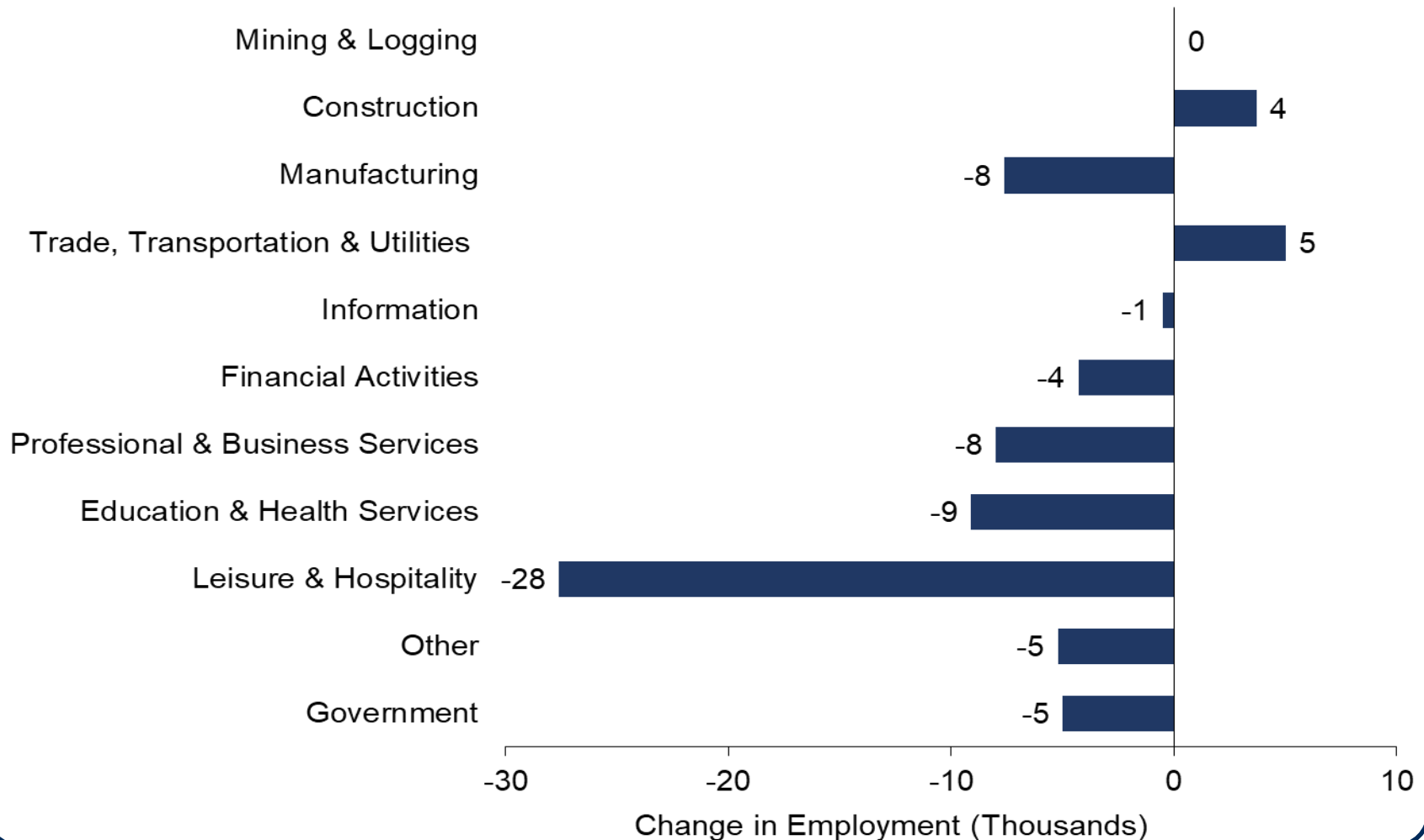
# Jobs are coming back across industries



Source: Bureau of Labor Statistics/Haver Analytics

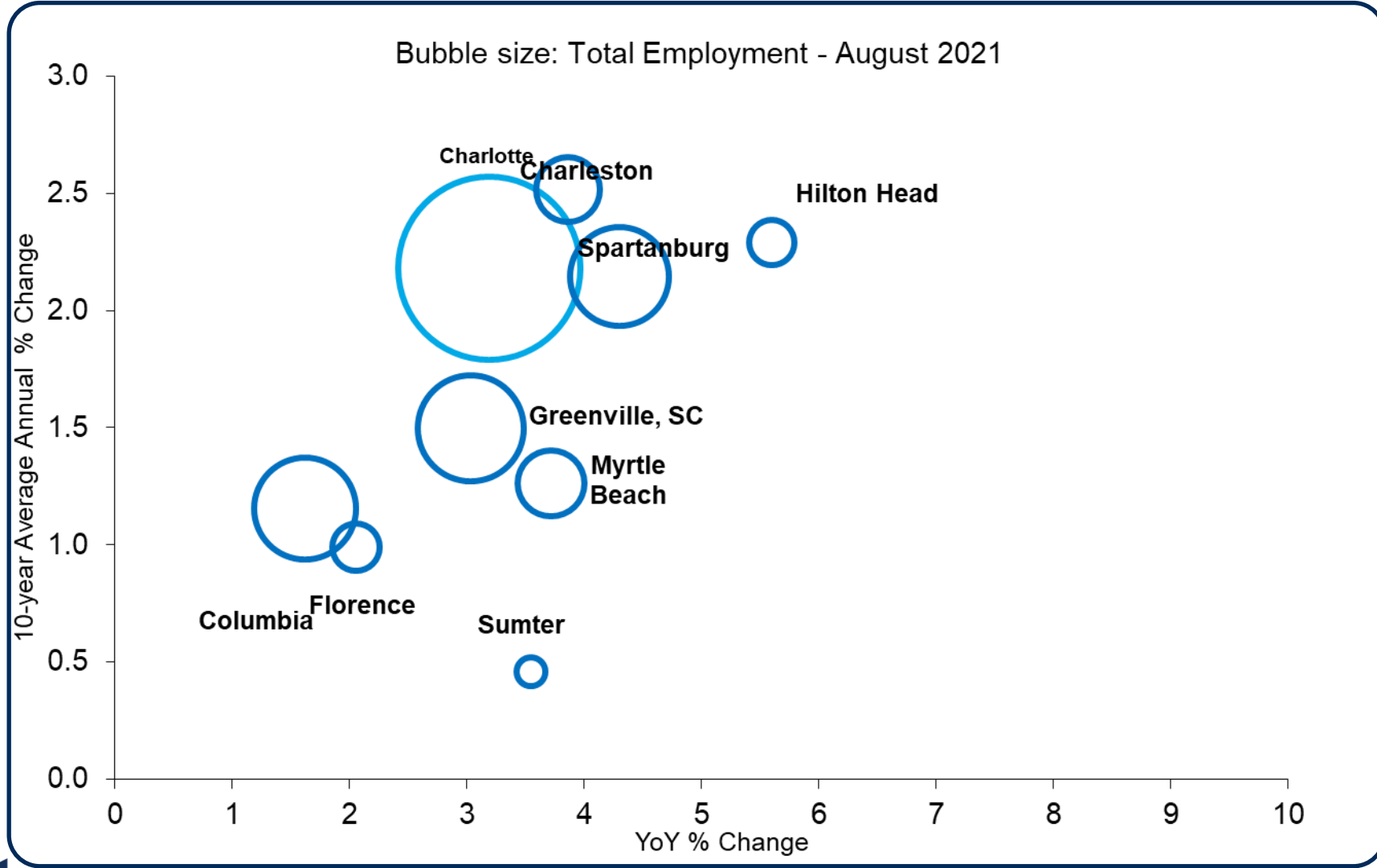
# Jobs are coming back across industries

South Carolina Employment Change February 20 to August 21



Source: Bureau of Labor Statistics/Haver Analytics

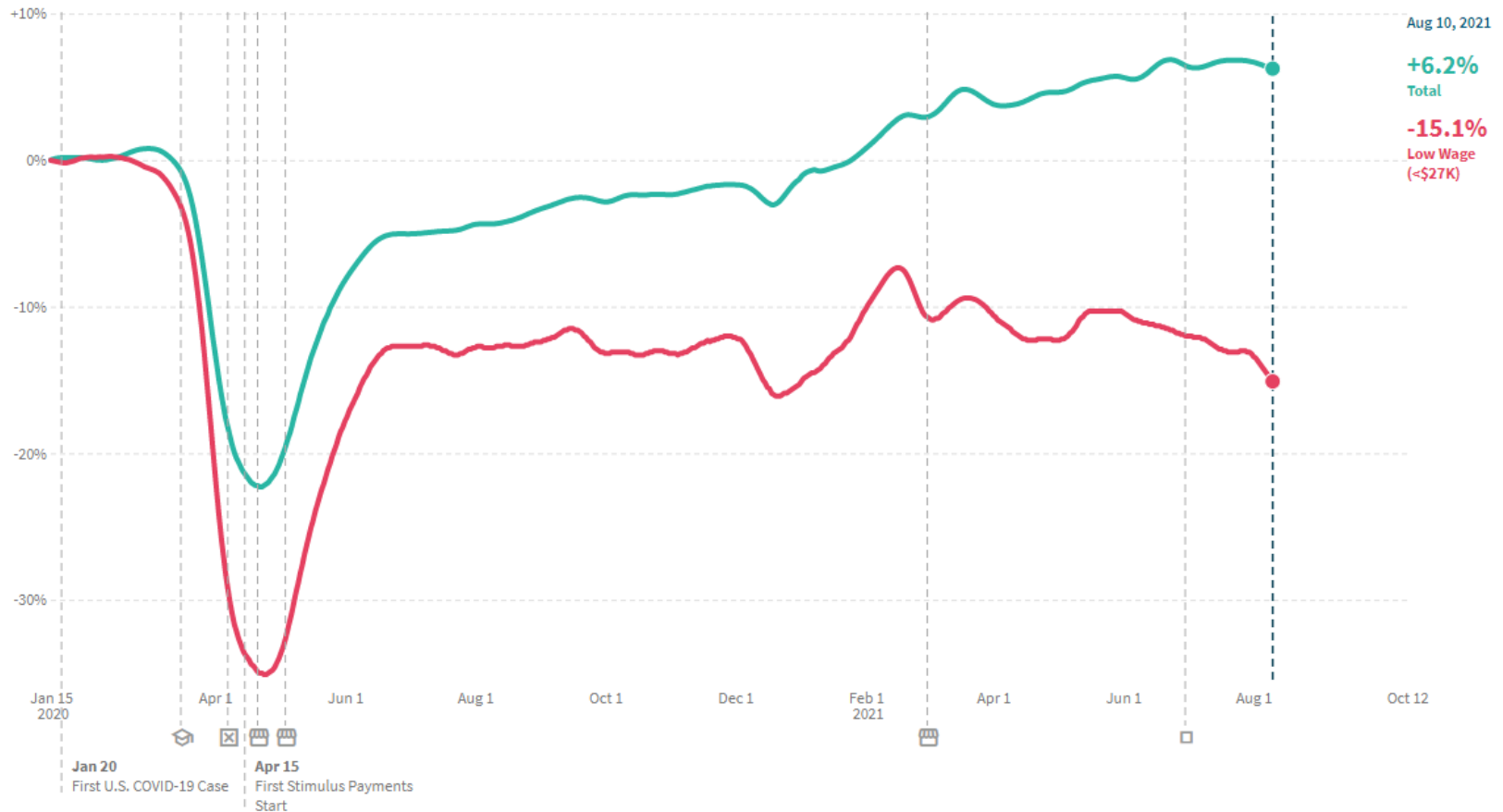
# Overall, South Carolina MSAs have seen relatively strong long-term employment growth, even considering COVID



Source: Bureau of Labor Statistics/Haver Analytics

# The employment decline has ended for middle and high wage workers, but job losses persist for low wage workers

Percent change in employment in SC, indexed to January 2020



Source: Paychex, Earnin, Intuit, and Kronos via Opportunity Insights

# Where do we go from here?

- The biggest concern right now remains COVID.
- Is there another variant right around the corner?
- If vaccine take-up continues to improve and the vaccines continue to well against the variants, 2021 will bring with it substantial GDP growth, although lower than we expected pre-Delta.
- Jobs will continue to be added to the economy, but the demand for labor appears to be outpacing the supply of labor in some markets.
- The path to a full employment recovery remains uncertain. Do leisure and hospitality jobs all return? Will a significant number of workers need to be upskilled or reskilled?
  - The wild card: **remote work**
- Fiscal support and a recovering economy will push inflation above 2% for a period of time, but expectations over the longer term remain at around the 2% level.
- SC will continue to grow and will likely continue to perform better than the US as a whole in the near future.

*Questions/Comments?*

Laura.Ullrich@rich.frb.org

# BEA Regional Advisory Committee

## October 14, 2021

Russell S. Sobel, Ph.D.



# Questions for Us... My Responses

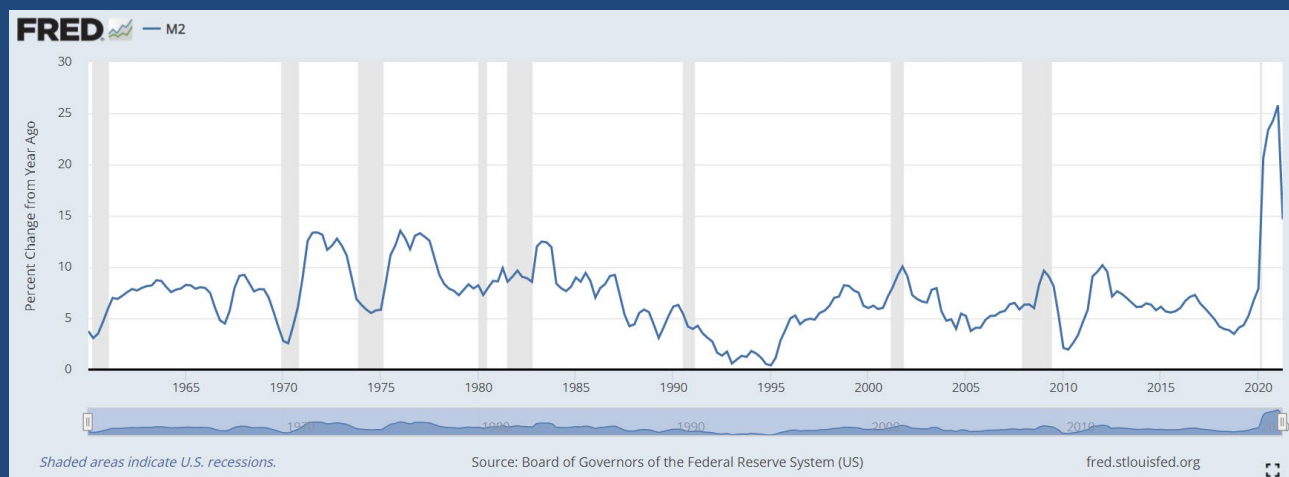
- There were a few that I will skip, but here are my responses...



# Questions for Us... My Responses

- “Is this level of higher wages, new business activity, productivity, and employment here to stay in South Carolina?”
- My answer... several trends to consider:
  - LR population movement to the south / Pandemic SR away from cities will both continue in the near term.
  - Tight labor market, and expansionary fiscal and monetary policy will continue to push wages upward, likely at an even faster rate than prior to the pandemic.
  - Productivity growth is already starting to return to pre-pandemic levels (after some ups and downs during COVID)

- “What are your expectations for inflation over the coming years, and how do you expect this will impact South Carolina’s economy and revenue collections?”
- My answer...
  - I anticipate inflation to be higher than in the past in the near-term, and whether this will continue will depend on the Fed’s actions when, to slow down monetary growth.
  - Due to M1 redefinition, important to keep an eye on M2.
  - Because revenue is based on nominal prices and wages, this faster inflation results in higher revenue collections.



# Questions for Us... My Responses

- “Is the nation overdue for a recession, or has the post-pandemic recovery paved the way for a period of sustained growth?”
- My answer...
  - 1 in 8 chance of negative quarter, same as ‘normal’ times (pre-pandemic).
  - LR growth likely slower than in past due to many factors.

## Risk of a Negative Quarter (%) Survey Means

### QUARTERLY DATA: PREVIOUS NEW

2021:Q3	7.3	5.7
2021:Q4	10.1	9.5
2022:Q1	12.1	12.0
2022:Q2	13.3	12.3
2022:Q3	N.A.	12.9

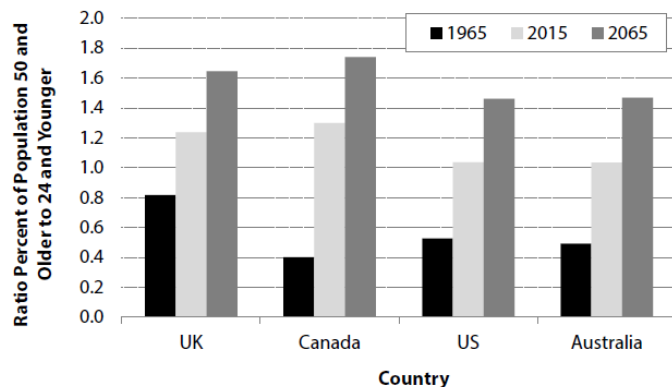
- “How do you expect the labor market will behave in the coming years, and how will this influence the economy as a whole?”
- My answer...
  - There will be permanent changes resulting from the pandemic, including structural labor market shifts.
  - Lower labor force participation, especially among males, is a key trend to consider, as are the larger reductions in the percent of males going to college.



Gender	Fall 2020	
	Enrollment	% Change from Previous Year
Men	7,217,092	-5.1%
Women	10,561,392	-0.7%

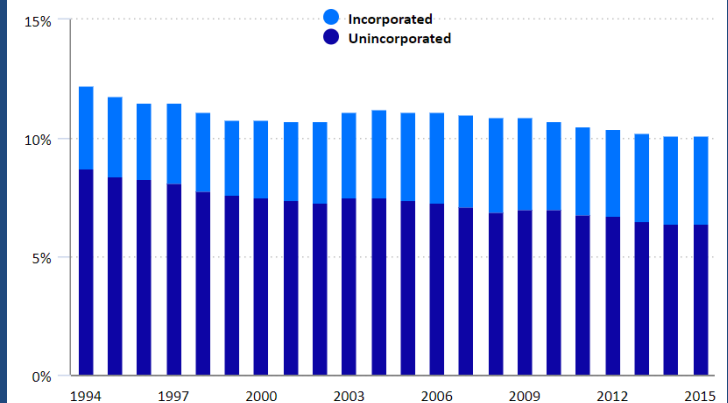
- “What are your thoughts on the higher levels of self-employment? Do you anticipate these trends are a temporary response to COVID’s shock to the economy, or are these higher levels here to stay?”
- My answer...
  - In the long run, the demographic trends that were driving falling entrepreneurship rates will continue.

Figure 3: Ratio of Population Aged 50 and Older to 24 or Younger: 1965, 2015, and 2065 Projection



Source: United Nations, Department of Economic and Social Affairs, Population Division, 2017: custom data.

Self-employment rates by incorporation status, 1994–2015



Click legend items to change data display. Hover over chart to view data.

Russell S. Sobel, Ph.D.

# Questions for Us... My Responses

- “Do you anticipate current consumer consumption trends (higher spending on goods, lower spending on services) will continue indefinitely as a ‘new normal’? If not, when do you believe consumption will trend back to more historical patterns?”
- My answer...
  - Eventually these trends will mostly return to normal, especially once travel, mask, and capacity restrictions are lifted, but unsure how long that will take to happen.

# Economic Forecasts

- So... here are the level forecasts

Forecasted LEVELS:						
	SC Nonfarm Employment	SC Personal Income	CPI-U	SC Sales Tax	SC Individual Income Tax	
2021 Q3	2156	268686	272	3903	5598	
2021 Q4	2178	274159	274	3966	5736	
2022 Q1	2199	278509	275	4014	5832	
2022 Q2	2217	282195	277	4054	5903	
2022 Q3	2228	285794	279	4093	5970	
2022 Q4	2249	293624	281	4148	6085	
2023 Q1	2270	298703	282	4204	6202	
2023 Q2	2291	303869	284	4260	6322	

# Economic Forecasts

- Same numbers converted to % changes...

	SC Nonfarm Employment	SC Personal Income	CPI-U	SC Sales Tax	SC Individual Income Tax
FY 2019-20	-1.59%	6.83%	1.58%	3.15%	6.46%
FY 2020-21	-1.80%	6.53%	2.29%	16.40%	8.01%
2021 Q3	1.44%	2.50%	1.28%	2.02%	3.27%
2021 Q4	1.03%	2.04%	0.64%	1.61%	2.46%
2022 Q1	0.94%	1.59%	0.55%	1.22%	1.68%
2022 Q2	0.81%	1.32%	0.57%	0.99%	1.22%
2022 Q3	0.52%	1.28%	0.59%	0.95%	1.13%
2022 Q4	0.94%	1.73%	0.67%	1.35%	1.93%
2023 Q1	0.94%	1.73%	0.57%	1.35%	1.93%
2023 Q2	0.94%	1.73%	0.57%	1.35%	1.93%
FY 2021-22 Est.	4.25%	5.86%	4.38%	5.97%	8.89%
FY 2022-23 Est.	3.30%	6.31%	2.41%	5.08%	7.09%
SOBEL'S OLD METHOD: Average of (Annualized) Quarter over Quarter Growth Rates					
FY 2021-22 Est.	4.30%	7.68%	3.08%	5.98%	8.94%
FY 2022-23 Est.	2.95%	6.15%	2.35%	4.68%	6.27%



# Caveats, Notes, and the Future:

1. There is obvious uncertainty suggesting a careful and conservative approach.
2. Another COVID variant outbreak could result in more economic restrictions.
3. Inflation could jump as high as the 6 percent to 8 percent range during the next two years based on current monetary growth. My inflation forecasts are the ones that I am most uncertain about and may be underestimated.
4. The degree to which supply-chain disruptions continue will impact prices and economic activity.
5. Substantially higher government spending as a share of the economy, and the higher debt or taxes that will accompany it, will all tend to lead to slower long run economic growth rates over the coming decade(s).
6. Higher interest rates that may result from a combination of higher government debt, faster inflation, or monetary tightening could cause troubles for the housing market and federal budget (interest on the debt).

# QUESTIONS?

Russell S. Sobel, Ph.D.



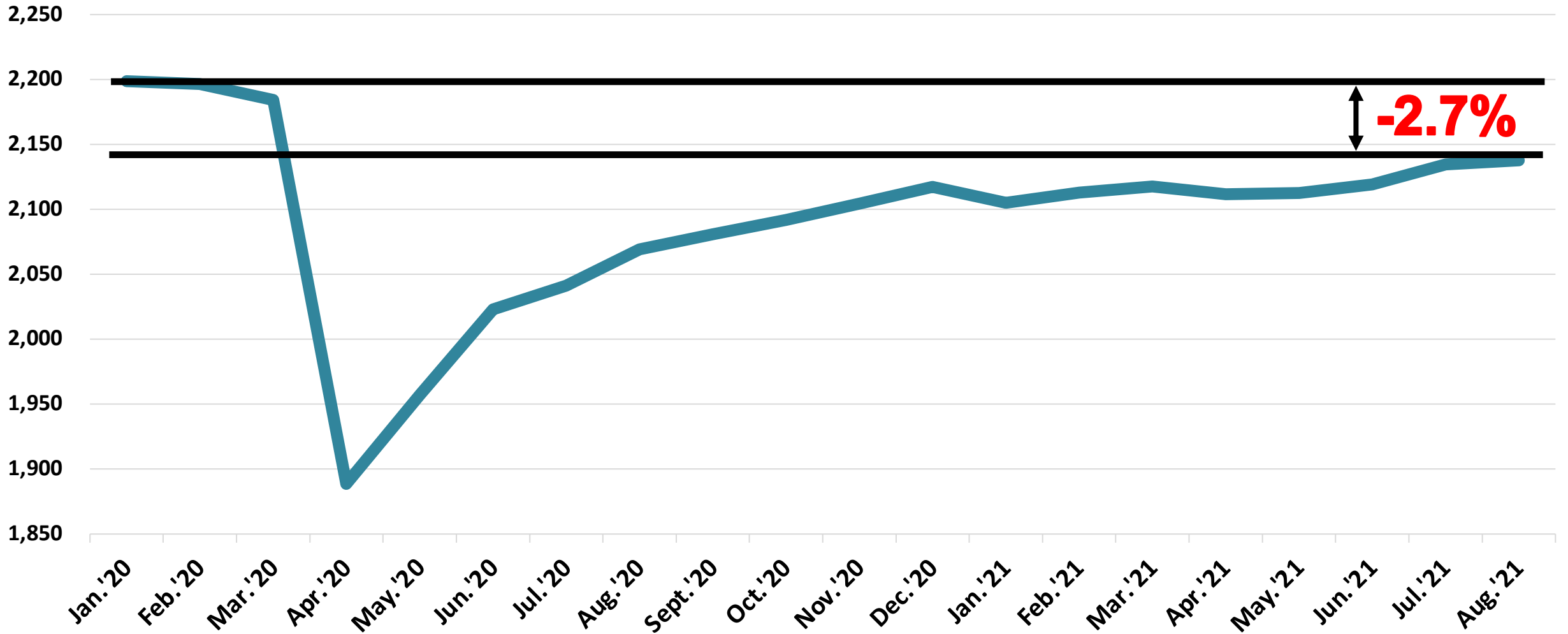
Russell S. Sobel, Ph.D.

*Entering a Post-Stimulus Economy...*  
*...but not a Post-COVID Economy*



# Total South Carolina Employment

*In Thousands*

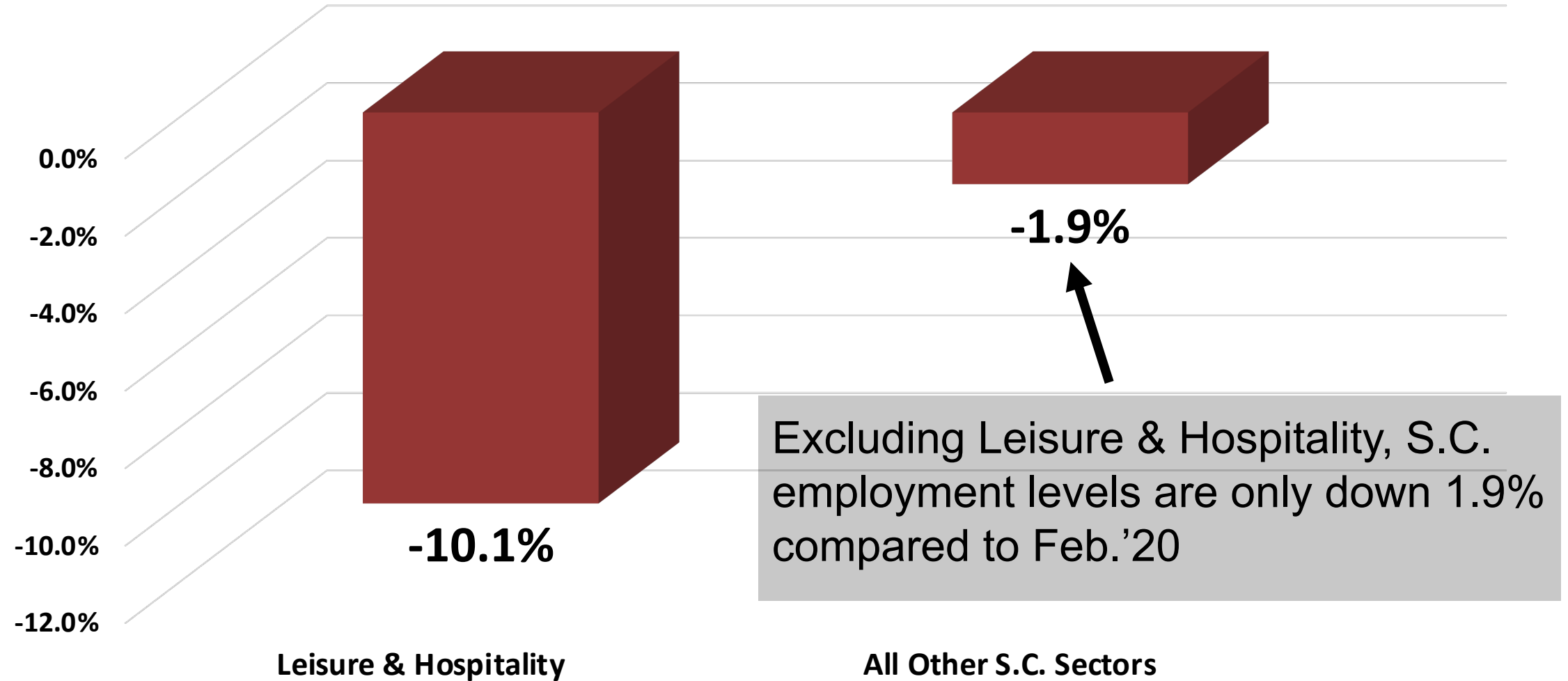


**-2.7%**

Source: U.S. Bureau of Labor Statistics, CES-SA

# South Carolina Employment Recovery

*Current Pct. of Pre-Pandemic (Feb.'20) Employment Levels*

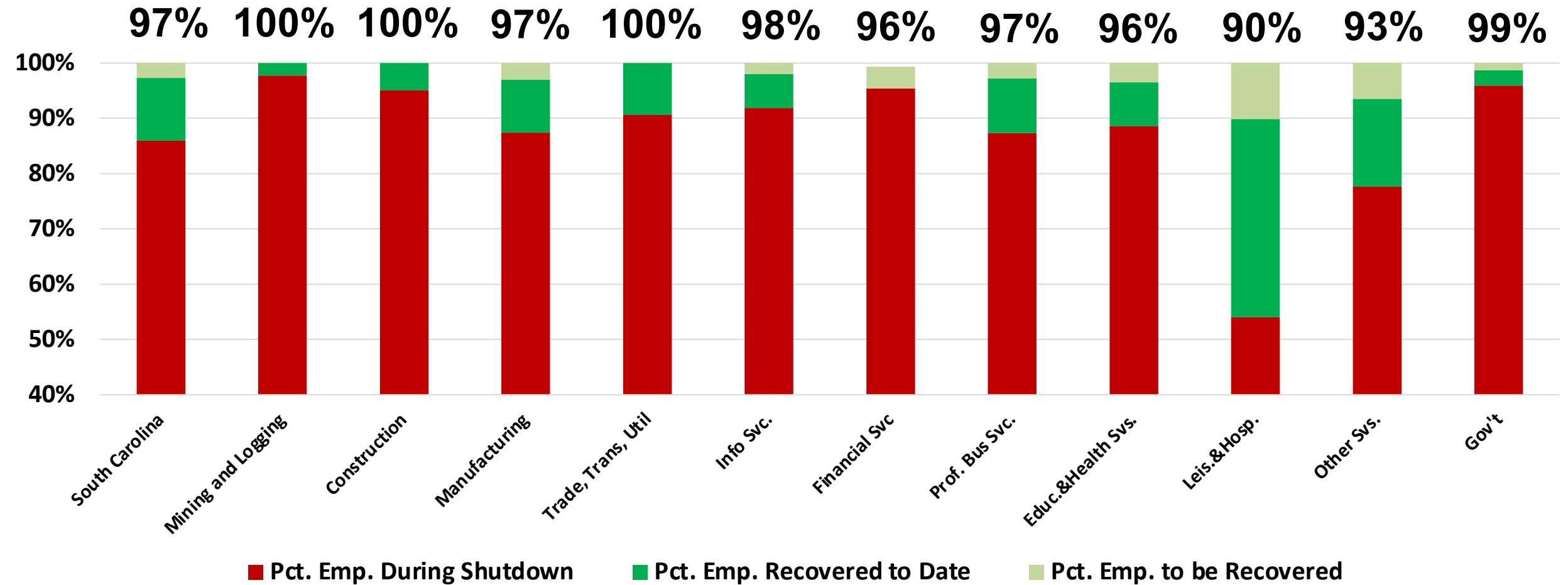


Source: U.S. Bureau of Labor Statistics, CES-SA



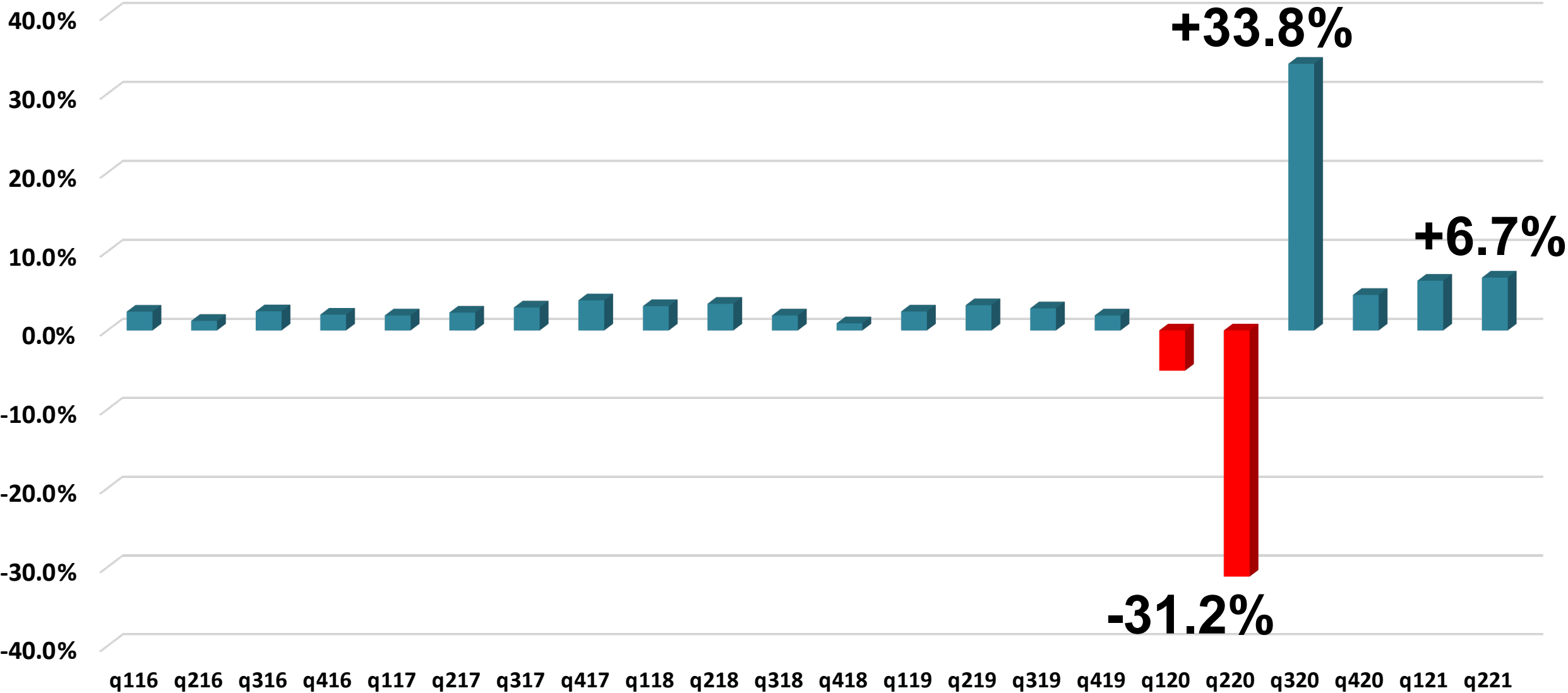
# South Carolina Employment Recovery

*Gains and Losses by Industry Sector*



Source: U.S. Bureau of Labor Statistics, CES-SA

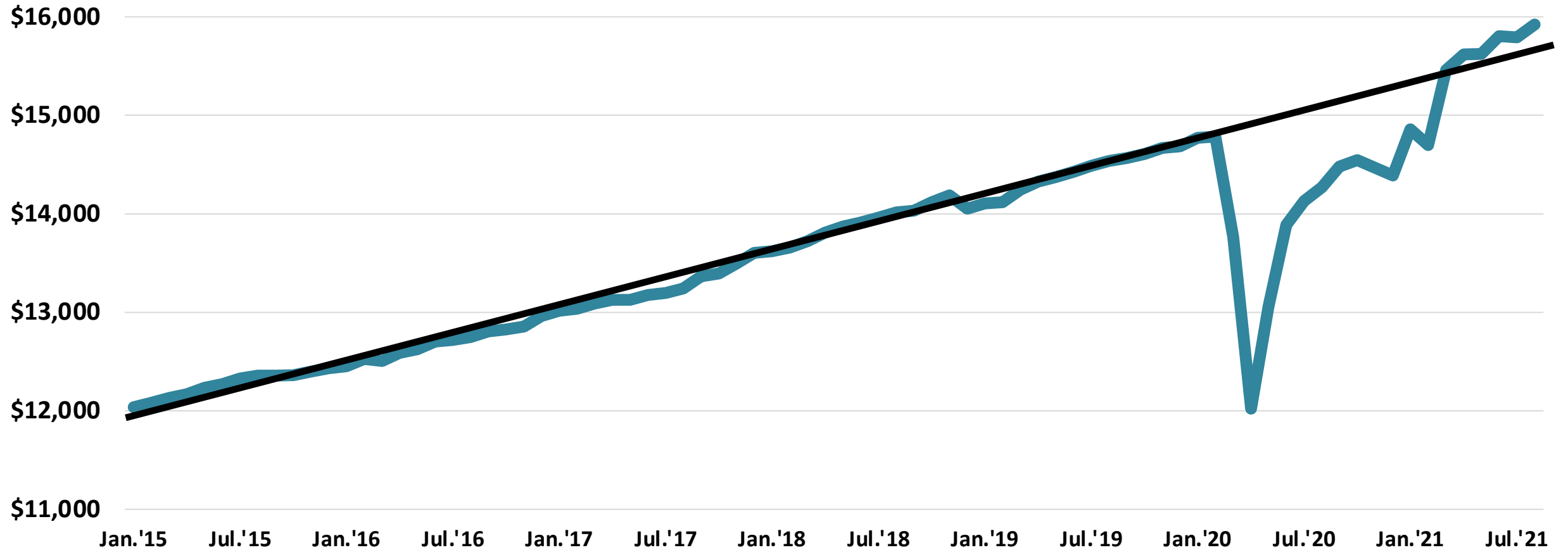
# U.S. Annualized GDP Growth



Source: U.S. Bureau of Economic Analysis

# Total U.S. Consumer Spending

*Note: Values Represent Annualized Totals, in billions*



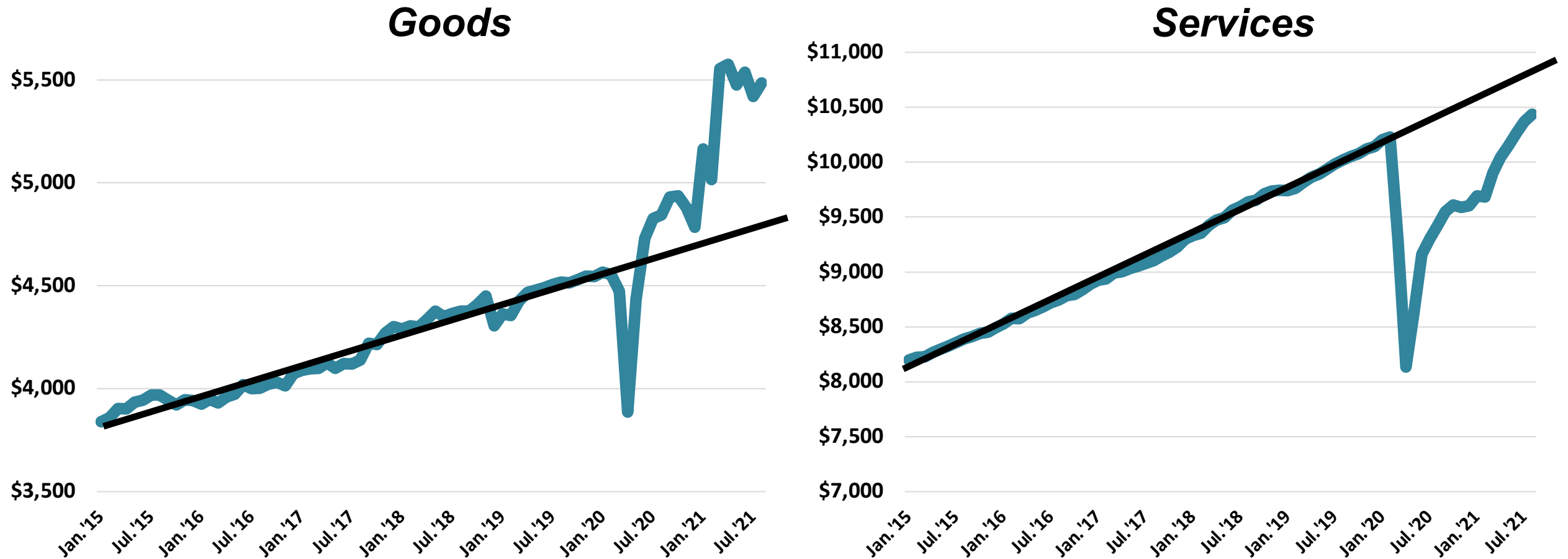
Source: U.S. Bureau of Economic Analysis





# Total U.S. Consumer Spending

*Note: Values Represent Annualized Totals, in billions*



Source: U.S. Bureau of Economic Analysis

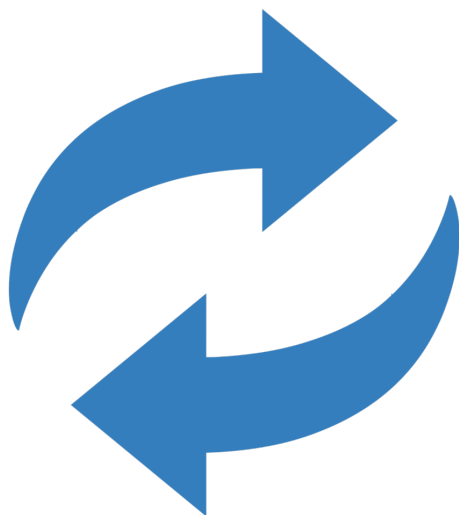




*Income Effect*

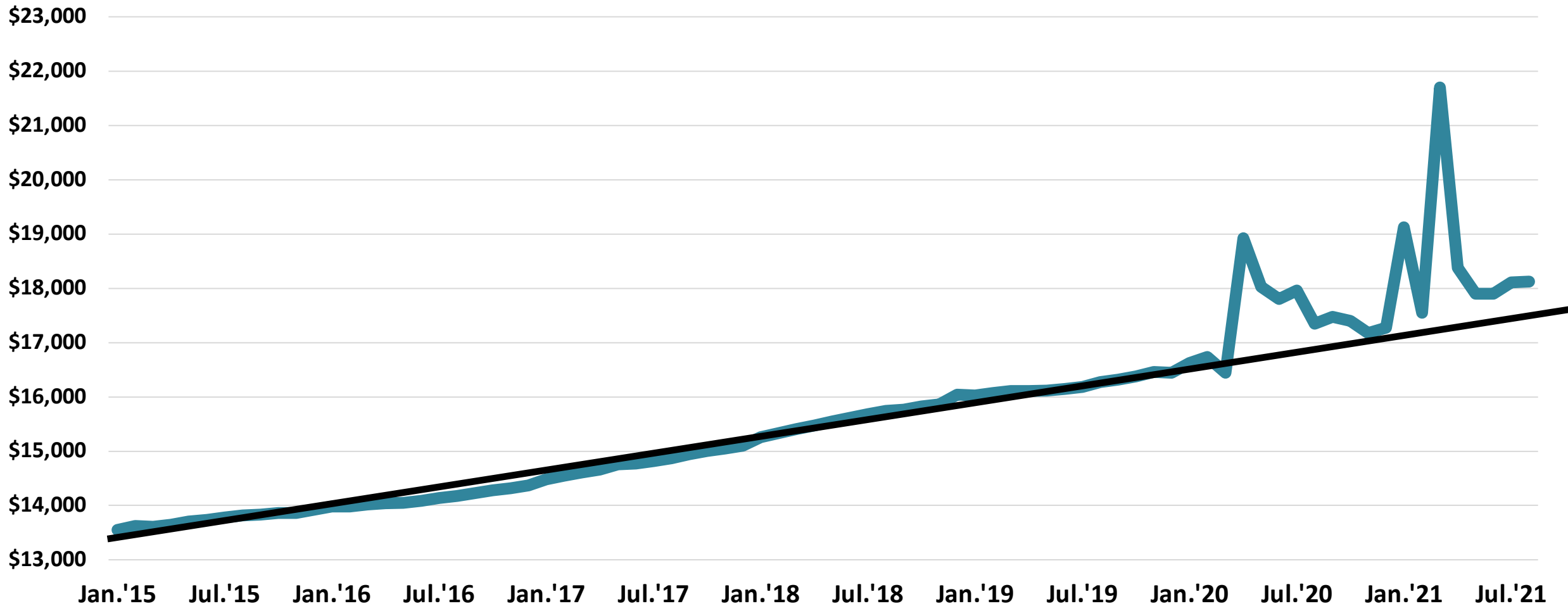
*VS.*

*Substitution Effect*



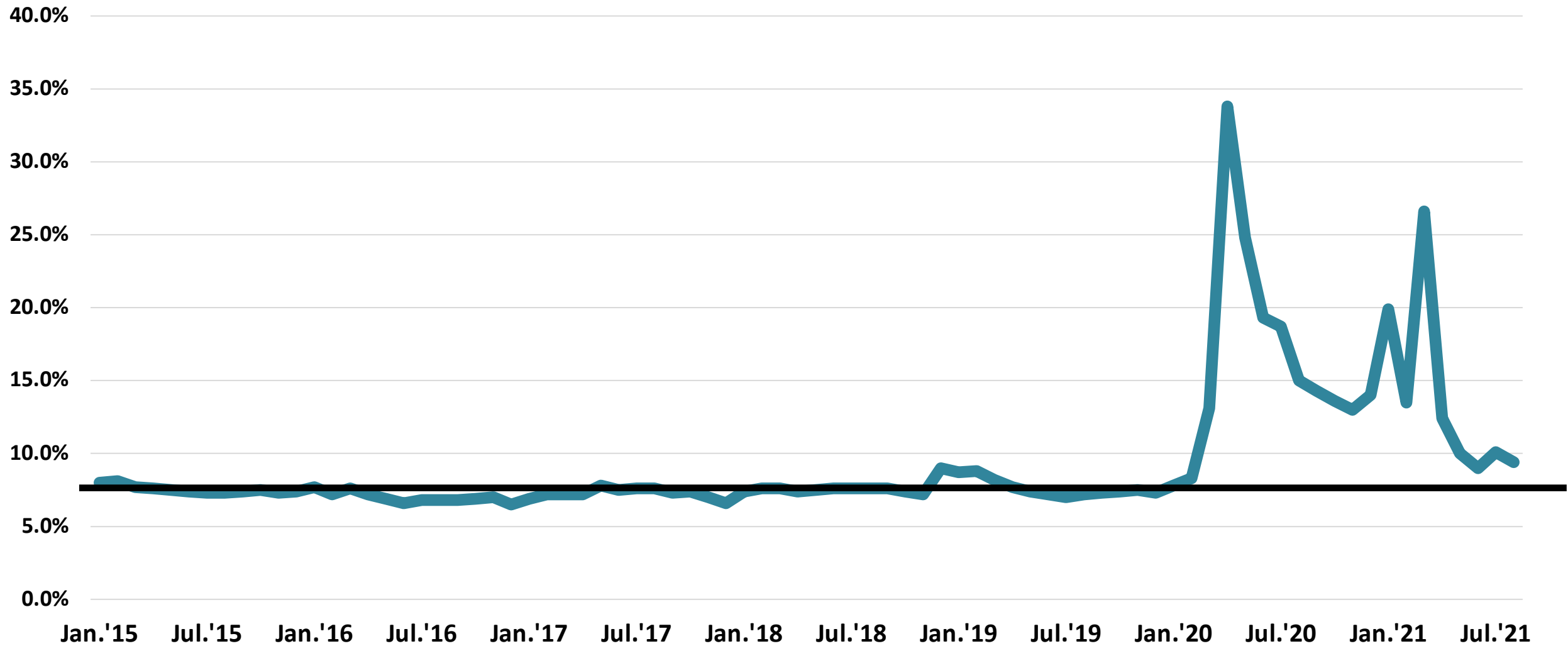
# U.S. Disposable Personal Income

*Note: Values Represent Annualized Totals, in billions*



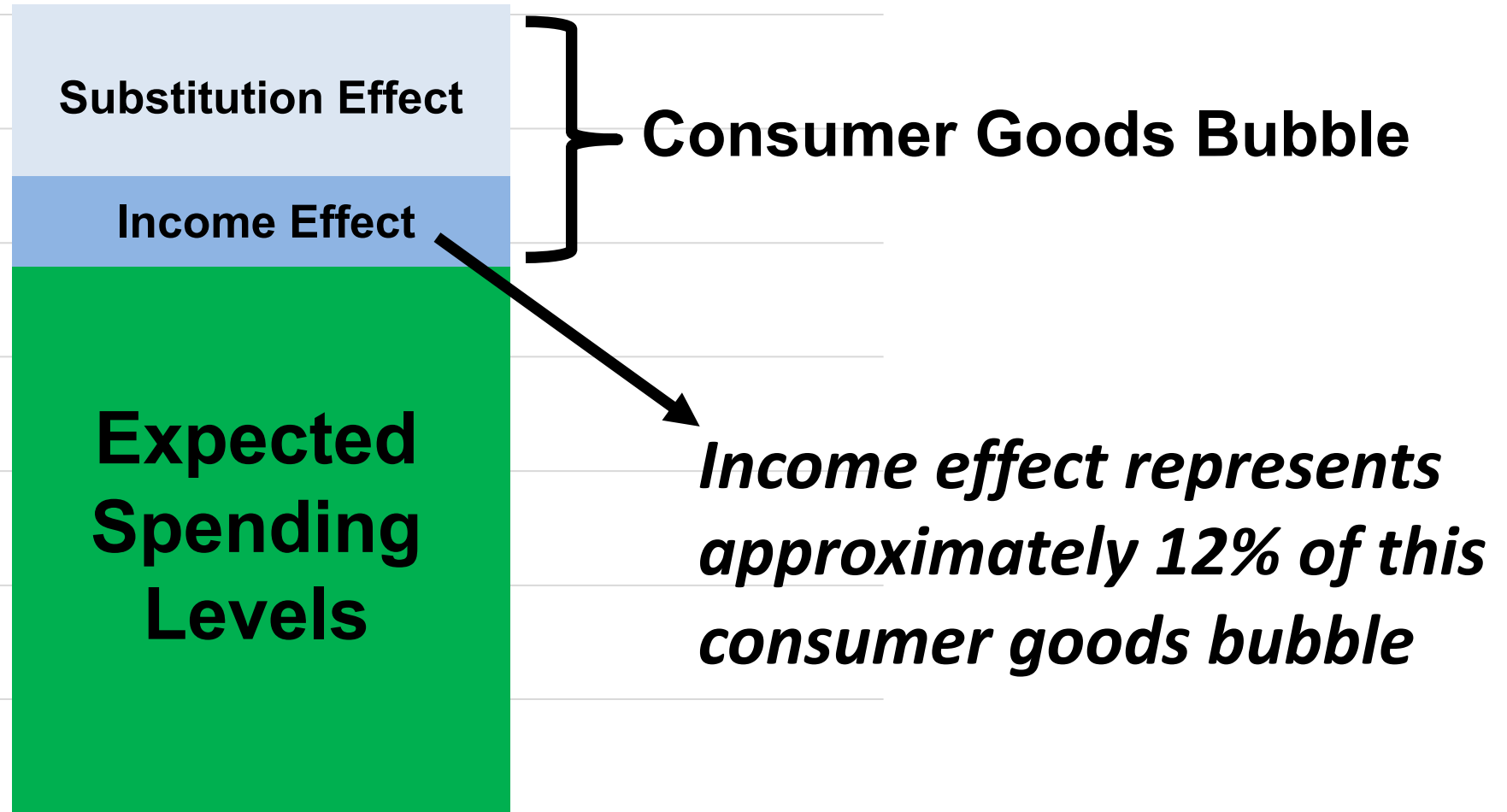
Source: U.S. Bureau of Economic Analysis

# U.S. Personal Savings Rates



Source: U.S. Bureau of Economic Analysis

# U.S. Consumer Spending: All Goods



Source: U.S. Bureau of Economic Analysis; note, graph is not to scale – used for illustration purposes only



# *Ongoing Economic Threats*



*Persistent High Inflation*



*A Persistent Labor Shortage*

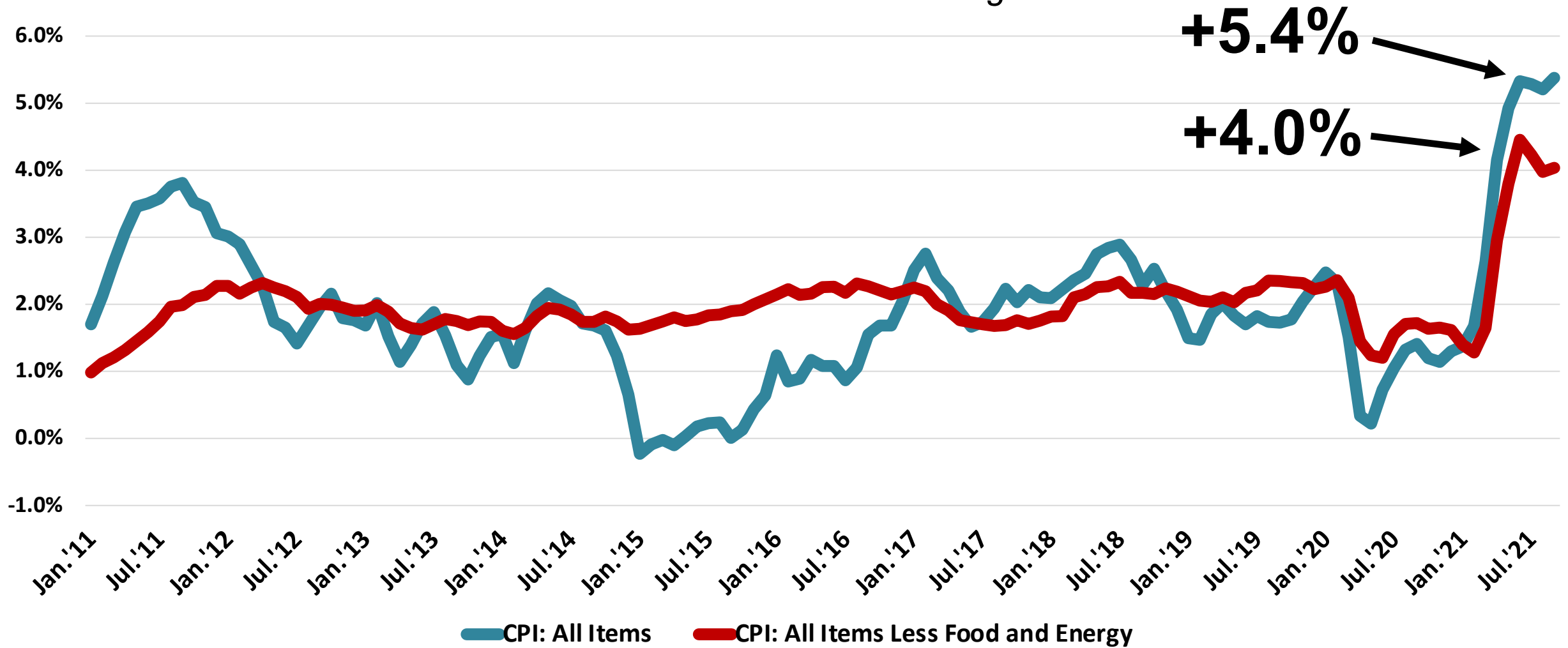


*The Delta Variant*



# U.S. Inflation Measures

*Year/Year Pct. Change*



**+5.4%**

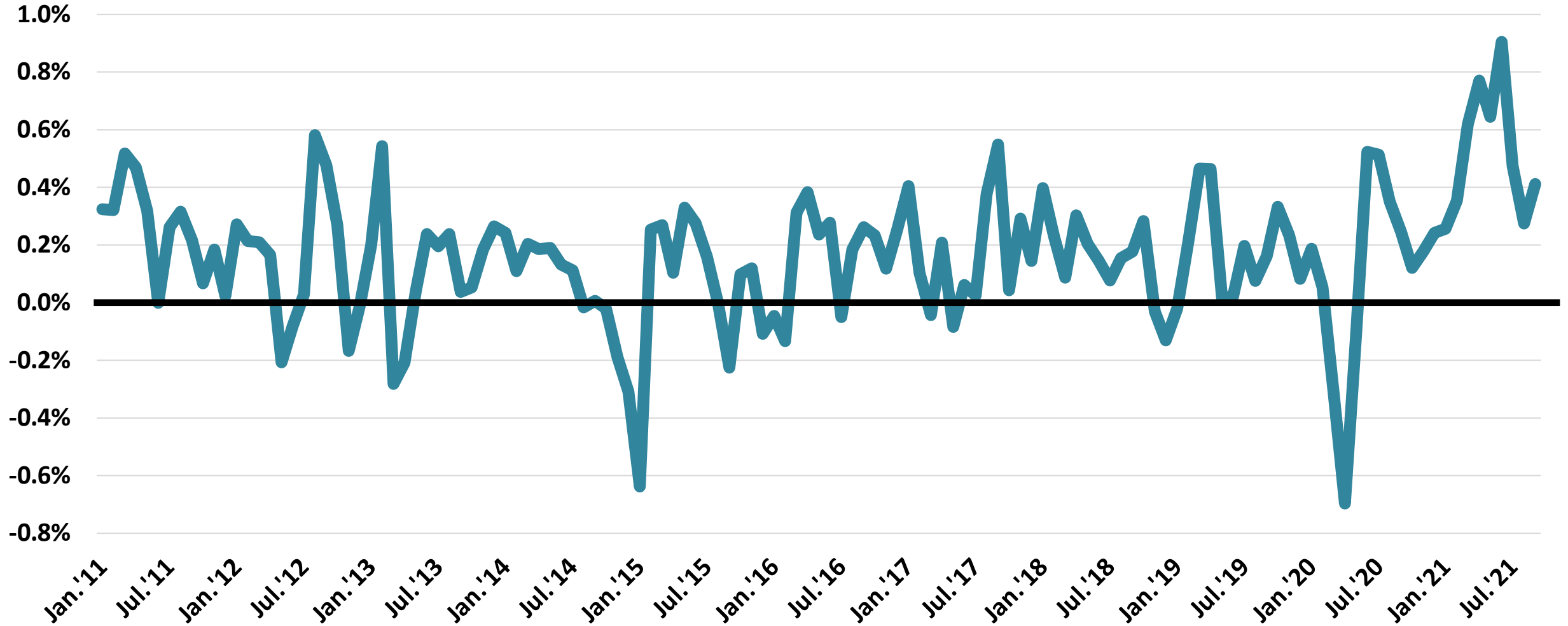
**+4.0%**



Source: U.S. Bureau of Labor Statistics

# U.S. Inflation Measures

*Month/Month Pct. Change*



Source: U.S. Bureau of Labor Statistics





Wage growth resulting from labor shortages is inflationary

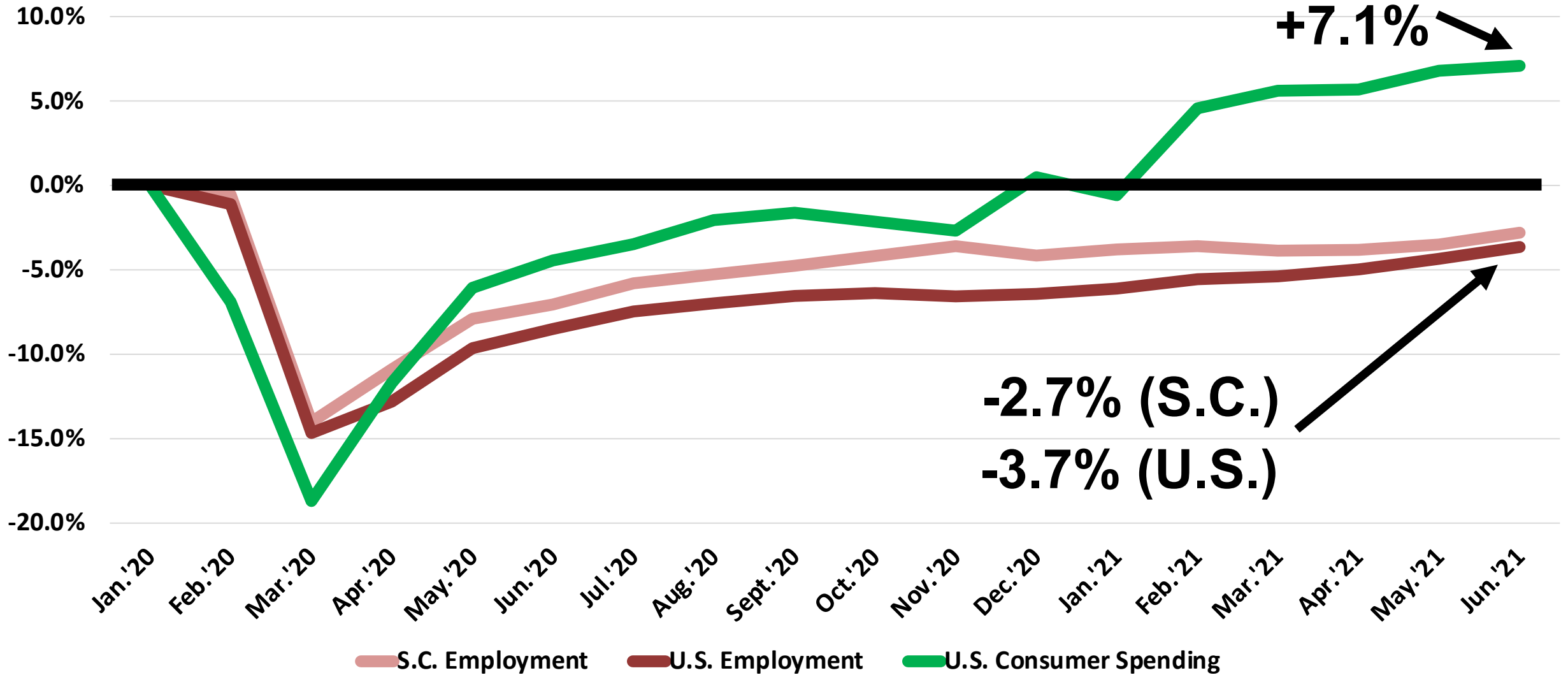


# *The Many Causes of our Labor Shortage...*

- *Baby boomer retirements & quick stock market recovery*
- *Caring for family members and COVID caution*
- *Higher disposable income and savings rates*
- *Demand!*



# Cumulative Growth Since January 2020



Source: U.S. Bureau of Labor Statistics

# South Carolina Migration Patterns (2020)

Reason	Inbound	Outbound
Retirement	<b>38.5%</b>	7.1%
Job	26.6%	<b>43.5%</b>
Family	18.8%	31.8%
Lifestyle	17.6%	14.9%
Health	1.5%	7.8%

Age Ranges	Inbound	Outbound
<34	9.0%	16.3%
35-44	7.7%	15.0%
45-54	14.5%	11.1%
55-64	<b>34.3%</b>	21.6%
65+	<b>34.6%</b>	36.0%

*South Carolina had the 2<sup>nd</sup> highest in-migration rate among all states in 2020, but most were aged 55+*

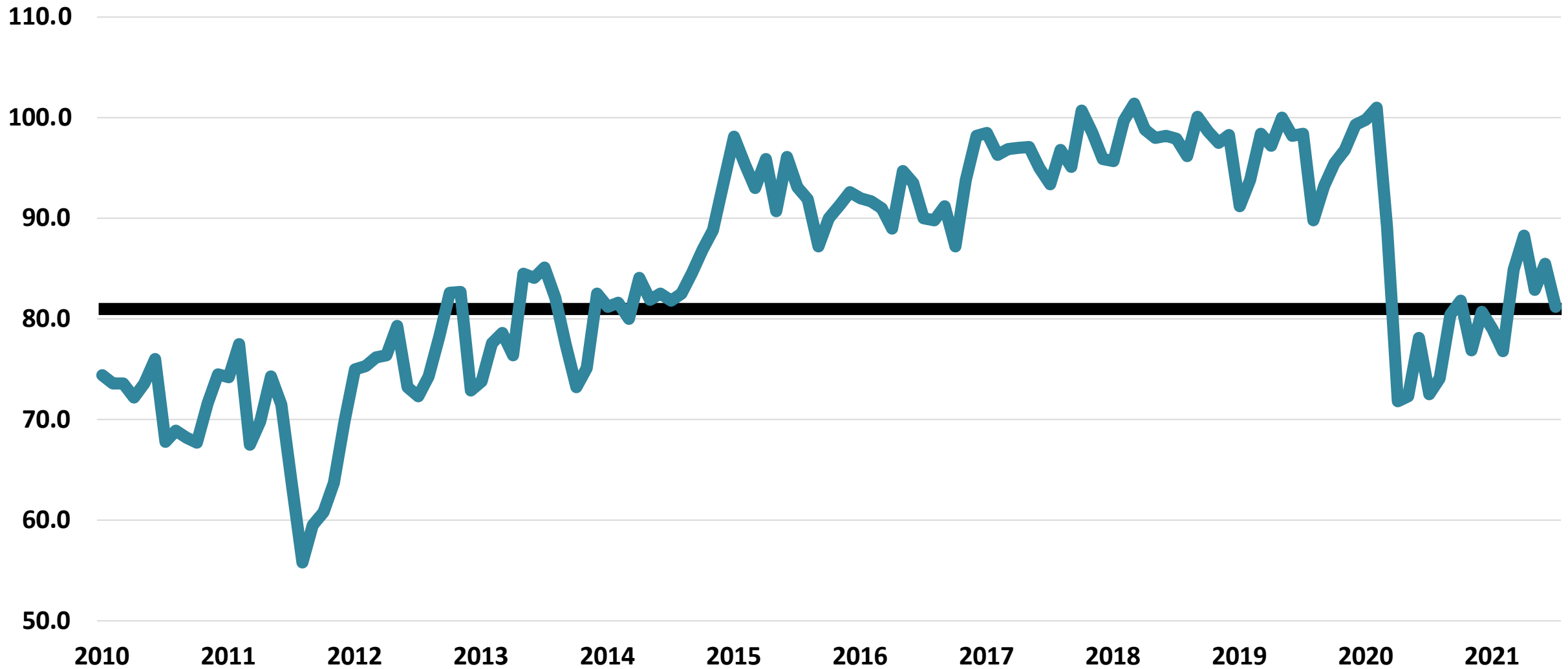
Source: United Van Lines, National Migration Study, 2020



# Measuring the Potential Threat of the Delta Variant



# U.S. Consumer Confidence Index

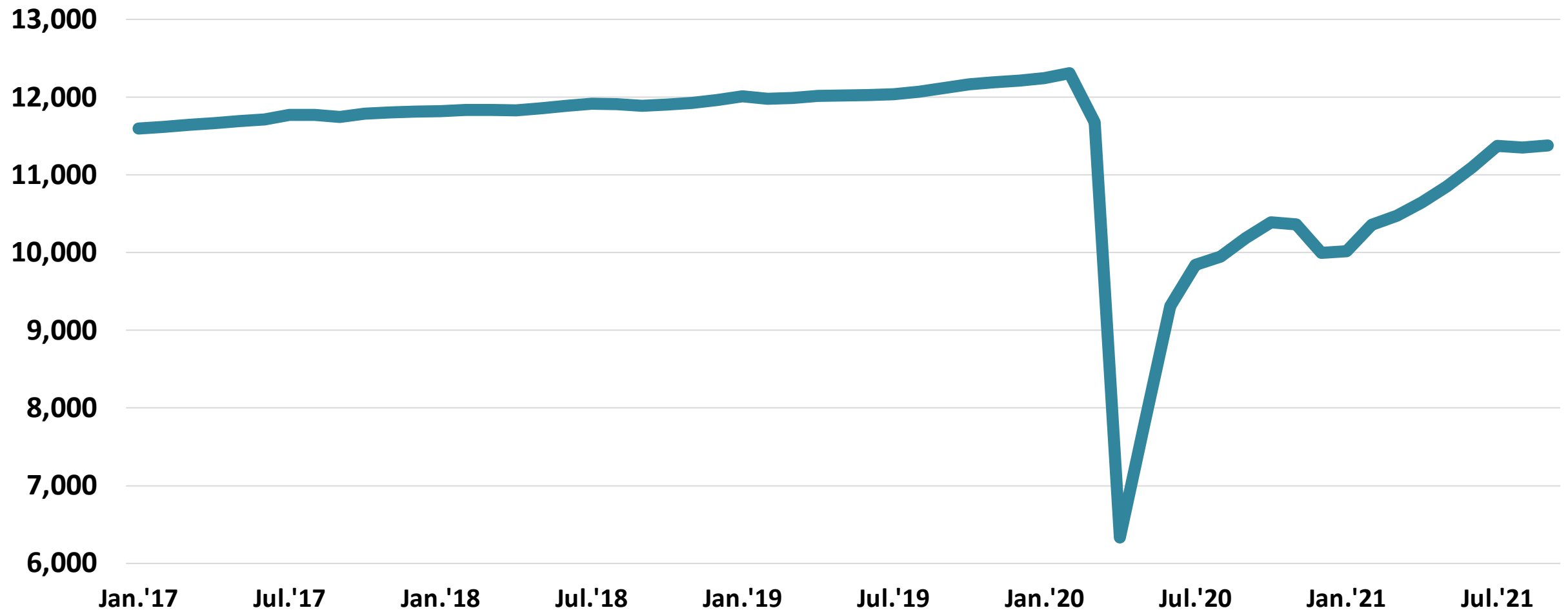


Source: University of Michigan, Consumer Sentiment Index, Sept.'21



# U.S. Employment: Food & Drinking Places

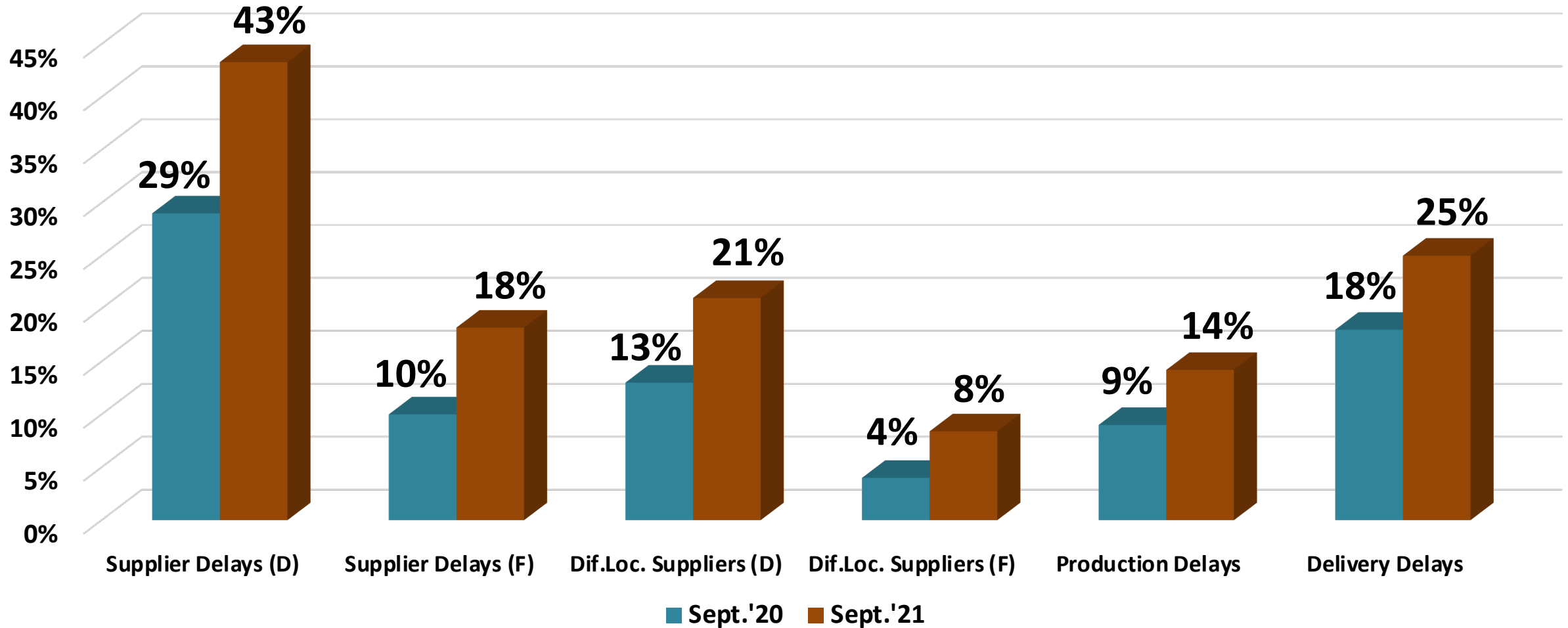
*Note: Seasonally adjusted, in thousands*



Source: U.S. Bureau of Economic Analysis



# U.S. Company Challenges Experienced Within the Last Week



Source: U.S. Census Bureau, Small Business Pulse Survey



# Looking Ahead...

	Employment	Personal Income	Inflation
FY20	-1.6%	+6.8%	+1.6%
FY21	-1.8%	+6.5%	+2.3%
<b><i>FY22 (Forecast)</i></b>	<b><i>+2.0%</i></b>	<b><i>+5.8%</i></b>	<b><i>+3.5%</i></b>



*Thank You!*



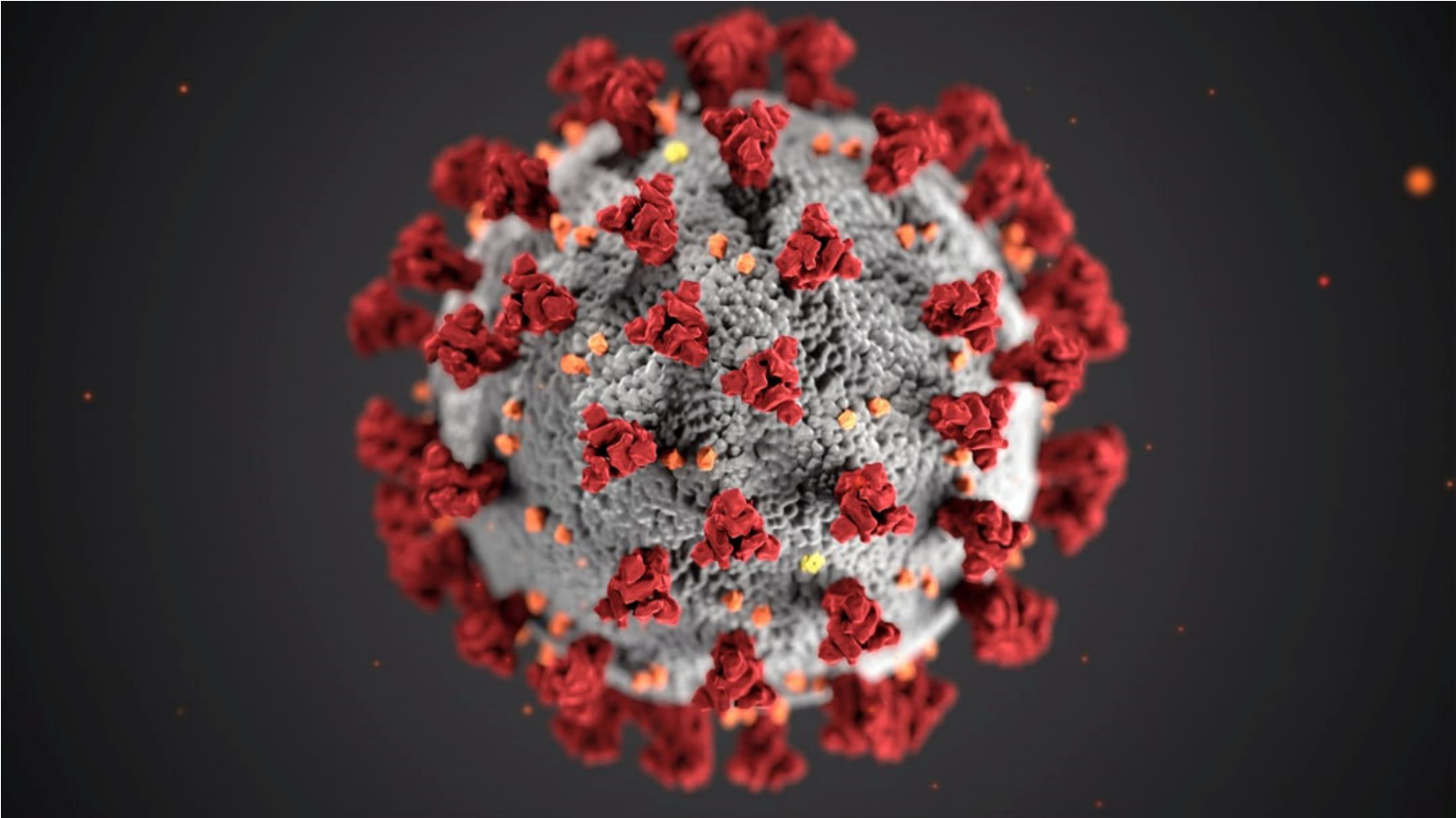
**South Carolina  
Board of Economic Advisors  
Regional Advisory Committee  
Economic Update  
October 14, 2021  
Frank Hefner**

**?????? UNCERTAINTY???????**



**NO HURRICANES- SO FAR**

## COVID



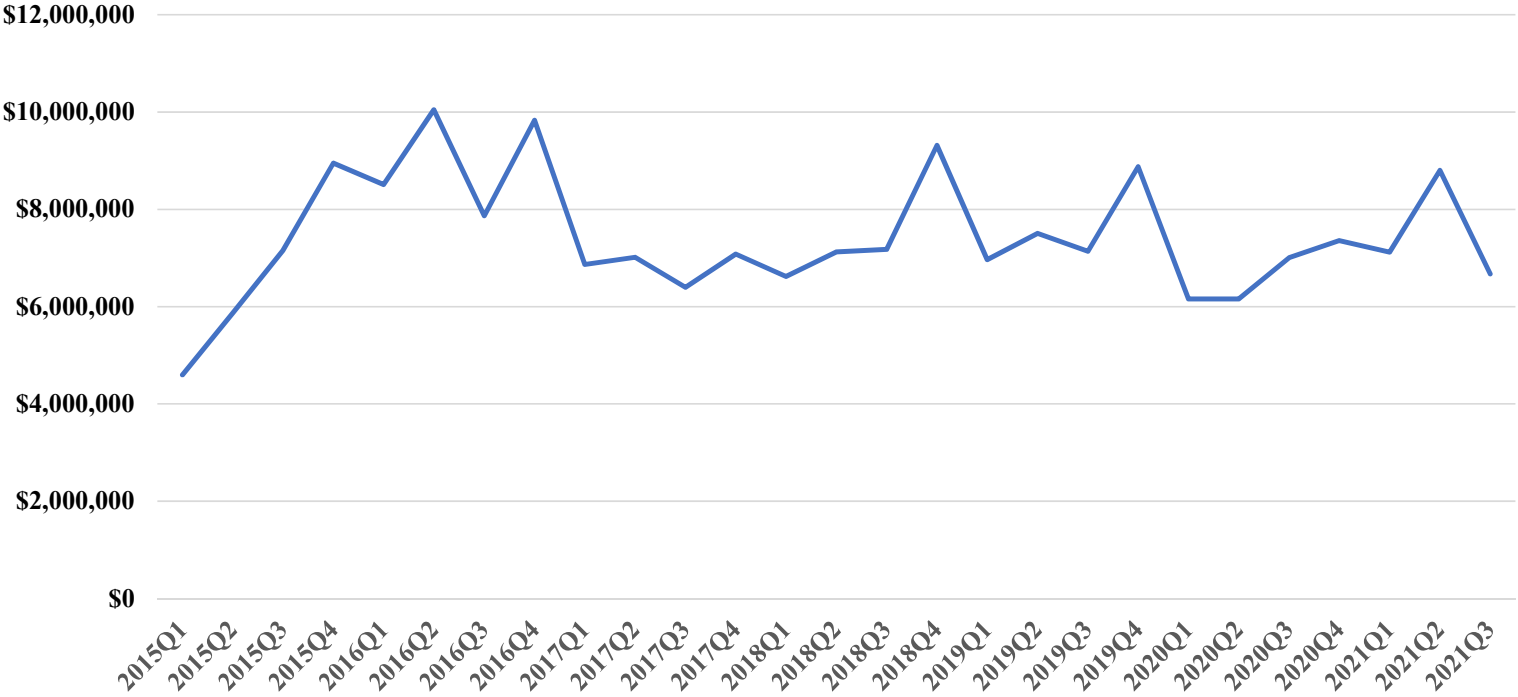
Still Spreading Uncertainty





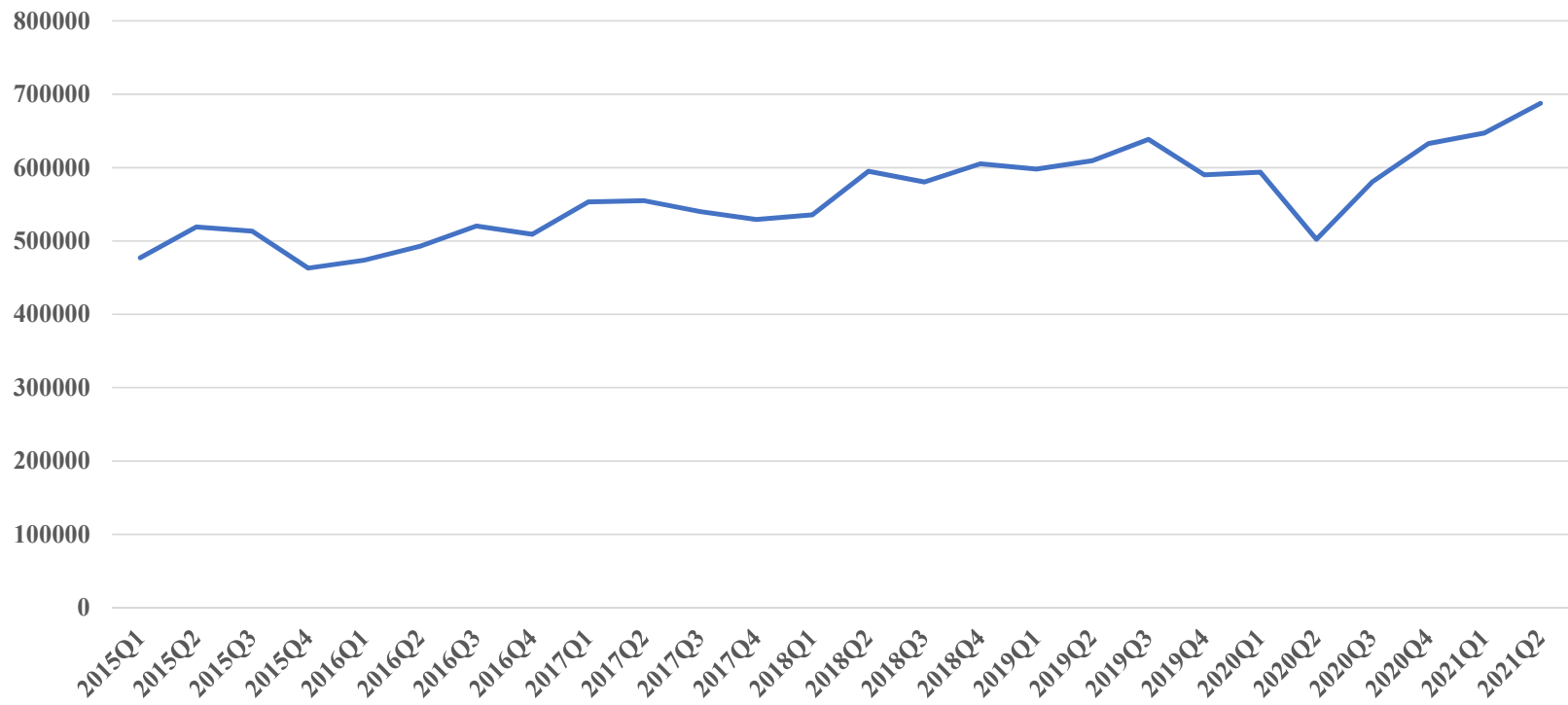
## **CHARLESTON REGION ECONOMY**

**Retail Sales: Charleston Metro Region**  
In 1000's



# PORT TRAFFIC

TEUs

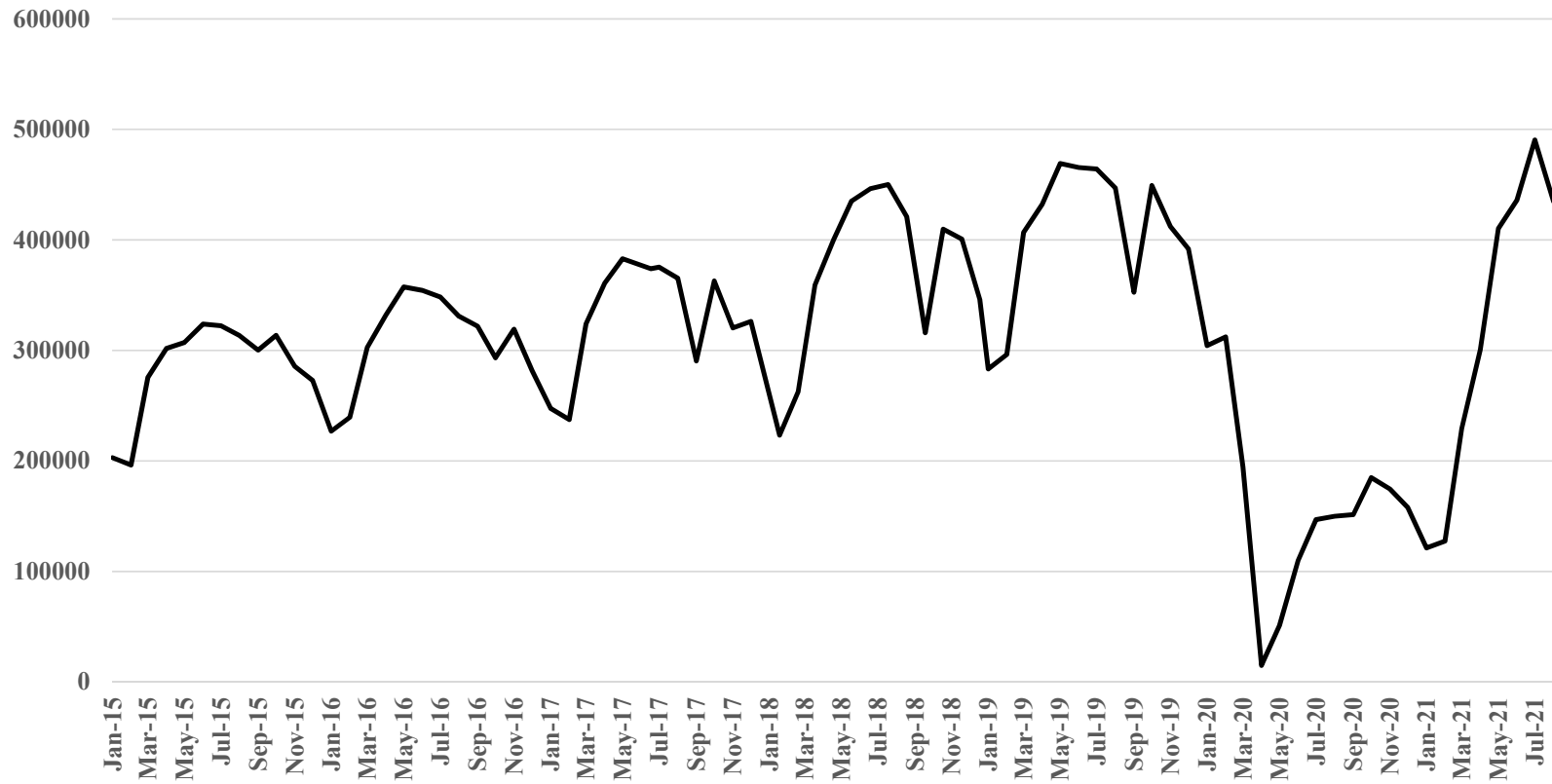


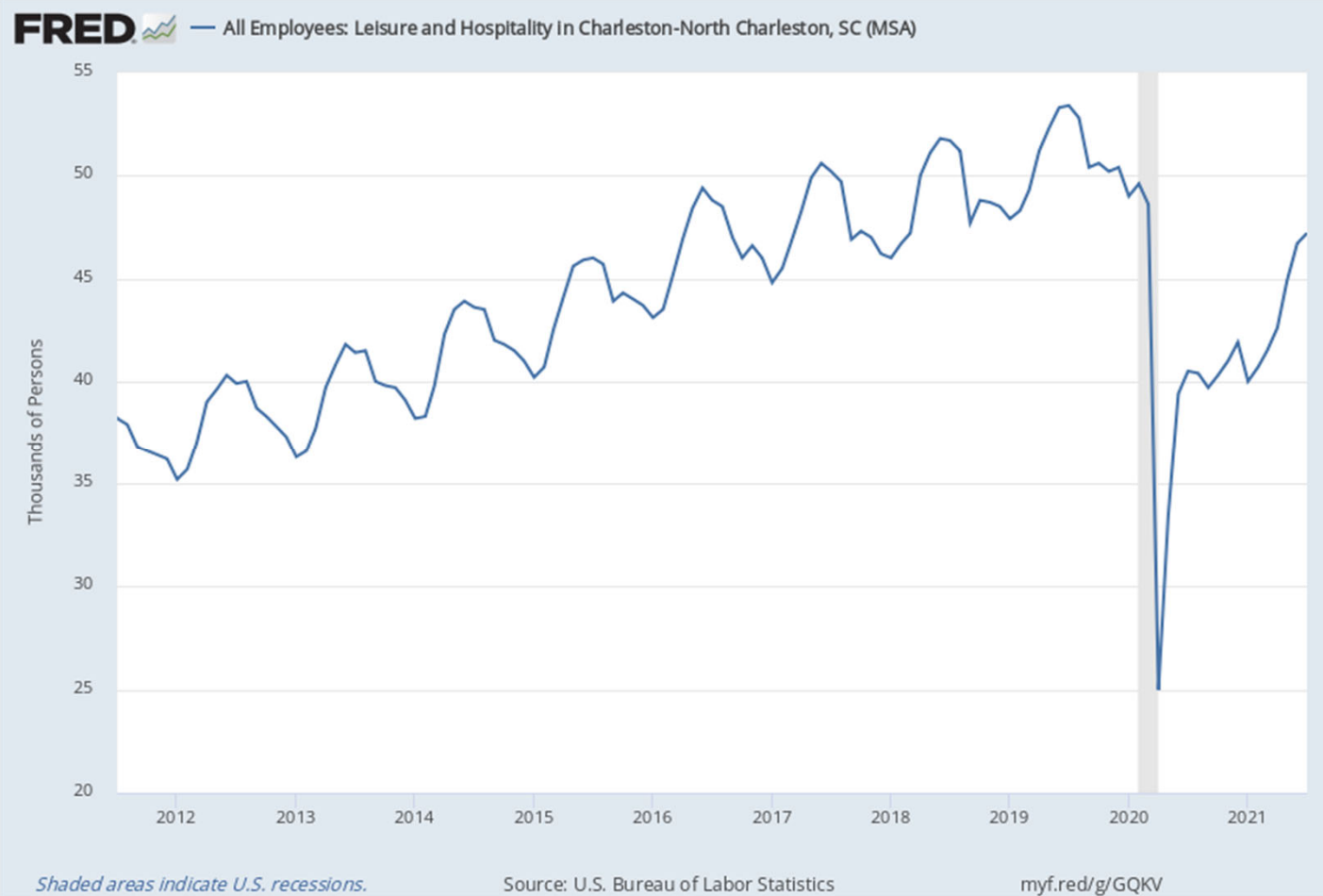




Supply Chain Backed Up: Regional and National Problem

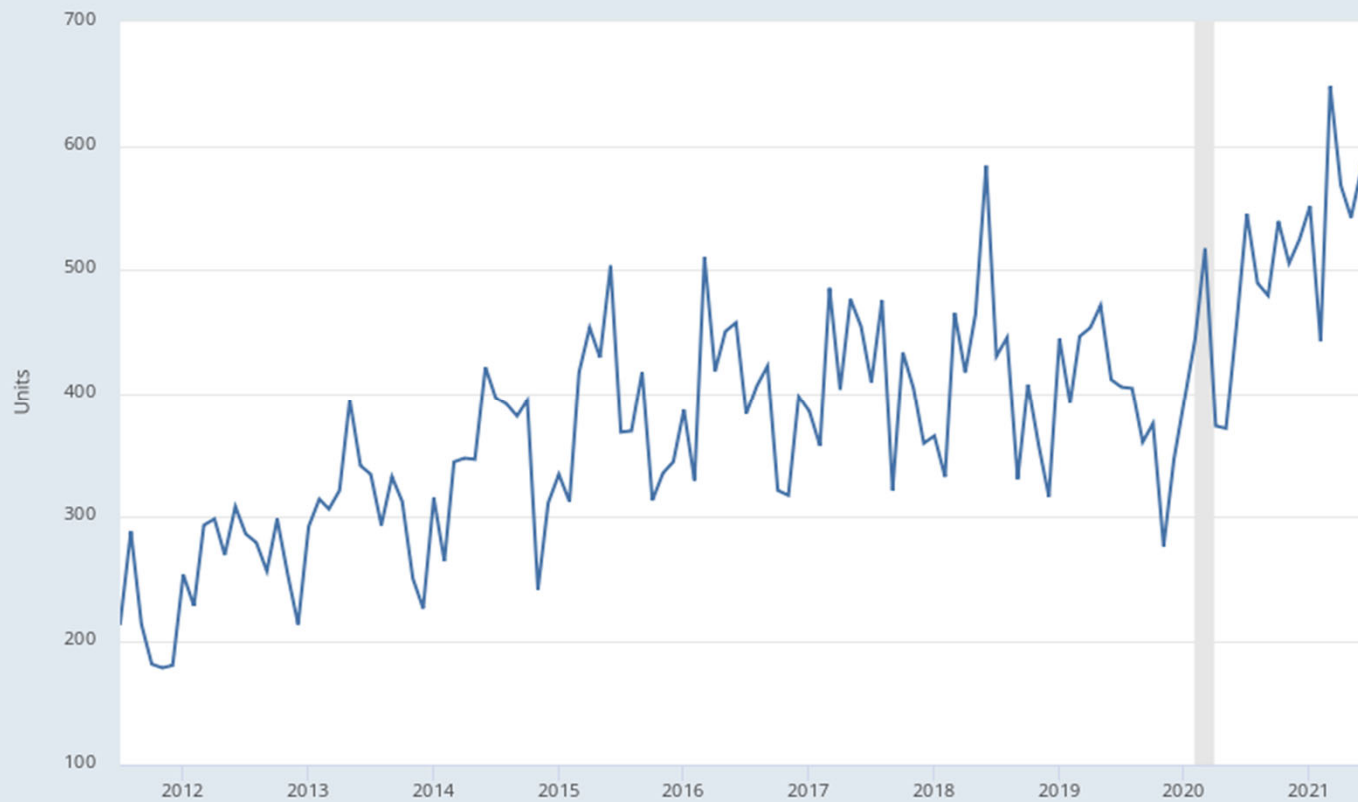
## Charleston Airport Traffic





**FRED**

— New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Charleston-North Charleston, SC (MSA)



*Shaded areas indicate U.S. recessions.*

Source: U.S. Census Bureau

[myf.red/g/GQjd](https://myf.red/g/GQjd)

**FRED** — All Employees: Total Nonfarm in Charleston-North Charleston, SC (MSA)



*Shaded areas indicate U.S. recessions.*

Source: U.S. Bureau of Labor Statistics

[myf.red/g/GQJ8](https://myf.red/g/GQJ8)

